

Commercial Real Estate Direct Quotes Tim Little and Scott Vetri on Using Equity Kickers Amid Increasing Market Challenges

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In an article that highlights the use of equity kickers to address borrowers' refinancing challenges, *Commercial Real Estate Direct* (*CRE Direct*) spoke with National Real Estate Department Chair Timothy Little and New York Real Estate Practice Chair Scott Vetri about the strategy's re-emergence in the commercial mortgage sector.

Equity kickers, last used in the early 1990's and often called "kicking the can down the road," are "where a lender participates in the proceeds of the sale of a property backing a distressed mortgage," as noted by *CRE Direct*. Due to increasing interest rates as well as a less liquid sales and lending market, lenders are now considering equity kickers to give borrowers more time in exchange for a share of any sale or refinancing proceeds.

"Lenders all want a paydown. They want to make a loan-to-value adjustment," Scott explained, adding that owners may prefer turning the property over in a deed-in-lieu of foreclosure instead of putting additional funds into the property. Taking title to a property is "the last thing a lender wants," he said.

According to Scott, an equity kicker is effective when a property value exceeds the current loan amount and there is positive cash flow available to cover the debt service.

However, Tim emphasized that equity kickers are not a one-size-fits-all solution. "These tend to be very process-oriented," he said. He and Scott went on to explain that loans against class-B and -C office buildings in urban markets, for example, might not be good candidates since their potential is "highly speculative."

"Equity Kickers, Often Used During the Early 1990s, Emerge as Market Challenges Increase." **Commercial Real Estate Direct*, May 23, 2023.

**Subscription may be required for article access.*

Also see: *GlobeSt* Quotes Tim Little and Scott Vetri on Using Equity Kickers With Reluctant Lenders

CONTACTS

For more information, contact your Katten attorney or any of the following attorneys.



Timothy G. Little
+1.212.940.8594
tim.little@katten.com



Scott M. Vetri
+1.212.940.6397
scott.vetri@katten.com

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