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State of Construction Finance

*Insights, data and trends for commercial real estate
lenders and developers in 2020.*

INTRODUCTION

Each year Rabbet surveys commercial real estate lenders and developers to uncover emerging trends in construction finance. This year, perhaps more than any year in recent history, things have shifted dramatically. Lenders and developers alike are facing incredible challenges, and the COVID-19 pandemic has caused the entire industry to reexamine processes. This report takes a closer look at how lenders and developers are addressing construction finance in 2020, including:

- Top Challenges for Construction Lenders and Developers
- Differing Perceptions of the Loan Administration Process
- The Role of Technology in Construction Finance
- Emerging Trends for 2020
- Key Takeaways

The Data

Rabbet surveyed over 50 qualified professionals across lending and development with active construction portfolios ranging from less than \$20 million to more than \$1 billion. Respondents were sourced via CRE industry publications as well as Rabbet's own network of lenders and real estate developers.

2020 State of Construction Finance

CHALLENGES

Despite the growing shift toward technology in 2020, the biggest challenges plaguing lenders and developers are still related to manual processes and scattered systems. Over 40% of lenders cited issues with organizing documentation, and 57% of developers said tracking everything in one place was a major challenge. On a similar vein, 53% of lenders reported spending the most time dealing with documentation errors, whereas 71% of developers said the most difficult challenge was knowing where projects stand at all times.

Most Time Consuming Challenges

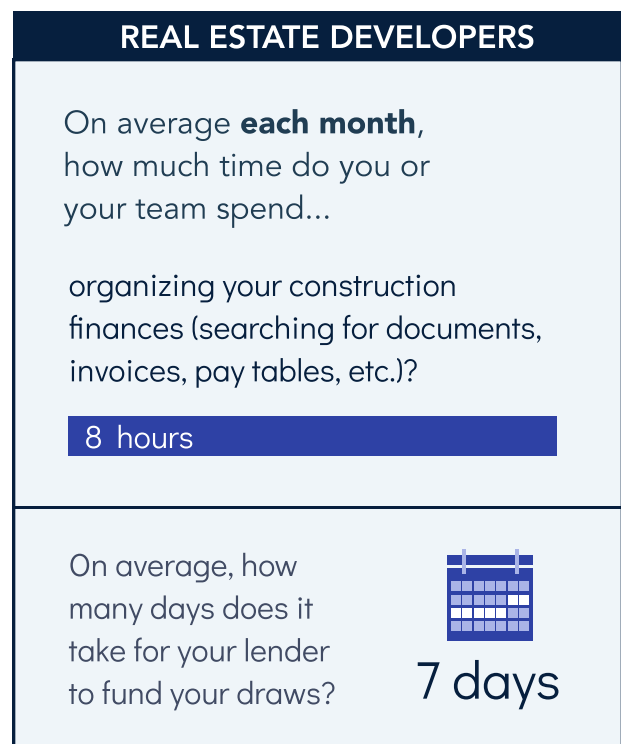
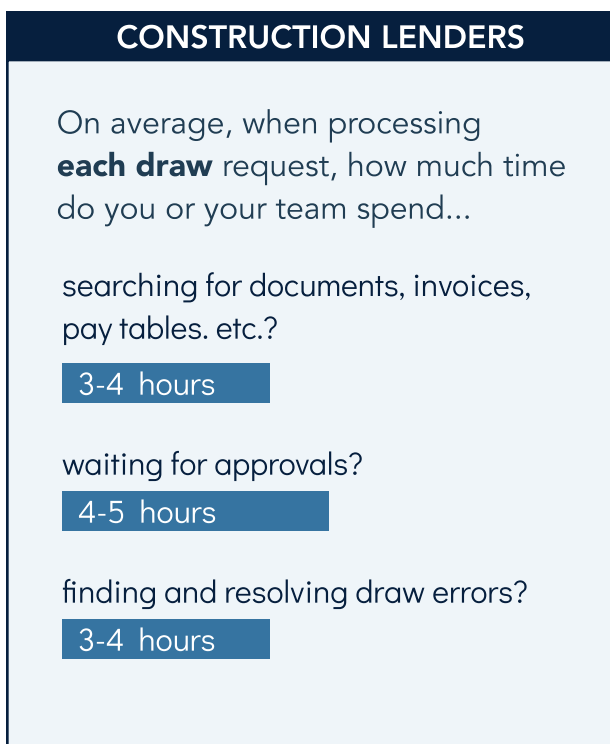


