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Survive Market Challenges

Build strong relationships and understand lending constraints to thrive

AS ECONOMIC UNCERTAINTY CONTINues to restrict capital flow in the marketplace, commercial mortgage brokers must develop a clear strategy that allows them to remain afloat — and poised for success once the market picks up.

A number of factors — including significant loan maturities — will likely impact capital availability and property refinancing in the coming months. Savvy mortgage brokers must be aware of these factors in order to assess the viability of their transactions in lenders' view and plan ahead for future challenges.

Survival is the first priority in these uncertain times. Therefore, having solid business relationships has become more important than ever. A broker's relationship with a loan officer is critical in the ability to place business — particularly as many market players have changed employers in the past few years.

Relying on key lender relationships and doing repeat business with lenders can be invaluable. It translates into having control over the transaction, which allows a broker to get the attention of the lender and ensure that the lender will focus on the transaction.

Other survival necessities for commercial mortgage brokers are to keep up to date with the macroeconomic issues that impact the market and to find a few reliable indicators or signs of consistency — despite the prevailing uncertainty. To do so, focus on the following four main areas.

1. Lending

Capital availability is the most significant factor affecting commercial real estate financing this year because a substantial volume of commercial property loans — that were originated at the height of the boom in 2007 — is due to mature in the coming months. These maturing mortgages will hit the market for refinancing and are likely to make lending even tighter.

So far, recapitalized banks and the U.S. government remain the most competitive lenders for many property types — through Fannie Mae, the Federal Housing Administration (FHA), Freddie Mac and the Small Business Administration (SBA).

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Commercial mortgage-backed securities (CMBS) lenders are making a strong comeback, but they will not get close to their historic origination peaks for awhile. The best lenders for multifamily units will continue to be government-related entities.

Lenders still avoid construction lending. Because of the significant unoccupied supply of most product types in most markets, construction financing will be difficult to get for quite some time without a bond-credit lease or significant presales or preleasing.

On the bright side, recent positive indicators in the U.S. economy, like the unemployment rate that reached three-year lows this past January, can spur optimism and encourage credit to flow more freely.

2. External factors

The world financial system has become increasingly interconnected. This past year, uncertainty as a result of debt turmoil in Europe caused a significant pullback in the U.S. market despite an optimistic opening.

Commercial mortgage professionals understand that predicting domestic industry prospects cannot be done without looking at global factors. International economic volatility causes significant uncertainty in the financial markets. This, in turn, leads many securitized lenders to put aggressive origination programs on hold — similar to what they did this past year.

3. Cash flow

Because of the capital shortage — there simply is not enough money out there to meet all of the borrower requests that will be made — only the best borrowers with the best requests will get loans. These are the borrowers who have low leverage, good in-place cash flow, significant expertise and

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good guarantor's global cash flows.

Stable cash flow is king in today's market. Lenders chase the best borrowers, but many potential transactions never attract capital due to sponsorship issues or the unpredictable nature of the property's current or future cash flow.

4. Valuation

It is essential to understand how a property's value changed since the last loan was placed on it to the present — and to predict what the property value can be in the future.

The cash flow of many properties has deteriorated since current mortgages were written — with many likely to suffer from significant deferred maintenance. These issues have a significant impact on property values. As a result, significant equity likely will need to be brought to the table along with new debt financing.

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With many real estate developers and investors still dealing with legacy issues, today's commercial mortgage professionals should focus on transactions that are realistic and likely to close. Remember that the lack of historic benchmarking for the current market conditions and the inability to foresee where the market is going will continue to constrain loan availability. •