

Who will finance commercial real estate now?

The Great Recession has been the inadvertent catalyst of a paradigm shift in the funding sources for commercial real estate, or "CRE."

The traditional sources prior to the recession included banks and Wall Street investment banks. A cocktail of increased regulation and the shrinking numbers of banks have changed the landscape of financing sources, but in traditional capitalistic style, new sources of funds have emerged to fill the gap in the form of private finance companies and marketplace lenders.

For the last several years, many new firms, many of which are some of the largest owners of CRE, have created debt funds for the purpose of competing with these traditional sources of financing. In addition, the lending volume of marketplace lenders who solicit their capital from crowdfunding sources has also increased dramatically. This new breed of lenders is not burdened with the new regulatory environment and the compliance and bureaucracy which is challenging the traditional sources. Ironically, these new forms of lending companies may obtain their capital from banks and Wall Street investment banks. Firms like mine, Inland Mortgage Capital, are affiliated with real estate owners and



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take a common-sense approach to funding CRE loans (which often take a little more risk due to their ability to deal with unexpected challenges that may come up along the way with their borrowers). Our firm is focused on loans under \$12 million, which is a size that is often overlooked by the marketplace due to the displacement of many of the banks that were focused on deals in that range.

After the Great Recession, new laws were passed and the phrases Dodd Frank, Basel III, and "Too Big to Fail" became popular buzz words. Many of the Wall Street investment banks are affiliated with banks and face these same regulations, which may restrict their ability to finance CRE, depending on how some of these regulations are ultimately implemented.

Further, a wall of maturing loans in the amount of \$180 billion is coming due over the next two years that were originated in 2006 and 2007 by investment banks during a time when underwriting of CRE loans was its most aggressive. In fact, recent analyses indicate that many of these maturing loans exceed 80 percent of the current value of the collateral. The 80 percent loan-to-value threshold has been a predictive trait of loans which are often not resolved by their maturity date.

To add to the challenges of capitalizing CRE, the number of banks in the U.S. has decreased by some 800 since 2007. On top of that, only 4 charters have been issued for new banks since that time. The decrease is, in part, due to bank failures during the recession, as well as consolidation. The number of new charters (or lack thereof) is a factor of increasing opening capital requirements required by the Fed, as well as new challenges facing the banking industry. These include significant technology costs to address the changing face of retail banking, as well as cybersecurity issues and the like. The old days of branch banking as the tried and true method of retail banking are long over. Unfortunately, the community bank, as it was historically constituted, may also become an endangered species.

The banking system (including respective investment banks) is a vital cog in funding capital, which is the oxygen for CRE. As is consistent throughout recordable financial history, banks will continue to face challenges in meeting their CRE customer needs and will adapt and evolve as always. However, a new emerging class of non-bank finance companies may be able to provide some important fresh air for the CRE industry.

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Any way you look at it, DuPage's economy is thriving

By nearly any measure, DuPage County's economy is thriving. Home to nearly 40,000 businesses and 700,000 jobs, DuPage County is a formidable economic force in the region.

As a result, DuPage enjoys some very important and meaningful economic advantages.

When we consider the issues that weigh on businesses everywhere (not just DuPage) such as the cost of doing business and the ability to recruit and retain top talent — it is these advantages that make the difference for businesses.

Location is among our most valuable, inherent advantage. Our proximity to O'Hare International Airport means that residents and businesses alike have direct, nonstop access to 200 destinations worldwide through 1,400 daily departures.

We are in the midst of six interstate highways, making drive time to major markets convenient and cost-effective — with less than six hours drive to major Midwest cities.

We enjoy the benefits of an extensive multimodal transportation network. Chicago is the nation's rail hub that connects six of the seven Class One railroads.

We have a highly-skilled and educated workforce — DuPage is first in the state in educational attainment. Nearly half our residents over the age of 25 have a bachelor's degree or higher, and over 90 percent are high school graduates.

We have a business-friendly environment. Under the leadership of Chairman Cronin, DuPage County operates an accountable, efficient and transparent government — with a balanced and responsible



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Bryan Gay of Choose DuPage, participates in the discussion at the Daily Herald Business Ledger Newsmakers Forum held recently at the Hilton in Lisle.

budget. Unlike many other places, here you will find public and private-sector leaders working together to grow and expand the economy.

And finally, as our nearly 1 million residents know, our quality of life is unmatched.

This can be attributed to the county's emphasis on education, culture, and environmental preservation. We have some of the best schools in the nation, including 19 accredited colleges and universities. We offer a wealth of opportunities to experience arts and culture, and our residents and visitors enjoy open

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spaces, tree-lined streets, and lush wooded areas that characterize our landscape.

At Choose DuPage, the economic development alliance for DuPage County, we call this the DuPage Difference. It is what has allowed us to attract the variety of businesses that make up our diverse economy — from technology to manufacturing, retail, warehousing, health care, and more.

These advantages, the DuPage Difference, has led to 118 economic development projects in the last year. That's 1,500 jobs, 1.1 million square-feet of development, and 120 million dollars invested into our county.

And, we are well positioned for continued success.

In the upcoming year, Choose DuPage will continue to work toward expanding and diversifying the regional economy through actions that stimulate business investment and generate desirable job opportunities for our residents.

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