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CMBS, Construction Lending Slows

CMBS lenders and construction lenders have slowed down substantially, but loans are still getting done.

By Kelsi Maree Borland | July 30, 2020

CMBS and construction lending have been the two most impacted sectors during the pandemic. Lenders in these two categories have slowed activity significantly. In CMBS, the market had a lot of exposure to both the retail and hospitality markets. Construction lenders, on the other hand, are moving forward with extreme caution.

"The CMBS market has certainly been impacted by COVID-19, and although was on hiatus the last few months, new portfolios are now being assembled and expected to be securitized within the next 60 days," **Stephen Stein**, managing partner at **Tauro Capital Advisors**, tells GlobeSt.com. "A large majority of hospitality loans over the last several years were originated by CMBS lenders and initially caused stress within this sector. As hotels have begun to re-open for leisure travel, we have seen the CMBS market begin to slightly rebound."

On the construction lending side, lenders are taking a more conservative approach. "We are seeing many banks and traditional lenders take a more conservative approach to their underwriting when it comes to construction deals. Lenders are more than ever focused on sponsorship, tenants and collections through the pandemic," says Stein.

While there has been some disruption, deals are still getting done. Tauro's **Matt Bucaro** and **Matt Ingle** has secured financing for two retail centers during the pandemic. "There are lenders out there who currently see opportunities in the retail sector," says Stein. "This is very similar to what we saw in 2008 where distressed retail gave way to new retail concepts and a shift towards experiential retail. We may see a similar renaissance in the retail sector now."

With lenders increasing scrutiny on each deal, it is an important time to work with a financial intermediary. "It's no secret that successful deals start with the right financing and the right financing is more than interest rate," says Stein. "Especially in turbulent times, loan covenants and other tripwires can be more devastating than paying a slightly higher interest rate. Over the long-term, not having a well-structured capital stack can really make or break a deal."

A financial intermediary isn't only an advocate for the borrower, but they are actively in the market understanding deal terms and lender activity. "This is why working with sophisticated and experienced financial intermediaries, especially in the current landscape, is extremely important," says Stein. "Most investors and developers know that they can go to their bank and likely get some level of financing. However, going directly to a bank gives the bank all of the control and many of these loans may lack the flexibility, pricing or structure that provides what the investor or developer truly needs. An active intermediary will have other loans from which to compare, can effectively create a market for the capital and make lenders compete for the business."

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