Retail Lending - What To Consider

lending business customers

Summary: Just because some retailers close doesn't mean all of your loans in this sector to all types of retailers are in danger. We give you the rundown on this lending sector.

Growth in online retailers and a shift in customer buying behavior has pushed some companies like Sears, Toys "R" Us, Payless Shoes and others to downsize or close their doors altogether. Yet, as they exit locations, businesses like Planet Fitness, Ashley Furniture, Big Lots and others have moved into those old stores and made them new again. For bankers, the turmoil in retail never seems to end and staying to top of trends and risks is a full time job.

However, just because some retailers close doesn't mean all of your loans in this sector to all types of retailers are in danger. After all, many people still prefer to take their pooch to the nearby doggie wash, or have their clothes pressed at the dry cleaners around the corner, eat at their favorite restaurant, or relax with their buddies at the neighborhood watering hole.

Care must be taken here though, which is why some lenders are passing over the retail sector in favor of lending to other property types, according to the Mortgage Bankers Association (MBA) Quarterly Index of Commercial/Multifamily Originations. In Q4, the dollar volume of loans for retail properties climbed 1% from a year earlier, compared to a 61% increase for health care properties, 32% for multifamily and 28% for industrial properties.

Like nearly all lending of all types, retail lending also boils down to key factors like underlying trends, borrower cash flow, debt load and loan terms. That is why some lenders are doing fine on certain retail properties and certain borrowers. These even include some strip malls - particularly when anchored by a grocery store and also contain "internet resistant service oriented retail" - such as dry cleaners or hair salons.

One of the best bets, according to commercial mortgage backed securities (CMBS) data and analytics company Trepp, includes lending to drugstores. It finds occupancy rates average 99.8% and have an average net operating income per square foot of $23.34 vs. $17.90 average for all retail properties. Moreover, it also finds top performing CMBS typically contain CRE loans backed by drugstores.

Banks can also look at the possibility of making loans for retail stores in Opportunity Zones, where investors can receive government subsidies and tax breaks for bringing in much needed retail to distressed communities. This incentive program through the 2017 tax law gives some of your customers opportunity here perhaps, so your lending team too may find it more appealing.

Banks that succeed in retail lending have experts dedicated to specific property types, exhibit a strong knowledge of the local market, closely monitor cash flow and understand the risks of the sector and sub sectors within it.

The more proactive your team is and the more closely you monitor things once the loan is originated, the more likely you can help borrowers perform longer and better, no matter the business they are in. After all, proactive and smart bankers that don't cut corners when evaluating risk in any sector, is what it is all about in the end.

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