

CONSTRUCTION LENDING ALONG THE I-91 CORRIDOR

A Lender's Perspective

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Is there money available?

- ▣ The answer is a qualified Yes. A well-structured construction loan is still a possibility, even in today's economy.



What is required?

- ▣ The Bank would require specific information to entertain a loan request.
- ▣ The type of information required is dependent to some extent on the type of construction – new or renovation – and the type of property.



General Underwriting Requirements

- ▣ A detailed construction budget
- ▣ Financial information on the Sponsors
- ▣ Information as to the ability of Sponsors to perform the construction
- ▣ Background information on the major contractors/bonding capacity, etc.
- ▣ Town bonding requirements, if any
- ▣ Debt service during construction - reserve

General Underwriting Requirements (cont.)

- ▣ Pre-leasing of income-producing properties
- ▣ Pre-sales on for-sale properties
- ▣ Cash flow projections for the project
- ▣ Market demographics (income, population, home sales prices, vacancy rates, etc.)
- ▣ Environmental/Engineering studies
- ▣ Building Plans & Specifications (Architect)

Property Types

Retail

Office

Industrial – Warehouse

Residential Construction



Retail

- ▣ The retail market has softened in Connecticut, as well as the nation as a whole.
- ▣ Good retail projects are still worth pursuing. However, the underlying financial strength of the tenant(s) is of critical importance in the Bank's underwriting of the loan request.

Retail (continued)

- ▣ Substantial pre-leasing of the project would be required for Bank financing.
- ▣ The Bank is typically looking for medium (5+ yrs.) to long term (7-10 yrs.) leases for tenants as part of the underwriting.
- ▣ Walgreen's; Staple's; Grocery-anchors

Walgreens Construction Financing

- ▣ 1.18 acre site in East Haven, CT – 12,000 SF free-standing drug store w/ drive-up, pre-leased to Walgreens for 75 yrs.
- ▣ \$5.5 million acquisition, development, and construction budget



Office

- ▣ Office projects typically require substantial pre-leasing in order to be financed.
- ▣ Good quality tenants with medium (5 yrs.+) to long-term (7-10 yrs.) leases will be required as part of the underwriting.

MidState Medical

- ▣ 6.75 acre site in Wallingford, CT – 48,000 SF office building pre-leased to MidState Medical Center for 15 yrs.
- ▣ \$11.7 million acquisition, development, and construction budget



Intercontinental Real Estate Corp

- ▣ 2.4 acre site – 53,000 SF building in New Haven, CT. Mixed-use building containing office & retail.
- ▣ A parking garage with 845 spaces, as well as 24 residential apartment units.
- ▣ \$40+ million acquisition, development & construction budget
- ▣ Major pre-leasing with Yale New Haven Hospital and affiliated physicians

Intercontinental Real Estate Corp



Industrial - Warehouse

- ▣ Industrial Warehouse is another good property type for construction lending, especially given the proximity to major transportation arteries, including Bradley Intl. Airport
- ▣ Typically, build to suit (100% pre-leased), or substantial pre-leasing is required for construction financing.

Residential Construction

Given the law of supply and demand, finding a bank that will give a loan on new residential construction in this market is problematic at best.

According to the National Association of Realtors, contracts signed in November, 2008 fell 5.3% from a year earlier.

Residential Construction

- ▣ According to the chief economist for that NAR, Lawrence Yun, with a “proper real-estate focused stimulus measure,” home sales could rise more than expected, by more than 10%, to 5.5 million, in 2009.

And what else is required?

Evidence of approvals.

Environmental reports or lender's environmental insurance.

Appraisal by the Bank.

Loan approval – what next

Documentation, including a construction loan agreement spelling out the parameters of making loan advances, retainage, and events of default will be prepared by attorneys.

A construction inspector will be engaged to monitor the progress of the construction for the Bank.

Loan monitoring

- ▣ Signed AIAs are generally required by the Bank.
- ▣ In some states, title bringdowns are required at the time of each draw to make sure that no liens have been placed.
- ▣ The Bank will monitor to make sure equity is being injected into the project as stipulated in the documentation.

Summary

- ▣ Selective Banks and financial companies are still making construction loans.
- ▣ Lending parameters have tightened meaning less leverage, more equity, and substantially more pre-development hurdles for leasing and/or sale.
- ▣ Bank spreads have increased. However, developer financing costs have actually decreased due to lower interest rates