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Lenders' Love Affair with Industrial Deals

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LOS ANGELES—Lenders have started to pump the breaks in the first half of the year, making for a sharp transition from the ample and cheap capital that has characterized this cycle. Despite increasing conservatism in the debt markets, lenders are very bullish on **industrial deals**—remaining flexible and aggressive on terms and pricing. **Continental Funding Group** recently secured aggressive financing for three class-A industrial assets, and witnessed the trend first hand. The two separate borrowers wanted aggressive terms and were not willing to settle for less. The firm was able to secure the deal for the borrower with ample interest from lending sources. **Eugene Rutenberg**, a director at the firm, says that the deals are a perfect example of the demand for industrial financing opportunities among lenders. To find out more about the capital market perspective on lending, what types of industrial deals lenders want and the lenders most active in this market, we sat down with Rutenberg for an exclusive interview.

GlobeSt.com: The industrial market hasn't experienced the same pull back from lenders as some of the other property types have. Why do you think that is?

Eugene Rutenberg: It is really interesting. The CMBS markets are in constant flux. In the beginning of the year, it seemed that the CMBS market was almost upside down, and some conduits stopped lending all together. Today spreads have tightened and the 10 year T bill and Swap indexes are at nearly all year lows. To echo that, hotels were almost a four letter word in 2Q, and now I see hotel lending creeping back, so that is also interesting. I think that some banks are shying away from multifamily, believe it or not, because they think that multifamily is being overbuilt. On the industrial side, there isn't a lot of B and A product that is being built right now, and it is very sought after. With the vacancy rate being sub 5%, there is really a lack of supply, especially in infill areas like the South Bay or anywhere near LAX. Investors can't get into that space. It is a hot market and industrial is a hot product type, and as a result industrial has high demand from lenders.

GlobeSt.com: Looking at the recent deals that you just closed, what was the response from lenders in those specific cases?

Rutenberg: The challenge with these deals was that the borrowers didn't have credit tenants, although they had strong regional tenants, and they each had very short leases. The borrowers wanted exceedingly aggressive terms with no closing costs, 10/30 and the lowest rates possible, and they wouldn't settle for less. That was a challenge. Fortunately, we were able to get them what they wanted in this deal.

GlobeSt.com: For other product types, there seems to be no pull back from lenders for A properties in A locations. Do you think there is more flexibility in industrial for lenders to take lower quality deals?

Rutenberg: There is a lot more flexibility for industrial. Lenders see what is going on and they see that there is this thing where multifamily has been hot for a long time, and that maybe multifamily is being overbuilt. Lenders are focusing on lending on deals that are less volatile. There are a lot of options right now for industrial, even for ground up construction. For those reasons, it is a really strong asset class for the primary, secondary and even tertiary markets.

GlobeSt.com: Which types of lending sources are most attracted to industrial product?

Rutenberg: It is a wide range of lenders. Here, at CFG, we have access to more than 500 lending sources, and with those 500 lenders, we can custom tailor certain deals to certain lender's criteria, and also with the amount of volume we do, they listen to us a little more carefully no matter what asset class we are trying to place. We used a portfolio bank on this most recent deal, because that was the lender that was the most aggressive, but we have CMBS money, life company money, private institutions and alternative investment banks that are all interested in industrial deals. Generally speaking, life companies are giving leverage up to 65% loan to value; CMBS is going up to 75% loan to value with a couple of years of interest only; banks have stepped up in a big way to offer attractive financing, and bridge lenders are lending up to 80% loan to value and up to 5 years of interest only.

GlobeSt.com: As a result of this demand, are you seeing that borrowers are getting more aggressive with financing by asking for more leverage or cheaper capital?

The educated and sophisticated borrowers are asking for everything because they know that the markets are frothy and rates are low right now.