

Locate the Oasis

Know when to be flexible and lead clients toward nontraditional lenders

By Daniel Palmier

At the start of 2018, commercial real estate lenders and investors are continuing to make adjustments to marketplace changes caused by tightening bank requirements and regulations. Over the past year, banks have pulled back from commercial real estate lending, steadily increasing restrictions and contingencies.

At the same time, many sponsors — including institutional real estate investors — have changed their views on lending and are following the trend of turning to nontraditional lenders. For commercial mortgage brokers, presenting financing options to clients is becoming more complex. In the current climate, you must know when to lead investors away from banks and toward nontraditional lenders.

Traditional lenders are reassessing their lending criterion to stay competitive within the industry, and decreasing the amount of risk they are willing or able to take on within the various asset classes. As a result, the market for alternative lending has grown and pricing is now proportionate with that of conventional lenders.

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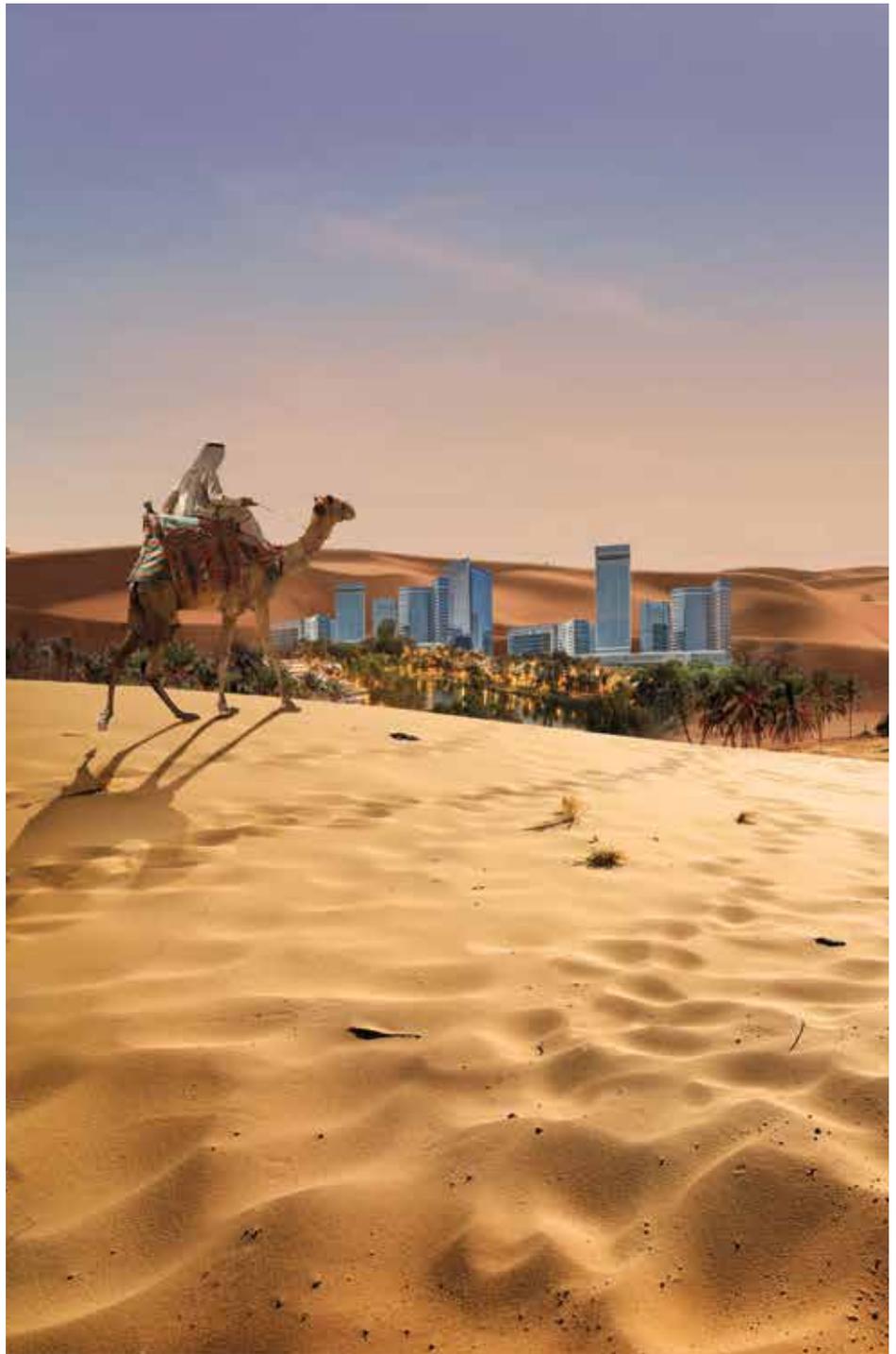


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Traditional lenders are still very active in the market, but only for key clients with the most substantial bank accounts. Many middle-market developers and investors have been shut out to alleviate risk.

