



**OUT OF LUCK:** Bradley Gremillion, senior vice president of American Gateway Bank, says young entrepreneurs with the next great business plan currently face long odds in receiving a loan for their startup.

BRIAN BA/MONTE

## Degree of difficulty

*It's not impossible to get a loan for commercial ventures, but it can be tough even for borrowers with a proven track record, good credit, and available cash or collateral.*

**BY STEVE SANOSKI**

Commercial real estate sales have slowly increased since lending screeched to a standstill in 2009, but new loan requirements have closings contingent on buyers' putting up significantly more cash or collateral.

"There's been a remarkable loosening of the money over the past year, but it's a loosening from the standpoint that you've got to have a strong sponsor, quality asset, good location and some real equity," says Marty Mayer, president/CEO of Stirling Properties. "If you have all of those factors, then the market is very competitive and there are some good deals to be had."

A typical prerecession commercial loan required borrowers with good credit to put up roughly 10% to 20% of the total purchase, Mayer says, but banks now are requiring about 25% to 35%. And lenders aren't placing as much, if any, value on borrowers' prospective business ventures, either.

"There used to be a tendency to pump up the valuation based on assumptions of revenue," Mayer says, noting such practices often equated to 100% financing in terms of real development costs. "You're not seeing that sort of valuation on steroids anymore. It's almost the opposite."

Bradley Gremillion, American Gateway Bank senior vice president, says financial institutions are showing less willingness to hedge their bets on developments that aren't owner-occupied and can't guarantee immediate income.

"We're putting a stronger emphasis on operating companies in the manufacturing, supply and service industries," he says. "More so than ever, banks are looking to diversify their portfolios, and they're especially moving away from speculative developments."

That doesn't mean it's impossible to get a loan for a strip mall or a resi-

dential development. But it can be difficult even for those with a proven track record, excellent credit, and some serious cash or collateral. As for young entrepreneurs with the next great business plan, Gremillion says, they're mostly out of luck.

"Financing for startups is almost nonexistent," he says. "We've done a 180-degree turn from where we were just three years ago. There's just no such thing as easy credit anymore. Those days are gone."

Ray VanMerrienboer knows this only too well. The owner, operator and developer of Red Zeppelin Pizza wasn't exactly in the startup category when he began looking for financing on property off Perkins Road in December 2008. He'd already owned and operated a pair of Smoothie King businesses in Auburn, Ala., for more than a decade, and he had a good credit history and enough cash to put about 20% down.

"I felt very confident that we would get a loan fairly quickly," he says, recalling the start of his eight-month odyssey to land a loan. "But nobody even wanted to think about lending to me. It was just impossible. I mean, they basically wanted me to mortgage my second unborn child."

VanMerrienboer secured financing only by plunking down more cash

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GEORGE KURZ, broker, Kurz & Hebert Commercial Real Estate

and shifting other startup expenses to credit cards.

VanMerrienboer might have had such a hard time finding a lender because he planned to purchase a used-car lot and level it for new development.

"There's more than enough existing assets on the market, so lenders are very cautious about new developments," Mayer says. "There's some cropping up here and there, but they are very unusual and there has to be a very compelling reason with a lot of deals in place in order to get a loan for a new development off the ground."

According to the FDIC, loans on existing commercial property have increased 7.3% in Louisiana through the second quarter of 2010, more than double the 3.3% growth rate seen nationwide. Conversely, loans on construction and new developments in the state are down 4.1% over the same period, though still far better than the 17.9% decline across the U.S.

Commercial sales volume in Loui-

siana is down 8% from the first quarter of 2010, but it's up 2% through June compared to a year ago, according to the National Association of Realtors. Louisiana was the only Southern state to post a year-over-year increase, and significantly better than the 16% decline seen nationwide.

"Even though we saw some movement in 2009, it was a very quiet year compared to how 2010 is shaping up," says George Kurz, broker for Kurz & Hebert Commercial Real Estate. "Basically, 2009 was the year we flatlined. 2010 looks like the year we came out of that shock, and 2011 looks to be even better than this year."

Commercial prices haven't fallen as drastically in Louisiana as they have in many other states. Through the second quarter, sales prices are down 6%, compared to a national decline of 16%.

There hasn't been a significant difference between the Baton Rouge area and the rest of the state in terms of interest in commercial properties or sales, Mayer says.

"Right now, the pace of sales is picking up, but there's still more dollars chasing not enough deals," he says. "The price of properties hasn't come down to the point where it has accelerated the pace of transactions, as it probably will going forward. I'm very optimistic

about the market along the [Interstate 10/12] corridor in the next few years, and I think it will fare better than the rest of the country."

Despite stricter lending requirements, Gremillion says, the Capital Region still presents the greatest opportunity for business growth and creation in the state. Though he doesn't foresee those requirements' being relaxed in the near future, he does predict more commercial lending as the economy gradually recovers, consumer confidence improves and banks are able to increase competitiveness once again.

"I am confident that we'll see some level of growth over the next two years, slow and steady," he says. "But we've certainly entered a new era of very stringent credit standards, and I feel pretty certain they won't be drastically loosened anytime soon."

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