# MERIDIAN CAPITAL GROUP
## RESET YOUR DEBT COSTS

### FINANCING STRATEGIES IN UNPRECEDENTED TIMES FOR REAL ESTATE

As a result of the recent Federal Reserve actions in response to COVID-19 and the decline in U.S. Treasury yields, commercial real estate owners have been presented with a unique window of opportunity to optimize their financing costs portfolio-wide. As an industry leader for nearly 30 years, our mortgage, investment sales and retail leasing brokers stand prepared to help our clients navigate the market with experience-based solutions. Meridian advises considering the following 8 financing strategies to assess how best to capitalize on the current marketplace:

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### 1. ABOVE ALL, ACT NOW

Yes, these are uncertain times. What is certain, however, is that interest rates available today are unprecedented and can have a very meaningful impact on your portfolio.

### 2. EXPLORE OPTIONS WITH DIFFERENT LENDER TYPES

- Coupon-based bank lenders are frequently adjusting rates and offer greater flexibility which can result in advantageous long-term solutions.
- Spread-based lenders are offering very competitive rates at different leverage points and therefore deal terms should be refreshed prior to moving forward to ensure the optimal structure.
- Swap-based lenders, in many cases, are offering exceptionally low coupons, some without floors, creating a unique ability for borrowers to move in lock step with Treasury yields.
- Fannie Mae and Freddie Mac are spread-based and therefore extremely competitive. Full-leverage, 10-year, full-term interest-only deals are available at record low pricing.

### 3. LOCK IN YOUR RATES

If a rate lock is feasible for a deal that's in the process of being negotiated, jump on it and jump on it quickly. Forward rate locks can also be structured with certain lenders to provide additional time to close.

### 4. ANALYZE YOUR ENTIRE PORTFOLIO

This is an excellent time to carefully review each property in your portfolio and determine whether to adjust your financing strategies on a case-by-case basis. Loans with prepayment penalties and other considerations that weren't previously candidates for refinancing may make sense to refinance in today's low rate environment.

### 5. REEXAMINE LOAN PROCEEDS LEVELS

This especially applies to loans that were DSCR constrained, as it may be possible to obtain greater proceeds today based on the impact that a lower interest rate will have on debt service coverage.

### 6. RECONSIDER PREPAYMENT PENALTIES

If it previously made sense to avoid refinancing because of a prepayment penalty, now is the time to reevaluate the math. It's possible that the savings of locking in a lower rate for five, seven, or 10 years will far outweigh the cost of the prepayment penalty. In addition, its' important to remember that prepayment penalties are tax deductible further offsetting the cost.

### 7. PAY CLOSE ATTENTION TO FLOORS ON EXISTING AND NEW LOANS

If you have a floating-rate loan with a LIBOR floor, refinancing now to take advantage of the significant drop in LIBOR should yield material savings and gain additional term.

If you are negotiating a new loan that is not yet rate locked, floors can often be lowered, thereby passing through savings to borrowers.

### 8. RETHINK SELLING

The equation has changed. Refinancing now might be a better option than selling. Access equity capital in an asset by increasing loan proceeds or increase cash flow with a low rate interest-only loan while retaining your property and its future appreciation potential.

As the most active mortgage broker in the U.S., Meridian closed over 3,300 loans in 2019, providing us with a unique vantage point into the debt capital markets from which to advise our clients. Meridian maintains active dialogue and transaction flow with over 250 lenders, providing our clients with the broadest set of options available and creating motivated competition for each of our assignments. For additional insights on the above strategies, please get in touch with your broker. Our brokers engage with lenders day in and day out and can offer an up-to-the-minute perspective on the market and the opportunities available. We look forward to hearing from you.