THE EXPERTS

COMMERCIAL REAL ESTATE

5 steps for navigating maturity of your commercial real estate loan

John Wessling Sr.

"Be proactive." — Steven Covey listed this as his No. 1 rule in "The 7 Habits of Highly Effective People." This advice holds particular relevance for anyone facing a commercial real estate loan nearing maturity.

We've all heard about the wave of debt acquired at 3-4% rates, which is coming due in today's lending environment. If the low-interest-rate loan on your property is approaching maturity, consider these five questions now:

Is my property cash flowing?

Lenders will be evaluating the property from a different lens this time. With interest rates double what they once were, tight loan-to-value and debt-service-coverage ratios will impact a lender's ability to extend capital. Will your cash flow support the payments if you refinance?

Do I have the right tenants and leases in place?

Stabilizing your property ultimately comes down to your tenants and their lease terms. Lenders value long-term leases, especially in the case of an anchor tenant, with market rents and little to no rent delinquencies. To go a step further, the type of leases can significantly impact the lender's perceived value of the property. Are you passing through taxes, insurance and maintenance charges to the tenants? If not, should you?

How is my liquidity? Do I have cash on hand?

Have you built a cash reserve for needed repairs and upgrades, and do you have the ability to quickly deploy that money?

Do I understand my loan terms?

Look at your loan documents now. You may not have picked them up since the day you signed them, but it's time to understand your loan terms and how they impact upcoming decisions. When your loan expires, are you looking at a balloon payment or a rate reset? Does the loan have an option to extend? Knowing these details can guide you when preparing to refinance, sell, etc.

Have I consulted an expert?

Sooner rather than later, speak with an industry expert who understands the market and can analyze your property's value. A refinance will likely require an appraisal and you should also have a sense in advance where that value may come in.

Once you have gone through these steps, talk to your lender at least six months before maturity so that you understand your options. Be prepared to provide financial information, such as profit and loss statements, rent rolls and tax returns. Establishing open communication with a qualified commercial adviser, along with your lender or mortgage broker, at this stage will empower you to make a well-informed plan going forward.

John Wessling Sr., senior vice president and partner at S.L. Nusbaum Realty Co., is a commercial real estate expert who specializes in investment sales, particularly of multifamily properties and multi-tenant retail centers. He specializes in investment analysis, market analysis and site selection and his transaction experience includes brokering multifamily, hotel, retail and office sales.