# When CRE Deals Use Seller Financing

**Some big sellers are becoming banks for the buyers, though there are tradeoffs.**

By Erik Sherman

You aren't often privy to backdoor CRE negotiations. Bloomberg delivered one case on a platter: Blackstone selling a portfolio of student dorms.

"First, the firm dangled the option for buyers to take over $800 million in debt that had already been negotiated at low rates," reporters Dawn Lim and Natalie Wong wrote. "And after bids came in, Blackstone stepped up as a provider of below-market financing, bringing the total package to about $1 billion."

At the time of the sale, KKR described the portfolio as worth "approximately $1.64 billion." The 19 properties offered a total of 10,000 beds in 14 four-year public universities across 10 states. In a joint venture, BREIT and Greystar Real Estate Partners had acquired the portfolio in 2018.

When traditional bank financing is unavailable, CRE buyers can try such options as CMBS, life insurance companies, private equity, and government-sponsored enterprises. However, seller financing has been another route, though not so readily used, as it can present complications in negotiation. The outcome depends on how much the seller is willing to carry, at what rate, and for how long, Barry Saywitz, head of management and brokerage firm The Saywitz Company, explained to GlobeSt.com in 2022 during an interview about what 2023 might offer.

"If I had a low rate today, maybe I'll wait and not sell the property if I believe rates will come down," he said at the time because lower future rates mean easier financing, lower acquisition costs, and a potentially expanded pool of buyers. He found that most sellers weren't interested in carrying a large loan-to-value ratio. "If the bank says 6.5% and the seller says I'll offer 6%, it's not compelling."

"The sale was announced in time for a crucial April shareholder call, when President Jon Gray said the 7% premium BREIT got for the dorm sale was among 'inconvenient facts for our critics,'" according to Bloomberg.

A GlobeSt.com review of several versions of the April 18, 2024, earnings call failed to show such wording. However, it would make sense that any premium to a sale in current circumstances would be welcome. "Across the industry, big asset managers are casting around for financial tactics to grease deals and drum up cash after a rapid rise in interest rates have pressured returns," Bloomberg said. With below-market financing, the seller sets conditions where buyers can "raise bids."

The seller doesn't gain all the sales income upfront but does make interest on top of the price and, should the buyer fall through, could foreclose and retain the property plus payments already made.

However, the financing can get tricky and potentially be deceptive. "You offer seller financing at below market rates to increase the price," John Cona, CEO of predictive pricing vendor F9Analytics, tells GlobeSt.com. "If market debt coupons are 8.00% and you issue below-market financing at 6.5%, what is the instant value loss of that debt today? Possibly 20 cents on the dollar?"

And there is the question of how a company would present the combination of sale and financing. Investors might look hard and still be unable to follow how the continued life of a financed transaction appeared over time.