Want to free up cash flow? Start with your debt

The Challenge

After running a successful retail greenhouse, nursery, and garden centre for over 50 years, ("the Company") decided to make the leap into commercial real estate. They started small, by looking at their surrounding unused real estate, and by 2011 they were ready to begin construction of a large retail centre.

Upon completion of the construction project, the Company quickly leased out the retail centre to several national chains. Things were going well. So well, in fact, that the Company started looking at their additional parcels of nearby land, with the intention of developing them too. But then, the unexpected happened.

It ran out of financing.

Because the Company had grown gradually over time, its properties were laden with seven mortgages and loans from seven different lenders—making acquiring additional financing a rather complex undertaking.

In addition to the varying interest rates, amortization schedules, and financing terms, the Company was 18 months behind in paying off its construction loan—and the lender was demanding immediate repayment. The upshot? The Company needed not only additional financing to develop its new properties, but also funds to pay off its existing construction financing arrangement.

After talking to a few banks, the Company quickly learned that traditional financing was not an option—primarily because the banks weren't confident the Company could service its debt and weren't comfortable with the amount of security behind the debt. The banks also weren't thrilled with the opaqueness of the Company's existing construction financing arrangement and weren't willing to take it over.

Not sure where to turn next, the owner of the Company contacted Farber.

The Solution

With extensive expertise in complex financing arrangements, Farber's financing advisory team hit the ground running. Our advisors dove into the Company's cash flows, combed through each debt arrangement, and ultimately identified the potential in the Company's business plan.

It was these future prospects that caught our eye. The surrounding area was zoned for residential—and construction was moving fast. So even though the Company hadn't yet commercially developed its land, and consequently hadn't realized its ultimate value, that value was nevertheless quickly increasing.

GlassRatner knew non-traditional lenders would immediately recognize this opportunity and eagerly provide the Company with the financing it needed to develop the land. So, with this information in hand, GlassRatner reached out to the existing lenders as well as a few new ones and negotiated an arrangement that would create the best, most streamlined, debt structure for the Company.

The Outcome

In the end, GlassRatner not only secured $7.1 million in long-term debt and working capital facilities to allow the retail operations to flourish, but it also consolidated the Company's debt—taking it from seven lenders to two.

Today, the Company benefits from longer amortization rates, a more simplified view of its daily cash requirements, and lower monthly cash expenditures, resulting in more working capital. Additionally, GlassRatner was able to find a lender that recognized the seasonality of the Company's nursery business and customized the loan's terms to meet these unique needs.

Moral of the story

If you're in the market for commercial real estate financing, there are a number of key lessons to be gleaned from the Company's experience:

- traditional banks aren't your only option. While they may offer the best rates, banks tend to look at a company's lending history rather than its potential. This can be problematic if you don't fall into one of their preferred lending categories. Non-traditional lenders, on the other hand, are typically more flexible and able to support diversified-growth companies. They're also more willing to work with you to create a structure that benefits your overall business and operations.

- don't let a non-traditional lender's rates deter you. Non-bank lenders are traditionally used as a steppingstone—allowing you to acquire the financing you need to become attractive to the banks. So while their rates may be higher, they're well-suited to support companies that are in growth mode or a state of rapid change.
- consolidate debt whenever possible. When working with multiple types of operations and assets, structuring debt among a few key lenders can often improve rates and increase the total amount of financing available to you. This is partly because alternative lenders may have their own niches that they focus on.

Time to revisit your debt structure

If you've been searching for ways to free up cash flow and generate more working capital in your commercial real estate business, the solution may be hidden in your debt structure. And now couldn't be a more opportune time to uncover it. There's a vast network of non-bank lenders—and many of them are flush with liquidity at the moment and eager to get that money into the marketplace.

If you'd like to learn more about how we can help you tap into that market, and -help your company continue to grow, contact us.