

How a challenging lending landscape constrains housing construction



If increasing supply is critical to alleviating Central Florida's home affordability crisis, then it's worth asking where the money will come from?

Denny St. Romain, vice chairman for multifamily capital markets for CBRE in Florida, said developers and lenders are having a hard time underwriting projects due to elevated interest rates, costs and short-term softness in the rental market due to recently completed supply.

Altogether, it's enough to give lenders and potential equity partners in the capital markets doubt.

"They don't get paid for taking outsized risk," St. Romain explained.

Indeed, Orlando developer Craig Ustler said we are amid "the most unfavorable lending environment since the Great Recession of 2009."

Others, such as Brett Moss, managing director of investments sales for Berkadia, say construction lending is happening, "but it is far more selective and far tougher to get" today.

How the lending markets view different housing types

Within the apartment sector, experts say a divide has emerged between projects in urban environments, requiring more concrete and often built-in parking garages, and more typical wood-frame apartments in suburban settings.

For the former, Ustler said "the capital markets, both lenders and equity investors, are shut down."

For the latter, Melissa Marcolini Quinn, a senior managing director in JLL's Orlando office, said wood-frame apartments are "the darling of the day" and "make a heck of a lot more sense" in the current environment.

As for size, while prior years saw an embrace of apartment developments with 300 or 400-plus units, Moss suggested "smaller deals" of between 150 and 240 units are more appealing at the moment. "That's a smaller loan amount and a smaller equity check, so groups are more comfortable."

Finally, with regards to lending for single-family homes, Vishaal Gupta, CEO for Orlando-based homebuilder Park Square Homes, said lines of credit for his team "have been stable," though he noted banks and other lenders are looking at key performance indicators more carefully before signing on.

So what do lenders look for?

The tangibles that catch lenders' attention haven't changed much.

Lenders like Ocean Bank's Pedro Max, an executive vice president and head of business banking and branches the Miami-based bank which has taken an aggressive lending stance in Central Florida, need to see the viability and visibility of a project. "What is the market around it and who's going to be living in the apartments?"

Jeff Corbett, executive vice president for Houston-based First Continental Investment Co., which is a lender specializing in residential lot acquisition and development financing, said it comes down to credit, relationships and reputation. His firm has been active in Central Florida, most recently lending \$18.5 million for a residential community in Apopka.

"You need to be making sure you're doing it with the right group."

Ways to boost lending for housing construction

When it comes to boosting the lending environment, experts say one potential solution is expanding Florida's Live Local Act. Signed into law last year and amended this year, its combination of tax breaks and the zoning preemptions – which can save time and costs – help projects cross the threshold of making financial sense, sources told *OBJ*, but it could go further.

"The number one thing would be meaningful density bonuses, coupled with partial real estate tax abatement for housing that is located near transit and/or near activity centers," Ustler said.

Another existing solution that could benefit from wider use is community redevelopment districts, or CRAs, which funnel future increases in property values from a targeted area back into economic development projects for that area. From CRA programs can come opportunities for property tax abatements and other incentives to get projects moving, St. Romain said.

"CRA dollars certainly help deals get financed and off the ground."