Will There Be Less Financing Available for South Florida Land Development because of CMBS Spreads? Yes.

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Commercial real estate in Florida (and elsewhere) is dependent on the availability of financing. Developers and builders need third party lenders as a basic component of their business plan. Developers are rarely in a position to fund large scale projects for cash, and inviting equity partners often involves giving away too large a piece of the pie. Without third party financing, commercial real estate development will simply not return to Florida. It is key to our economic renewal. Unfortunately, current economic conditions are making some common financing structures riskier for lenders (and as a result less available for borrowers), and that means many large scale developments may not get built, further stalling Florida's recovery.

Why do large scale commercial deals matter to South Floridians?

Large scale real estate projects have always fueled growth in our economy, state wide. They create jobs, boost tax bases, and increase revenues in local communities through tourist spending, etc. When development comes to small municipalities, that means new infrastructure, new schools, more jobs, retail growth and tax revenues. Our cities need this now more than ever in recent history. One of the reasons that Florida has recently loosened its grip on developers is because increased real estate development is vital to revitalizing the state's economy. (For more on this, read our prior posts on the June 2011 deregulation legislation.)

However, there's still, unfortunately, very little certainty in Miami conference rooms or anywhere on Wall Street. Market fluctuations, banking failures and a general lack of confidence in our economic climate have created more than skepticism in the lending community, which means those who invest and provide needed financing for commercial real estate and land development are facing more risk (or at least they perceive more risk). This is true for both American investors and foreign lenders.

For example, one well-known means of financing all types of real estate, including hotels, resorts, retail and the like (i.e., income-producing properties) is through **CMBS**: commercial mortgage backed securities. CMBS bind together a selection of commercial mortgages in pools and the pools are then used to support the sale of bonds to investors. There is an international financial market that deals exclusively in CMBS.

However, the risk involved in the CMBS market is changing. It is calculated by comparing the CMBS bond to U.S. Treasury bonds - and the difference between the two (where the Treasury bond has traditionally been considered risk-free) has defined the risk (and therefore the cost) of the CMBS.

That difference is growing, which doesn't excite the current players in the CMBS market and certainly doesn't entice others to enter it. Risk costs. If this difference (called the "spread") continues to widen, then we can expect less investor interest in CMBS and this will, in turn, have a negative impact on commercial property financing.

What does this mean for South Florida?

As the spreads in CMBS investments rise, South Florida entrepreneurs and investors may have fewer alternatives when they look to finance their projects, and as a result, many of these projects may be delayed, some indefinitely. Higher levels of risk in CMBS investment will clearly impact, in a negative way, real estate development and growth in Florida.