The Current Lending Environment and BOMA International Medical Real Estate Conference

By Jordan Ades, Licensed Salesperson, Dansker Capital Group June 18, 2024

Transaction volume has been down over the last 12-24 months, but there is a light at the end of the tunnel. In 2023, the outlook for Q2/Q3 of 2024 was bright, with a market consensus that rates would decrease significantly. Unfortunately, this has not gone exactly to plan. While the Fed has signaled that rate cuts are still possible this year, it contrasts sharply with the market's original expectations. Since the Great Financial Crisis, lenders have remained conservative during uncertain times. As interest rates spiked, they followed industry peers in tightening lending guidelines or exiting commercial real estate lending altogether. The bleak and uncertain outlook for Q3 and Q4 of 2024 is likely to further convince lenders to stay on the sidelines and become increasingly conservative. However, the upcoming election and other events at the end of 2024 may hopefully reduce some of this uncertainty and stabilize the commercial real estate environment.

From a debt broker's perspective, transaction volume has slowed, but deal flow is busier than in previous years. Clients who traditionally relied on their relationship lenders for all their commercial and personal banking needs are now finding that these lenders have changed their appetite for commercial lending. They are now requiring large deposit relationships (5-10% of loan requests), lending at lower leverage points (60-65% LTV, down from 65-70%), and raising their interest rate spreads (currently 230-270bps, up from 175-225bps). These clients are still eager to close deals in a tougher lending environment, whether to seize opportunities or refinance maturing debt, creating a void that debt brokers can assist with.

Dansker Capital Group has found this to be an opportunity. The company is finding creative solutions to deal with the shortfalls of competitors and adding value by filling that void. These solutions include structuring deals with 30-year amortizations to improve cash flow for investors, structuring deals with no pre-payment penalties to provide flexibility if rates decrease, or finding lenders willing to use lower debt service coverage ratios to maximize loan proceeds. While these are a few of the ways Dansker Capital Group adds value to clients' businesses, the company believes that its greatest value in this volatile lending environment is its transparency and ability to set realistic expectations. Recognizing that a term sheet from a lender does not guarantee a deal, Dansker Capital Group proactively vets term sheets to set appropriate client expectations. The company's ability to provide certainty of close is paramount, making the loan process smoother and with fewer surprises.

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A few weeks ago, Jordan Ades took a trip to Orlando to attend the BOMA International Medical Real Estate Conference, which featured important keynote speakers, including Hall of Fame Quarterback Drew Brees. Meetings with principals, developers, and other brokers yielded four main takeaways. First, there is a stark contrast between what sellers believe their buildings are worth and what buyers are willing to pay. Providing insight on the debt for each asset can help buyers and sellers understand realistic pricing. Second, investors who historically purchased multi-family assets are now considering medical outpatient buildings due to their strong credit profiles, lease fundamentals, and location demographics. Third, many investors are on the sidelines, finding it challenging to justify riskier commercial real estate investments over more stable options like treasury bonds. Significant changes in the real estate environment are needed for buyers to return. Lastly, the market is moving toward more realistic expectations of “normal” interest rates, likely settling in the high 5s to low 6s, rather than the 3s and 4s of the recent past.

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