Welcome to the Roaring '20s: How CRE Financing is Changing for a New Era

By **Paul Letourneau**

In today's world of rapid transformation, the advent of the 2020s doesn't just mark the passage of time—it marks the beginning of an all-new era of strategic opportunity in commercial real estate financing.

From more expansive loan structure offerings to the rising value of strong community roots, investors should consider these go-forward trends with the '20s now roaring into view.

A broader view of CRE product types is here to stay

Where once financial institutions wanted to fund the four traditional property types—office, industrial, retail and multifamily—specialty properties now offer opportunity for lenders and borrowers alike. We expect to see more medical, self-storage, parking, hospitality and other niche facilities gain recognition as worthy asset classes.

But new opportunity also means new challenges that shouldn't be overlooked. Self-storage, for instance, can provide consistent cash flows and revenue, but investors should watch out for overdevelopment in certain markets. Deep knowledge of the local demographics and competitive landscape is key to success.

Loan structures are becoming more complex

Bridge-to-perm loans, loan-on-loan structures and other non-traditional approaches to financing are becoming more common, a trend we can expect to carry through the early part of the new decade. Why? Lenders and borrowers alike are seeing the benefit of moving beyond a one-size-fits-all loan structure.

For example, with a bridge-to-perm loan, investors can lock down rates for the long term on transitional property types, enabling them to secure financing beyond the initial redevelopment phase.

Loan-on-loan structures are also gaining favor, with borrowers often able to get access to capital faster than with traditional financing and allowing specialty lenders to partner with traditional lenders after loan closing to increase margins and returns.

Underwriting is becoming more sophisticated

Lenders, staffed by industry veterans who have gone through multiple cycles, are developing a new world of capability to go beyond traditional loans and property types.

By leveraging increased access to information and advanced analytical tools, experienced lenders are able to evaluate risk from many different angles—discerning between trends and fads, and even utilizing predictive analytics to assess performance over time. Sophisticated technologies like default modeling and AI-enhanced due diligence tools are reshaping the financing process.

Credit is shifting from big brands to tangible value

In retail, a national brand name used to be the mark of a strong credit tenant—until so many started defaulting on their loans and walking away from lease contracts.

Today, the strength of a tenant's credit is more nuanced and subject to more scrutiny than in years past. Lenders are now looking for a tenant mix that will prove "e-commerce-proof"—offering a mix of well-known names but also experience-driven local businesses that can help bring in traffic, and in turn, long-term growth.

The same is becoming true in other product types, too, as the worlds of work and home shift with the winds of the rapidly-evolving sharing economy.

Evolving trends call for evolved strategy

The 1920s were a period of economic exuberance. In the 2020s, however, a freewheeling approach won't serve your long-term goals. In this fast-changing new era, the best financing plan is one that can evolve with you throughout any given property lifecycle, which requires more flexibility in loan structures.

Investors who stay ahead of the trends and risks of this new era, with some built-in flexibility, will be well-positioned to enjoy its great opportunities, too. ■

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