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A Tale of Two Refinancings

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Eyes popped last week when the Durst Organization refinanced $1.3 billion in loans on the Bank of America Tower in Manhattan. But when looking for signs of whether the frosty lending climate is thawing for less-glitzy properties, it might be better to look at the struggles of Morgan Management, an owner of trailer parks that recently was granted an extension on $126 million in loans.

Durst's deal was impressive in scale: It included $650 million in commercial mortgage-backed securities, or CMBS, and was the largest financing of a single property involving such bonds since 2008. The rest consisted of $650 million in New York state Liberty Bonds, which are tax-exempt bonds designed to help support the Lower Manhattan rebuilding effort in the wake of the 2001 terrorist attacks.

The deal was cited as a positive sign that could be repeated with other companies across the country. But refinancing with CMBS remains difficult for many properties other than major office buildings with high-credit tenants in big cities.

"Refinancing's getting easier for trophy properties," said Manus Clancy, a managing director of Trepp LLC, a real-estate research firm. "But refinancing B and C properties in tertiary markets is still as challenging as it ever was."

But owners of small and midsize properties aren't completely being shut out. While lenders are reluctant to refinance CMBS on some smaller properties, they are extending the existing loans.

Modifications and extensions of CMBS securitized in 2006 are on pace this year to triple the level granted last year, according to Trepp. Whether that will be enough time for the credit and real-estate markets to improve is uncertain, but special servicers are "accepting that this is the way it has to be," Mr. Clancy said.

The Bank of America and recreational-vehicle-park loans this month underscore the two sides to the financing market that are emerging in the wake of the financial downturn.

The 51-story Bank of America Tower is 98% leased.

It also had some advantages over the average trophy tower in obtaining the new loan: Bank of America, one of the underwriters of the debt, anchors the building and jointly developed the property with Durst.

By contrast, Bob Moser, co-owner of privately held Morgan Management of Saratoga Springs, N.Y., which owns roughly 50 RV parks around the country, braced himself for an anticipated battle to get new financing for or an extension on the $126 million in loans it took out in 2006 for about 18 RV parks.

The properties include the Yogi Jellystone Resort in Ohio, the Blueberry Hill RV Resort outside Atlantic City, N.J., and the Grand Lake RV and Golf Resort in central Florida. Amenities vary by campground but range from such basics as tile showers to an Olympic-size pool and a nine-hole golf course.

Occupancy at the properties has risen even during the financial downturn, and Mr. Moser has continued buying RV properties because he is betting on a rising number of people looking for affordable vacations amid a declining number of RV parks.

But even during the boom years, the recreational-vehicle market wasn't a sector that typically tapped the CMBS market for financing, said Ray Potter, a consultant to Morgan on the deal and a principal at Hodes Weill & Associates.

With lenders wary of taking on unknown risks, Morgan knew it needed to address its maturing loan early. It asked for the loan to be transferred to a special servicer, a company that represents bondholders and can grant extensions or handle restructurings. Morgan made the request roughly two years before the loans were scheduled to mature in 2011.

With RV parks, "you're going away from the sweet spot and more standard underwriting," said Mr. Potter. "It does take a little bit more to get lenders to understand the operations of the property."

The extension ultimately was granted by LNR Partners, the special servicer, according to Morgan. LNR Partners declined to comment, but Morgan said it obtained a four-year extension and the terms of the loans remained essentially unchanged. That is more favorable than many extensions, which typically are granted for one or two years, said Mr. Clancy of Trepp.