CHECKLIST FOR A TRUST-BASED CAPITAL STRATEGY ✓

The COVID-19 pandemic has shifted strategies for raising capital in the real estate sector. The strength of company financials will always be fundamental, of course, but trust, reputation, and transparency have become increasingly critical to successful funding. These components aren't typically reflected on balance sheets, but they are vital to business success in today's volatile CRE business landscape.

Following are priority areas of focus and questions that CRE leaders should consider as they revisit their company's capital strategy.

Reputation and trust matter more than ever

Lenders and investors tend to tightly manage funds during an economic crisis, and trust has become a critical currency in sourcing capital. Banks are seeking to limit their risk exposure by prioritizing loans to their most reputable applicants.

- How have we developed a rapport and relationships with lenders to improve our ability to get a financial lifeline when unexpected funding needs occur?
- As lenders have tightened their policies, have we considered and explored special service lenders' alternate approaches and their potential benefits?
- How have we been transparent about previous deals to build trust in new projects among investors and sponsors?
- How do we measure the value of building relationships with lenders?

Adjusting to a new investment climate

Just as the lending landscape has quickly evolved, so too has the investment climate. Most companies are struggling to recoup pre-COVID-19 stock prices and valuation.

- Do we understand how the size and financial performance of our company can impact the risks of investments?
- When making investment decisions, how do we factor in trust and relationships with partners, vendors, tenants, and lenders?
- How are lenders' perspectives aligned with our business strategies, goals, and corporate responsibility commitments?
- In raising funding through equity financing, have we fully considered the potential impacts of investment revenue shortfalls?
- How have we worked with lenders to seek forbearance and renegotiate terms? While lending on a struggling property carries risks, lenders are likely to choose this route over foreclosure in today's unknown market.

Loans to acquire distressed businesses

Some CRE companies with significant cash reserves are sourcing new funding to acquire distressed businesses and assets.

- Have we fully weighed the pros and cons of acquiring distressed businesses and assets?
- Have we considered how investments in distressed businesses or assets might be perceived as predatory and potentially result in reputational damage?
- How can we prove to lenders that we can transform underperforming properties into profitable assets?

To learn more, read our full article on trust and capital strategies (https://www.cohnreznick.com/insights/building-trust-in-real-estate-capital-strategy) or contact our team.

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