Time: Breaking Down the Cost of Inefficiency

The challenges surfaced by lenders and developers culminate in massive amounts of lost time. In fact, borrowers reported draws taking an average of 7 days to get funded.

What's the Hold Up?

Lenders identified a multitude of manual tasks that require significant time investments. Examples include 3-4 hours spent searching for documents, 4-5 hours waiting for approvals and 3-4 hours resolving draw issues. With so many hours of manual work spread across so many tasks, it's no wonder developers think lending processes could be more efficient.



→ Over **50%** of **lenders** said receiving documentation with errors was the most common source of lost time, even though **developers** reported spending **8** hours each month organizing construction finances.

→ **Developers** said they receive change requests from lenders about **40%** of the time, and **lenders** said **53%** of draw packages have errors or issues that need to be corrected

→ Incorrect data and disorganized information were noted by about **50%** of **lenders** as the biggest culprits of issues.

PERCEPTIONS

of the Loan Administration Process

While nearly all survey respondents reported room for improvement (0% of lenders thought their process was perceived as excellent), perceptions of the loan administration process differed. While most construction lenders generally thought borrowers felt okay about their process, 40% of developers viewed their lenders' process as inefficient. 35% of lenders also thought their process could be more efficient, but 53% stated the most inefficiency was caused by errors in the documentation received from borrowers.

LENDER PERCEPTIONS

53% think the most time consuming challenge is dealing with documentation issues caused by the borrower

LESS THAN 6% thought borrowers view their process as "bad"

DEVELOPER PERCEPTIONS

OVER 40% of developers thought their lender's process was inefficient

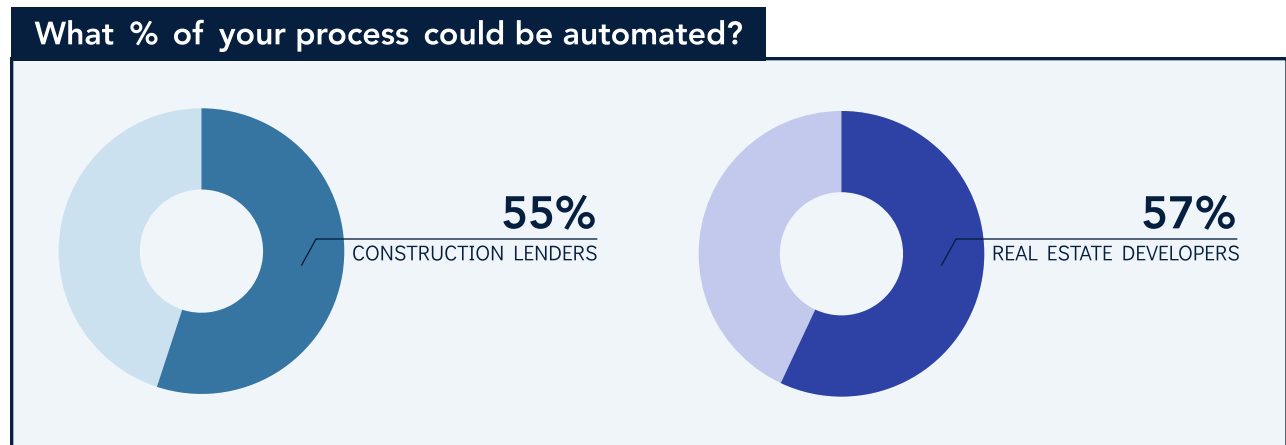
Developers said they receive change requests from their lender **40%** OF THE TIME

