Commercial Owners Should Expect Bumpy Road to Refinancing

By: Wade Law Group

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Interest rates are at the lowest levels in decades, but commercial property owners looking to refinance shouldn't expect to lock in those rates any longer.

At the height of the boom years, many owners of office buildings, hotels, shopping malls and other commercial real estate financed their properties using five-year mortgages, most of which are set to mature next year.

But lenders are warning property owners that refinancing won't be automatic, and the low mortgage rates in the headlines probably won't apply to them anymore. If properties are underwater, lenders are requiring owners to put in additional cash. In other cases, lenders will offer to refinance, but at substantially higher interest rates.

Analysts say the hard line that lenders are taking could be especially harsh on adjustable-rate, or floating-rate, loans, where the difference between the old rate and the new rate will be greatest. Some ARMs, which followed interest-rate benchmarks in recent years, are currently under 1%. The rates are tied to the international interest-rate benchmark—the London interbank offered rate, or Libor, and are often reset monthly or quarterly.

Of the $70 billion in commercial mortgage-backed securities outstanding that are coming due next year, $15.5 billion of fixed-rate mortgages and $12.2 billion of adjustable-rate mortgages have been flagged as potentially facing tough hurdles when they try to refinance.

In the past few years, low rates have reduced the borrowers' expenses and masked problems the properties may be facing. But those days are ending. "The merry-go-round will stop, and they are not all going to get financing.

About the Wade Law Group

For businesses in the San Jose area or within California requiring more information, contact the Wade Law Group at **(888) 909-9430** or email Amiel Wade directly.