These developers and investors are now looking to partner with nontraditional lenders whose value exists in their ability to offer nonrecourse loans, quicker closing time frames and, maybe most importantly, flexibility. Commercial mortgage brokers who work with these types of clients must reassess the market in order to grow and maintain relationships.

Lender flexibility

Sponsors often come to the table with a business plan that, in many cases, will change because of unforeseen circumstances. Additionally, they may be struggling to find aggressive and competitive loans, with many traditional lenders hesitant to provide capital.

Funds to complete projects have decreased, so borrowers are looking elsewhere for financing, seeking out lenders who offer a wide range of future refinancing options and alternatives. Nontraditional lenders can close loans quickly on good terms because of their less restrictive nonbank status.

Nontraditional lenders understand that flexibility is key in order to successfully assist investors with closing transactions. A competitive lender must possess two essential factors: speed and reliability. A lender that exhibits flexibility when dealing with the ever-evolving needs of an investor will effectively help complete the acquisition or refinance, and see satisfaction from the borrower.

With capital-asset pricing through nontraditional lenders on the rise, forming positive and ongoing relationships with lenders and borrowers is integral to a commercial mortgage broker's success. By understanding the demands of your borrower and effectively expressing their need for flexibility to a lender, you may dramatically increase the value of the deal. The more flexible the lender is willing to be in negotiations with the investor, the higher the rate of closed transactions.

Asset classes

Today's market offers no shortage of debt for income-producing assets, and commercial real estate remains a lucrative investment. For most sponsors, the biggest challenge right now is finding income-producing assets with equity, or debt capital for transitional value-add assets.

Hospitality properties are possibly the most challenging asset class to pursue at the moment, because that sector is being underwritten more tightly. It's important to note, however, there is available capital for strong assets in this category, particularly for experienced investors who understand the importance of determining their financing needs based on the industry's climate.

Mortgage brokers must recognize the value of multifamily housing, with commercial real estate capital pursuing deals in all of its related asset classes. Given the balanced state of supply and demand within multifamily, new products are being absorbed quickly without overwhelming the market.

Individuals from diverse demographics are attracted to multifamily investments, and sponsors can bankroll deals for millennials and empty nesters searching for luxury apartments. Sponsors also may facilitate purchases of Class B and C assets, where tenants will often agree to higher rents in exchange for a better quality of life.

Of course, lenders continue to chase office, industrial and retail assets, but multifamily has led the way into 2018. As lenders continue to realize flexible roles for meeting the needs of investors, opportunities to obtain loans for multifamily assets will remain plentiful. And, by facilitating relationships between investors and nontraditional lenders, you will be extremely likely to successfully secure capital for yourself and your clients.

Predicting the future

The industry forecast for 2018 is good. The multifamily market is expected to be a top-performing asset class, yielding solid, low-risk returns. Year-over-year gains are likely, leading to equity in the market, which is good news for investors, lenders and mortgage brokers. Borrowers will continue to see potential in stable

properties, transitional assets, and both small and large development deals.

It's possible that 2018 may bring a certain amount of negative change as well, whether it be further tightening of bank regulations, rising interest rates or revenue stagnation. Early in the year, investors will be more eager than ever to partner with lenders who offer flexible terms.

In turn, this will help keep their projects on track and ensure assets stay profitable in the face of unpredictability. To keep up with the changing market and maintain the trust of your clients, it's important to educate yourself on nontraditional lenders and the flexibility they provide.

Flexible lenders will always be in demand and are almost certain to grow as a result of secondary perceived risks in the market. Brokers should have an open mind when recommending profitable financing options for clients. Sponsors are seeing a rising number of projects come to fruition through deals with nontraditional lenders.

It only makes sense for commercial mortgage brokers to point clients in the direction of nonbank lenders and to develop strong relationships with lenders in this category. They might be your client's best option for closing a successful deal. The depth of your knowledge about the role of nontraditional lenders in commercial real estate financing will help determine your level of expertise in the eyes of investors.



Flexible lending is becoming the new norm, and you may soon begin to develop confidence in nontraditional lending partners that want to execute transactions and complete deals in a timely manner. By making yourself an educated resource on the benefits of lender flexibility, your value as a mortgage broker will increase tremendously during 2018. ■