THE ROLE OF TECHNOLOGY

in Construction Finance

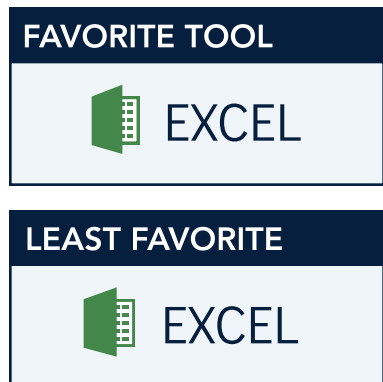
Push for Automation

Based on the hours of productivity lost to redundant manual work, it's not surprising that both lenders and developers said over 50% of their process could be automated. While these numbers are down from 2019 (71% for lenders, 67% for developers) it's clear both parties still see significant room for improvement.



The Ongoing Love/Hate Relationship with Spreadsheets

In 2019, only 48% of construction finance data was in a system, leaving the remaining half trapped in spreadsheets. Many lenders and developers still rely heavily on spreadsheets in 2020; in fact, Excel was most commonly voted as both a favorite and least favorite tool across lenders and developers.

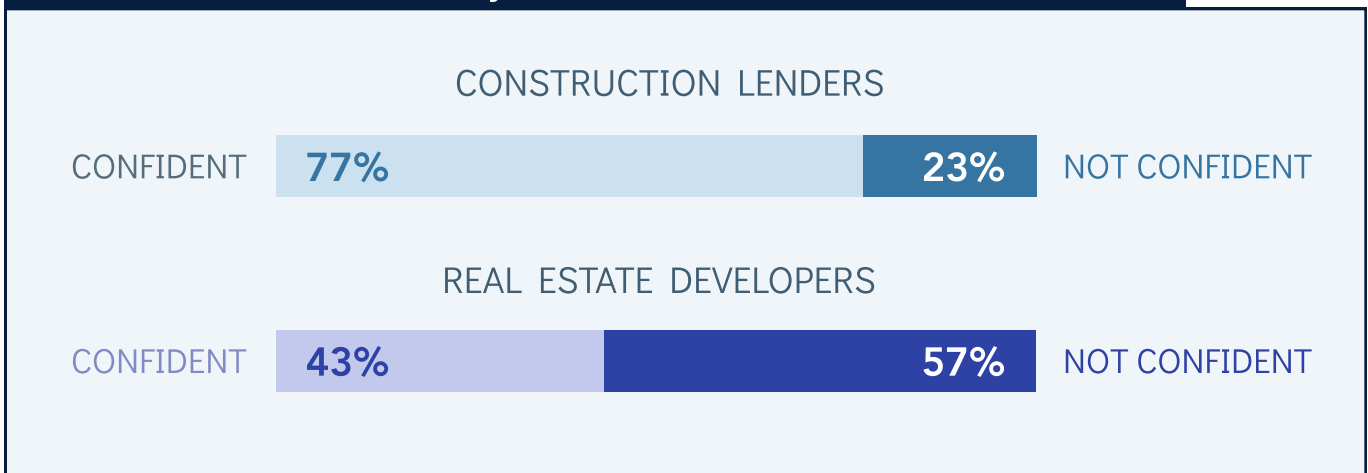


EMERGING TRENDS

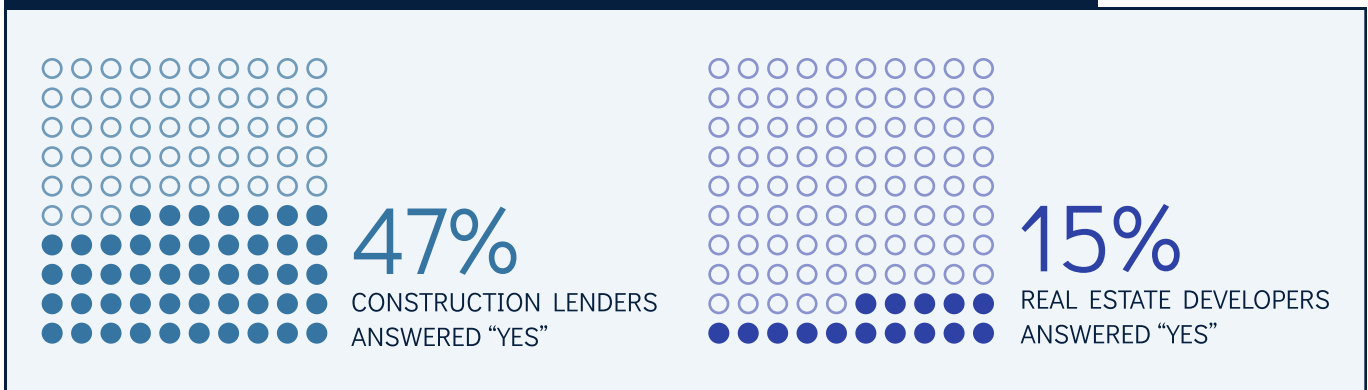
Rising Security Concerns

Likely as a result of the increase in remote work, lenders and developers alike expressed security concerns about the transfer of data across email. While opinions varied, 0% of developers and only 12% of lenders reported maximum confidence that information remained secure when transferred over email. Interestingly, despite having higher confidence on security than developers, lenders were three times more likely to report being targeted by phishing attempts or email scams.

When employees are manually transferring information back and forth via email, how confident are you that all information remains secure?



Has anyone on your team been targeted by a phishing attempt/scam?



Digital Readiness (2019) vs. Digital Consolidation (2020)

Rabbet's [2019 State of Construction Finance report](#) noted a huge shift looming for construction finance and digital readiness with nearly 70% of respondents believing technology and automation could expedite their process.

Fast forward to 2020 and digital consolidation is a growing need for construction finance with 18% of developers using five or more systems and over 50% of lenders using three or more tools. Across the board, survey respondents identified keeping track of everything, organizing documents, and knowing where projects stand as major concerns.

% Using Multiple Tools to Manage Construction Finances

CONSTRUCTION LENDERS

100%

REAL ESTATE DEVELOPERS

100%



WHAT'S NEXT?

The Move Towards Efficiency and Visibility

KEY TAKEAWAYS

- New challenges are accelerating the push towards automation and digital adoption
