LENDING

The Bridge-To-Normal

Bridge financing can be an antidote to the capital markets paralysis in commercial real estate.

Elliot M. Shirwo

As we enter 2023, the market paralysis in commercial real estate that began about a year ago continues.

While there were residual effects of recovery from the pandemic in the second half of 2021, the initial signs of growing inflation were starting to affect the real estate sector. Then the Federal Reserve pushed back in March 2022 with a 25-basis point interest rate hike, then a 50-basis point hike in May and a gauntlet of hikes cumulating to 75 basis points in the months of June, July, September and November.

The aggressive approach to curbing inflation, other macro-economic and geopolitical issues such as energy, divisive politics, the war in Ukraine and more, resulted in a virtual real estate market nightmare by the fourth quarter of 2022. The cost of capital for both borrowers and lenders skyrocketed, curtailing loan payoffs. Sellers were in denial of decreasing values. With widening cap rates, buyers kicked deals down the proverbial road to eke out discounts on acquisitions. These and a host of other market factors normalize. There is absolutely no need, nor is it prudent, to lock in a high single digit rate for the next 10 years, when that same investor can secure a bridge loan with a low double-digit rate for the next 12 months, and then reassess the market and in a state of calm and determine the best strategy for recapitalizing the subject asset.

Today, banks and credit unions are rolling back their capital, following outlays in 2022 with significantly lower returns, the recent run on banks and regulatory tightening. As well, private debt funds are freezing lending activity due to increased leverage costs and/or warehouse lines being pulled. The last players standing — unlevered bridge lenders — can fill a gaping hole in the capital markets to save and facilitate transaction flow and execution, and to make deals happen quickly and efficiently. In essence, this is the new normal in commercial real estate, and it will continue until many of the current factors causing the dislocation have been resolved with some degree of sustainability.

The dislocation in commercial real well for creating a unicorn year in 2023 that has not been experienced since the Great Recession in 2008 and the years immediately thereafter.

Elliot M. Shirwo, BridgeCore Capital

The unicorn in 2023 is the opportunity for investors to employ the strategic use of bridge-to-normal capital for the purpose of bridging-to-profitability with certainty. When interest rates eventually go down, property values will go up. Today's market volatility and uncertainty are creating opportunities for investors to capture increased value that is just around the corner tomorrow. No one knows how long this window of opportunity will last. But for those investors and borrowers who embrace this real estate cycle as a bridge-to-normal, the sooner paralysis will dissipate, and the antidote will produce its curative effects. **SCB**


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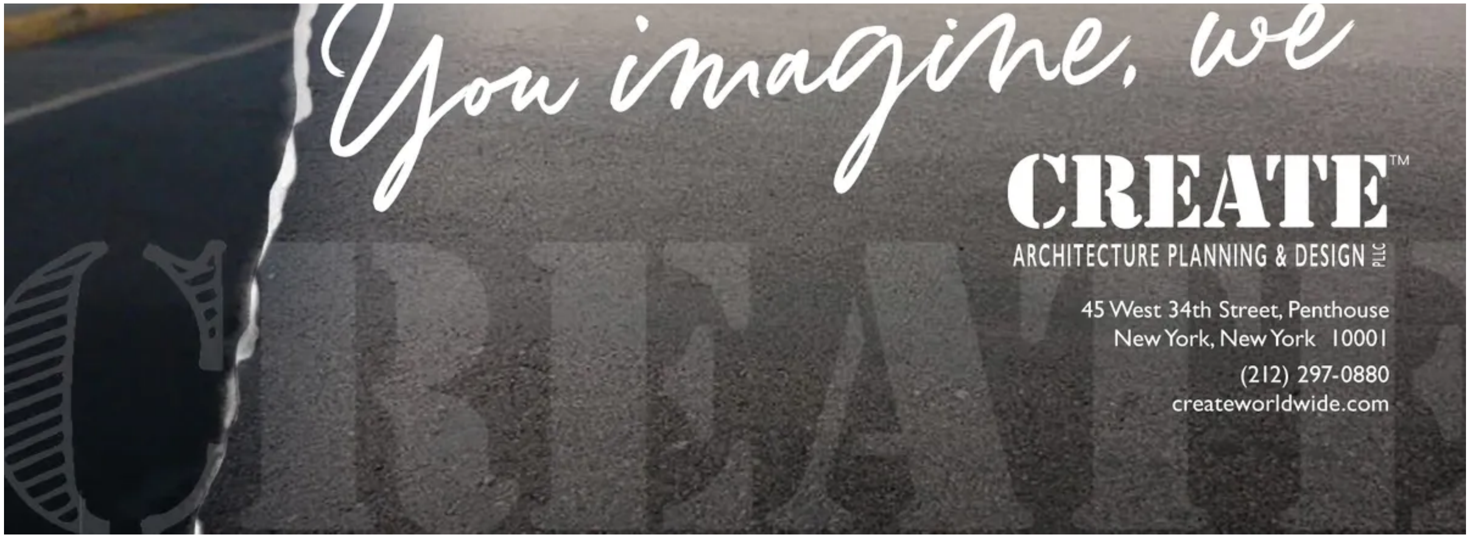
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