Capitalize on the Alternatives

Nonbank lenders are a growing source of capital for commercial real estate deals

By Gary Bechtel

There continues to be strong demand for capital within the commercial real estate sector. This past second quarter, the volume of industrial loans was up 91 percent year over year, while loan volume for office properties was up by 33 percent over the same period, according to the Mortgage Bankers Association.

Compared with this past first quarter, loan originations this past second quarter for both industrial and office properties were up by 39 percent. That was driven, in part, by the high demand for investment options backed by commercial real estate (CRE) loans, such as commercial mortgage-backed securities (CMBS), which recorded a 117 percent increase in dollar volume during the period.

This surge in CRE demand should continue for the foreseeable future. The demand is being driven by historically low interest rates, a robust economy and strong employment numbers boosting investment across the country.

Changing landscape

Mortgage brokers and borrowers looking for a commercial lender have several options in today's market. They range from banks, to online platforms, to private investors.

CRE loans have typically been funded by traditional lenders, such as banks, life insurance companies, CMBS lenders, Fannie Mae, Freddie Mac, the U.S. Department of Housing and Urban Development, and pension funds. These loans, however, are increasingly under the purview of alternative lenders, which have stepped in over the past few years to fill the funding gap in the CRE market and provide capital to borrowers no longer served by the traditional funding sources.

These nonbank lenders have grown in popularity following the implementation of financial regulations such as the Dodd-Frank Act and Basel III risk-capital rules — which imposed stringent capital requirements on big banks and made lending into a less-profitable activity. As a result, banks tend to be focused on only the most lucrative commercial real estate projects and larger, more substantial borrowers, forcing smaller borrowers and borrowers in second- and third-tier markets to look elsewhere for capital.

Alternative lenders offer several advantages over traditional banks when it comes to securing a CRE loan. Not all alternative lenders are the same, however. For brokers and borrowers who are eager to explore the CRE market via nontraditional lenders, it's important to understand the lay of the land.

Technology boost

Technology has transformed how CRE loans are made, with many alternative lenders now embracing technology to make the borrowing process easier, faster and more transparent. Instead of waiting weeks or even months for a bank to make a decision on a loan application, for example, borrowers using tech-enabled alternative lenders can often apply in just 10 minutes and receive a decision in as little as 24 to 48 hours. These time savings can be critical for a borrower facing a deadline or several competing bids for a project.

Another advantage of technology-based platforms is that they often include online deal trackers or managers, allowing brokers and borrowers to see the real-time status of their loans. This leads to an improved customer experience and more flexibility should a borrower have to explore other options.

While technology plays a big role in optimizing the commercial lending process, experts in the CRE market know that each loan decision still requires a human element. An algorithm will never be able to understand all the nuances that go into underwriting a commercial property. That's why it's so important for brokers and borrowers to carefully vet each lender's underwriting practices, and the experience and expertise of a lender's team.

The most successful alternative lenders are those that can combine technology, especially for an initial applicant screening, with a dedicated team that has decades of experience underwriting and structuring CRE loans. This dual track is key to making sure that each borrower receives a loan offer that is tailored to their particular circumstances, increasing the likelihood that the loan is repaid and that the lender recovers its capital.

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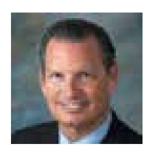

Gary Bechtel is president of Money360, where he is responsible for developing and executing the company's expansion strategy. A direct lender, Money360 offers borrowers speed, convenience and reasonable terms, while offering investors direct access to attractive fixed-income investments secured with a first-priority lien against income-producing commercial real estate. Investors range from institutional investors to high net worth, accredited individuals seeking better risk-adjusted returns than those offered by traditional fixed-income investment vehicles. For more information, visit money360.com. Reach Bechtel at garybechtel@money360.com.

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Lender variety

Not all alternative lenders are created equal. In general, an alternative lender is either a direct lender, meaning it makes loans directly from its balance sheet, or it is a crowdfunding platform — meaning it aggregates capital from a combination of institutional and retail investors.

While both business models have their merits, direct lenders are becoming an increasingly popular choice for commercial mortgage brokers and borrowers who want to eliminate the middle man and work directly with a lender to facilitate a deal.

In an industry where getting a deal done on time is of utmost importance, direct lenders can help provide an added level of certainty that a transaction will be completed, rather than potentially having to wait days or weeks for a deal to get funded by outside investors, each of whom has their own agenda.

Direct lenders also tend to have more flexibility when it comes to structuring a deal, given they do not face the same stringent regulatory requirements as traditional banks. This flexibility provides mortgage brokers with an opportunity to customize each deal to their liking.

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Commercial real estate loans continue to be in high demand for brokers and borrowers across the country, and alternative lenders have increasingly emerged as the go-to source for capital. Mortgage brokers interested in or new to the CRE market should take the time to understand the different lending options and act accordingly. ■