

Credit crunch causes developers to put up more cash, experts say

By ERIC KALIS

Developers of office projects in South Florida have to adjust financing strategies and contribute more cash up front, real estate experts say, as lenders tighten standards to adapt to a decline in the availability of credit.

The credit crunch caused by the mortgage crisis in the subprime lending industry is affecting the region's office market, forcing developers to modify project financing plans, said Gavin Sussman, COO of Sky Development, which is building mixed-use City Park Aventura with 150,000 square feet of Class A office space.

Borrowing is more expensive for the company in the wake of the mortgage crisis, Mr. Sussman said, and more money is required from the borrower

to complete a loan transaction.

"For many years we were accustomed to a certain leverage, and now we have to change our game plan," he said. "Before, we were used to coming in with 15% of our own cash. Now [lenders ask] for a minimum of 20% to 25% of our own money."

While City Park Aventura is moving forward as planned, Mr. Sussman said, other developers might delay or cancel projects until more favorable financing is available.

"There's definitely a shift in the market that will create situations where projects have to wait for either the right financing or the [commercial] market to cool off," he said. "Nobody knows who's on first."

The declining access to credit for all borrowers has certainly carried over into the office market, said John Burford, senior vice president and investment portfolio manager with The International Bank of Miami. But money is still available for projects that fit the stringent criteria of lenders, Mr. Burford said.

"I would say smaller deals have a tendency to get credit more easily depending on the prospects and history" of the borrower, Mr. Burford said. "Assuming everything is equal in credit quality, banks still look for a smaller deal. A larger deal gets more scrutiny because bigger bucks are associated with it."

Loan volume is taking a hit from regulations limiting how much capital a bank can dedicate to real estate lending, Mr. Burford said. "In South Florida real estate loans are in demand," he said. Lenders "lend to the opportunities they have. The bigger the credit the more carefully a loan will be looked at because of the dollars involved. In this environment it is always really competitive to get loan deals."

Pro forma estimates of an office project's return on investment are not as important to lenders in today's market as credit history and current figures from a prospective borrower, said Alex Zylbergait, associate director of the national office and industrial property group of commercial real estate firm Marcus & Millichap.

Lenders are "definitely not underwriting to projected numbers," Mr. Zylbergait said. "There's an emphasis on existing numbers and the experience and capitalization of the sponsor."

A shift in office project marketing is emerging as a consequence of the credit crunch, said David Prévé, founding principal of real estate advisory firm Cresa Partners. More office sellers are turning to European buyers, he said.

"Buyers cannot pay the same price so [office developers] cannot finance the same way," Mr. Prévé said. "With the [US] dollar expected to weaken and the [Federal Reserve] lowering the prime rate, European investment will be the saving grace to bridge the gaps and benefit sellers."