

Are you ready?

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With the lack of availability in funding, Amanda Little examines how the situation is unlikely to ease and that things could get much worse

It might come as no surprise that our advice to any borrower with a loan maturing in less than two years is that they need to start planning for its refinancing now. This may seem a little dramatic but the reality is that in the order of £160bn worth of commercial property loans will be seeking a home over that period and competition will be at fever pitch. Borrowers need to start considering their options well ahead of renewal, and we would suggest that now is definitely the time to start.

With around £45bn of loans under our stewardship, Hatfield Philips can appreciate just how tough finding new finance can be. If, as is the case for many borrowers, financing is not your key strength we have detailed what we consider best practice, and the following article should help guide borrowers through this process ensuring that they are aware of the additional scope upon which future loans will be based to enable them to present a strong case.

Seeking approval

First, forget what went before. For most borrowers, the processing environment at the time that the loan was taken out will be substantially different to today and certainly that of 2012/13. The extent of the information that will need to be supplied when refinancing or extending the loan will, in most cases, be far in excess of that produced to secure the loan in the first place.

Many borrowers should consider taking professional advice sooner rather than later from the likes of surveyors, real estate agents and servicers. Not only could this help mitigate many of the issues that may arise, it also means that you are not fighting for their assistance at the same time as everyone else.

Perhaps the greatest step change in the loan approval process, which we have mentioned previously, is the sheer volume of information that lenders are likely to demand prior to approving loans in the future.

Lenders will expect borrowers to present a cohesive package of information in the form of a business plan that shows clear and concise information relating to the historic and current income and expenses of the site, coupled with projections for development and, if warranted, a plan to redress income shortfalls. From our experience the single largest error most borrowers make is to provide too little information of the wrong type and of the wrong quality.

Integral to a successful (i.e. plausible) business plan should be a review of the plan submitted at loan origination. The review should be both thorough and honest; if an objective has not been met, you need to provide solid reasons for this and, if appropriate, what steps are being taken to remedy it.

In terms of the plan, the first step is to briefly describe the assets, including current occupancy and the percentage that may be currently vacant. Next you should look at the current picture and make fair and accurate predictions going forward including occupancy, rental income and future projections for expenditure both on-going maintenance and any one off costs for refurbishments and such.

Particular attention should be paid to plans for generating an acceptable level of income and what proactive steps will be taken in ensuring that these are met. Can you, for instance, demonstrate an investment in the infrastructure and refurbishments to attract and maintain the right tenants?

Depending on the nature of the building some borrowers may benefit from presenting an evaluation of the tenants that they have in situ, evaluating not just their business and future projections but also the wider market within which they are operating. It is better to raise the point that you have a tenant that operates in a sector that may be particularly hard hit by the Comprehensive Spending Review, or any other economic factor, ahead of the prospective lender raising it. Common sense says it is prudent to demonstrate that this has been identified and considered.

Landing the loan

When dealing with the actual loan itself, detail the balance, current interest paid, and any repayments made. With this, plus the income and expenditure, you should be able to produce a very robust historic and projected cash flow. Note once again, honesty and reality is needed, if vacancy rates have been running at 20 percent then there is no point projecting a fall to 10 percent without a very legitimate reason. Lenders will be crawling all over your figures and if they think that you have been even a little bit dishonest then, with so many other borrowers out there, they will reject your business.

Should the portfolio be in some distress then the pressure of providing a comprehensive plan is even greater. In this circumstance the responsibility falls on the borrower to demonstrate that they have been creative about finding solutions and new sources of income. Borrowers that show that they have risen to the challenges of the current market stand as good a chance as a performing but borderline loan.

Creativity should include things such as change of use which is where professional help may come in, especially from both local and national real estate experts and surveyors. Borrowers should demonstrate that they are considering new market sectors, and that they are exploring alternate uses for their assets depending on local needs and ultimate prospects.

For those borrowers experiencing some current hardship they will find fewer options available to them and they must be prepared to compromise. Ahead of negotiations ask yourself: "What am I prepared to give if the only option I am faced with is a fire sale?" This may sound overly dramatic but many borrowers will have to give away some equity in order to secure funding and this may be as high as 15-20 percent.

Closing points

In sum, we believe that now is the time that any borrower with a loan maturing over the next two years needs to begin considering the life of the loan beyond that point. It is also crucial that borrowers are realistic about the opportunities that might, or might not, exist in the future and change their mind-set and approach accordingly.

Finally, the essential message to borrowers is not to be afraid to seek help. If a borrower is not familiar with writing a full and comprehensive business plan as discussed, then the onus is on them to find someone who can. Your accountant may be able to help and, equally, servicers also know what lenders are looking for and can save wasted effort by getting the business plan right first time, thereby avoiding a host of supplementary questions to be asked and additional information to be provided.

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