- Lenders and developers are confronting the high cost of inefficient manual tasks
- Adding more tools has created the need for a centralized (and secure) source of truth

This year, over 80% of lenders surveyed said human error exposes them to risk in their lending process, with 23% finding that risk substantial (58% noted “average” levels of risk). This parallels developers’ concerns around human limitations, citing “keeping track of everything” and “consolidating data” as major challenges. As lenders and developers adopt digital solutions to face these challenges, they have mountains of data spread across disparate systems, and it’s not easy to keep everything in sync. Couple that with employees working remotely, and it’s difficult for everyone to stay on the same page. On top of these challenges, the increased need to remotely send email, transfer files and access key systems is exposing construction finance to significant security risks.

All of these variables are adding strain to an industry that already contains many moving parts, and those parts aren’t easy to track even when things are working perfectly.

Budgets, invoices, lien waivers, retainage, line items, hard costs, soft costs, pay applications (from general contractors and subcontractors), inspection reports, budget adjustments, and approvals located in hundreds of pdfs, emails, spreadsheets and loan documents are just some of the variables lenders and developers have to keep up with.

As an already complex process absorbs the logistical challenges of 2020, lenders and developers seem determined to accelerate the move toward automation and the adoption of new technologies. This new resolve, coupled with the advent of solutions for automatically analyzing construction documents, verifying compliance and consolidating project finances has poised lenders and developers for even greater success in 2020 and beyond. What remains to be seen is which organizations will seize the opportunity to leverage technology as a competitive advantage and who will still be playing catch-up in 2021.

About Rabbet

Rabbet offers cloud-based solutions for commercial lenders and real estate developers to centralize construction finances, automate administrative tasks, and make proactive, data-driven decisions. Founded in 2017, Rabbet adds transparency and efficiency across billions of dollars in commercial construction projects.

Want to manage construction finances more efficiently?

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