

Lenders Build Strong Appetite

Contractors can reap the benefits of low 2020 interest rates at local lenders

BY BRETT ALEXANDER-ESTES

With the recent decision by the Federal Reserve to keep a lid on interest rates, “we expect the lending environment to remain very attractive for builders over the near term, largely driven by historically low interest rates and a strong lending appetite from the local banks,” says Guy Churchill, Bank of Hawaii Corp. executive vice president and manager.



Guy Churchill

Today’s favorable lending environment is also due to the U.S. economic expansion and Hawaii’s healthy economy, historically low unemployment levels and the state’s booming visitor industry.

“The interest rate environment is attractive for borrowers, providing an opportunity to secure low-cost financing for new projects or refinance existing mortgages to reduce interest expense,” says Paul Vella, Finance Factors senior vice president and commercial real estate manager.

For Hawaii contractors, says Churchill, this means “relatively cheap debt has helped projects ‘pencil’ that may not have otherwise.”

The chances for continued cheap debt are good, since “interest rate stability is

anticipated in 2020 as inflation remains below Fed targets,” Vella says, “and the general expectation is that the central bank will not make any significant interest rate adjustments in an election year.

“Overall, the Hawaii real estate market fundamentals remain strong because of economic growth and supply constraints, particularly in the housing and industrial markets. The office and retail sectors have also showed signs of improvement, as office vacancies trended downward in 2019, and the retail sector reflected positive net absorption in the fourth quarter of 2019.”

Churchill agrees, in part. Some sectors, “such as affordable housing, remain highly desirable for most lenders,” he says, but “certain commercial product types with unfavorable supply/demand fundamentals will be more challenging to finance.”

For developers considering lender financing, “the developer’s experience and track record, as well as type of real estate development project, are key credit considerations in underwriting a real estate construction loan,” Vella says. “A developer with a proven track record of successfully delivering similar



Paul Vella

projects in type, location and scale to the project being financed provides the lender with a level of comfort, (knowing) they have the expertise to develop the project. And proposing a real estate development project type which addresses market demand, like the need for affordable housing in Hawaii, increases the likelihood the project can be completed within budget and create value for the community.”

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As lenders weigh the probable success or failure of a project, Churchill says, “track record continues to be a key consideration. Knowing the details and having realistic, achievable pro-forma financials will give prospective lenders greater comfort in your ability to execute.

“Proven builders with product expertise will benefit by obtaining more appealing loan terms.” 🏠



Meheula Vista (Phase III), a master-planned, low-income senior affordable rental housing development financed by Bank of Hawaii.

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