

Lenders keeping the lid on loans for luxury real estate

Banks are more cautious amid construction boom, slowing economic growth

March 15, 2016 02:47PM

The screws keep turning tighter around the lending market, as banks are exercising more caution when it comes to financing commercial real estate, especially luxury condominiums.

Amid global market turmoil, oil prices dropping and China's slowdown, lenders are becoming choosier about which projects to finance, and it could lead to stalled projects in New York City and Miami at the upper end of the market.

The mix of global economic woes and glut of high-end product is spooking lenders, Robert Lapidus, partner at L&L Holding Co. told Bloomberg. L&L Holding is building a 670,000-square-foot tower at [425 Park Avenue](#), which they started last year without a tenant in place.

"Between then and now, the world has changed," Lapidus told the news service. "Financing a speculative office building would be a little more difficult today."

Loan costs for development firms are starting to climb, which will chip away at the value of properties and increase the likelihood of default.

"If the economy continues to grow ever so slowly, demand for commercial real estate will continue to grow ever so slowly," Wells Fargo head of commercial real estate Mark Myers told Bloomberg. "To the extent that the economic climate goes in the wrong direction, it's going to have an impact on demand for commercial real estate."

Last year, 76 percent of construction was ground-up development; three years ago, more than half of all projects were alterations and renovations.

The issuance of new [commercial mortgage-backed securities](#) has also slowed, and Bank of America analysts chopped the forecast for 2016 to \$55 billion. CMBS lenders provided much of the money for the construction boom.

Bloomberg reported that at the end of last year banks were instituting tighter underwriting standards for all property financing, thus already contracting credit for commercial-property owners, according to Federal Reserve's senior loan officer survey, released in January. [\[Bloomberg\]](#) — *Dusica Sue Malesevic*



Rendering of 425 Park Avenue (credit: DBOX for Foster + Partners)