

# WHAT'S HOT AND WHAT'S NOT IN COMMERCIAL LENDING

## Hot:

Apartment mezzanine loans are hot as Equity funds that had difficulty placing capital turn to mezzanine lending as a vehicle to bump up returns to investors. While interest rates have crept up, they are still low from a historical perspective. Some lenders are finding value-added deals in which construction costs have risen, leaving sponsors shy of cash and making mezzanine loans the answer.

Life Companies (LCs) will compete with everyone, including conduits, all day for low-leverage office deals. Lenders want to see the money put to work and invested in the property. So don't expect LCs to provide any cash-out financing. Some lenders will consider office deals with a back-story, and is willing to include earn out provisions to bring the property up to snuff.

Casino lending shows signs of rebound. The main reason is the evolving of CMBS (Commercial Mortgage-backed Securities). On its face, lending on casino-backed assets makes some sense, based on the historic cash flow generated by many gaming companies. However, lenders may not want to jump into casino lending with both feet, as the perceived risk associated with gambling operations is too high.

## Not:

Most lenders are cutting back on condo conversions and land development. The day of getting a project green light with simply an entitlement and a piece of land is long gone. But some lenders feel that a few new projects will wind up as rentals rather than for sale thus scaling back some of the over-supply worries. This combined with the single-family construction niche in a substantial downturn, depending on the market and project; condos may be the low-cost alternative.