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BUCK ENNIS

HAPPY ENDING: APF Properties' Kenneth Aschendorf (left) and Berndt Perl sent 70 loan applications before they landed a deal.

A credit thaw? Don't bank on it

How one landlord's need to refinance turns into odyssey

BY THERESA AGOVINO

WHEN BERNDT PERL began his efforts to refinance the debt on 24 W. 57th St. last January, he was optimistic despite the credit crisis.

After all, the 10-story property is 100% leased and sits on one of the city's premier blocks. What's more, Mr. Perl and his partner in APF Properties, Kenneth Aschendorf, had established an excellent track

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record with the building, doubling its net income since buying it in 2006 for $69 million.

Yet after approaching at least 50 banks for a $33.6 million loan back in February, only four even responded, and none offered the full amount. A revamped proposal sent out to about 70 lenders a month later also fell short. APF's broker encouraged it to take what it could get—a $30 million loan with a whopping 9.5% interest rate.

"I couldn't believe that was the best we could do," says Mr. Perl.

It wasn't until June that he finally found a lender willing to extend the full amount at a reasonable, 7% interest rate. APF's excruciating six-month saga provides a window into the dysfunctional state of the credit markets, which even six months later have improved only slightly.

A return to "old lending standards"

"THINGS ARE DEFINITELY getting better," says Russell Schildkraut, a principal at Ackman-Ziff Real Estate Group, APF's financial broker.

Partly, that reflects the fact that the total collapse of the financial system that many feared might occur after Lehman Brothers' bankruptcy on Sept. 15, 2008, did not happen.

"The world didn't end," says Steven Kohn, president of Cushman & Wakefield Sonnenblick Goldman, a real estate financing firm.

But it has changed. Today, there are not only far fewer lenders active in the real estate market, their standards are much tougher. Borrowers this year will need to pony up at least 40% of an office building's price in cash, up from as little as 5% at the peak of the market in 2007. And any borrower looking for money for projects whose success hinges on rising rents will be hard pressed to find lenders at any price.

"We are returning to old lending standards," says Mr. Kohn.

Financing apartment houses is easier than offices because government agencies Fannie Mae and Freddie Mac are still buying residential loans from banks. But other segments of the market such as construction of office buildings and hotels remain moribund. Size, too, can be a deal killer. Securing a loan greater than $300 million is all but impossible without tapping several additional lenders to share the risk.

One of the problems is that the big Wall Street firms that dominated real estate financing at the peak of the market are now sidelined.

However, for borrowers with good reputations, solid assets and little debt, there will be funds, as APF proved in the even more difficult market conditions of six months ago. In the end, it got a loan from a veteran New York real estate lender: M&T Bank.

Borrowers need to pony up at least 40% of a building's price in cash

APF was helped by its 15-year track record and portfolio of half a dozen buildings in the city, with 24 W. 57th St. being the most prominent. It was also prepared to be flexible in terms of how it pitched its building.

Still, APF started the refinancing process six months before its loan was due in June. When its initial query to lenders failed to garner much enthusiasm, APF altered its strategy slightly before sending out the second.

The first proposal highlighted the property's name, The New York Gallery Building. Nearly half of the building's tenants are galleries, and one successful major art exhibitor occupies all of the retail space on the ground and second floors. Under the building's previous owners, that space had been a hodgepodge of ground-floor shops and second-floor offices.

Instead of attracting potential lenders, Mr. Perl discovered that in a more risk-averse climate, the strategy frightened them.

"A lot of lenders didn't want to finance an industry-specific building and especially didn't want a gallery building in a recession," explains Mr. Perl.

Quietly dropping the building's name in the second round of appeals for financing didn't help much, though. With only days left before the original loan was due, Mr. Perl's best credit offer was still the one with a 9.5% interest rate. Nonetheless, he turned it down.

In mid-June, he got his break. The offer from M&T arrived, and the deal was signed in August.

"It was the most frustrating experience," says Mr. Perl.

Barest hints of recovery

THESE DAYS, most borrowers will still find dealing with creditors frustrating in the extreme, but there are at least some signs of improvement. Last summer, for example, the Bank of China loaned about $120 million to finance a sale-leaseback deal for 21 floors in the New York Times Building on Eighth Avenue. Experts hailed it as a signal of interest from new funding sources.

Similarly, government efforts to restart large-scale real estate lending are also beginning to yield results. Late last year, Developers Diversified Realty Corp. was able to close a $400 million commercial-mortgage-backed securities loan—the only such deal done in 2009—with help from the government's Term Asset-Backed Securities Loan Facility program. ■