

WHY YOUR BROKER IS IMPORTANT IN TODAY'S MARKET

I'm hearing owners describe today's commercial real estate market in many ways: "Eye-opening...stressful...crazy," along with many other adjectives. And they're all pretty much accurate.

At Eastern Union, we're seeing a steady flow of new deals being tied up, with more than 100 transactions put under application in June alone.

But we're all working double duty.

That's because while we're active setting new deals in motion, we're spending just as much time shepherding old deals along. At times, brokers are simply providing band-aids, but at other times we're keeping deals on life support. And unfortunately, some deals do die.

But in today's market environment, working with a seasoned broker is more important than ever.

Why is that? We can understand the need for experienced brokers today through three perspectives:

First, we can look at *the past*, and the broker's role in deals that have already closed -- and those already under application. Second, we can examine a time-tested broker's role in *present* transactions, including both new refinancings and purchases. And third, we can explore the way seasoned brokers help clients prepare for *the future* -- by helping clients make strategic decisions about upcoming deals.

PAST TRANSACTIONS

Closed deals

People generally think that once a deal closes, the broker's job is over. But in reality, that's often the point at which our work has just begun.

Granted, a stabilized, low-leveraged asset doesn't need much of our attention, unless a maturity is coming up. But more than 60 percent of our transactions are *transitional* in nature: they're construction loans, bridge loans, value-add deals, and more. And amid interest spikes, we're regularly called upon to advise clients on a range of issues.

For example, a lender recently informed us that they didn't want to continue to fund a construction loan. Between inflationary spikes in material costs and interest rate increases, they felt that the deal was not meeting certain covenants in the loan document.

The client was in mid-construction -- and a halt in funding would have been extremely costly to this project.

So we immediately sat down with the client to come up with a path forward. First, on our advice, we worked with the client to obtain updated quotes from every major vendor that still had work to perform at the property. We then worked with a local leasing agent to collect updated rental comps -- comps that had improved since the date of the original loan application.

Once all this information was gathered, we arranged for a sit-down with the bank. Based on all the information we'd been able to assemble, the bank agreed to continue the funding, with a small increase in the interest reserve. Disaster avoided.

Deals under application

These transactions have been hit the hardest. Unlike previous market downturns, lenders are far less amenable to making loans that aren't adjusted to real-time market rates. Because of rate increases, loan proceeds are getting cut due to debt service coverage ratio (DSCR) considerations.

Naturally, not every situation is solvable. But clients have been reasonable. We all work together to find a satisfactory resolution -- and, in many cases, we do. Sometimes that has meant helping a client negotiate a new purchase price, arrange for secondary financing, or even take a loan to a different lender if the current lender's appetite had changed. It's never an easy call to make for the client, but transparency and honesty always carry the day.

THE PRESENT

New deal flow has been extremely strong. At the same time, the lending market is literally changing on a daily basis. A debt fund that's lending on a particular asset type today may not be lending on it tomorrow.

Eastern Union is able to guide buyers early on in the process by staying steadily aware of lender behavior and lender preferences. At times, we may advise clients to shy away from a deal -- or to adjust their analysis so that it more closely aligns with market realities.

One thing that hasn't changed in this market is the need to remain nimble. And the only way owners can do this is to surround themselves with strong, third-party providers.

A client recently faced the prospect of a huge proceeds cut because of rising insurance prices. While insurance costs are indeed rising, the circumstances seemed out of line with real-world market conditions. We were able to introduce the client to a different insurance advisor who quickly pinpointed which of the bank's requirements were driving up the price so much. After multiple exchanges with the bank, however, we were able to reach a deal that kept everyone happy.

THE FUTURE

Eastern Union clients also look to us for guidance about the future. While we can't predict where interest rates will go, or if cap rates will continue to rise, our depth of expertise is invaluable to owners.

While strategic planning is critical in any market, it's essential in a difficult market. And our track record clearly shows the value of strategic guidance from a proven, experienced broker.

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The next few months will indeed be interesting. But with challenge comes opportunity. And we're here to help clients take full advantage.