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Real Estate and Development

Real Estate Bullets #16:

As Lending Options Get Scarcer, CRE Turns to "Dequity"

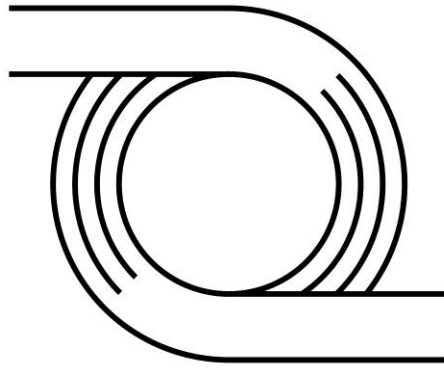
According to Ciera Long's BISNOW article, the **ongoing high Federal Reserve** interest rates is causing the commercial real estate sector to seek ways to secure financing, expecting a **40% drop in lending** this year.

Key Points:

- **"Dequity"** is a term gaining popularity, representing a mix between debt and equity used by developers to fill capital gaps.
- **Dequity** is not clearly defined but involves not taking the last dollar of risk in a capital stack, making it **attractive to borrowers**.
- Inflation, rising costs, slowing rent growth, and debt maturities are pressuring traditional loan agreements, making dequity more **appealing**.
- Dequity deals vary, blending elements of both debt and equity based on **risk appetite**.
- Dequity positions can be similar to preferred equity or rescue capital, offering potentially better **risk-adjusted returns** than common equity.
- Private equity players are acquiring dequity positions in distressed properties to **gain control**.
- Dequity is becoming more common due to the reluctance to take on equity risk in **current economic conditions**.
- Some situations may require more time and capital to rescue stressed assets rather than addressing **true distress**.
- Dequity's risk cocktail may have complications down the line for borrowers, potentially leading to disputes in **bankruptcy court**.
- Despite risks, dequity is seen as a tool to **address challenges** in the lending and borrowing landscape.

"BISNOW" Article

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