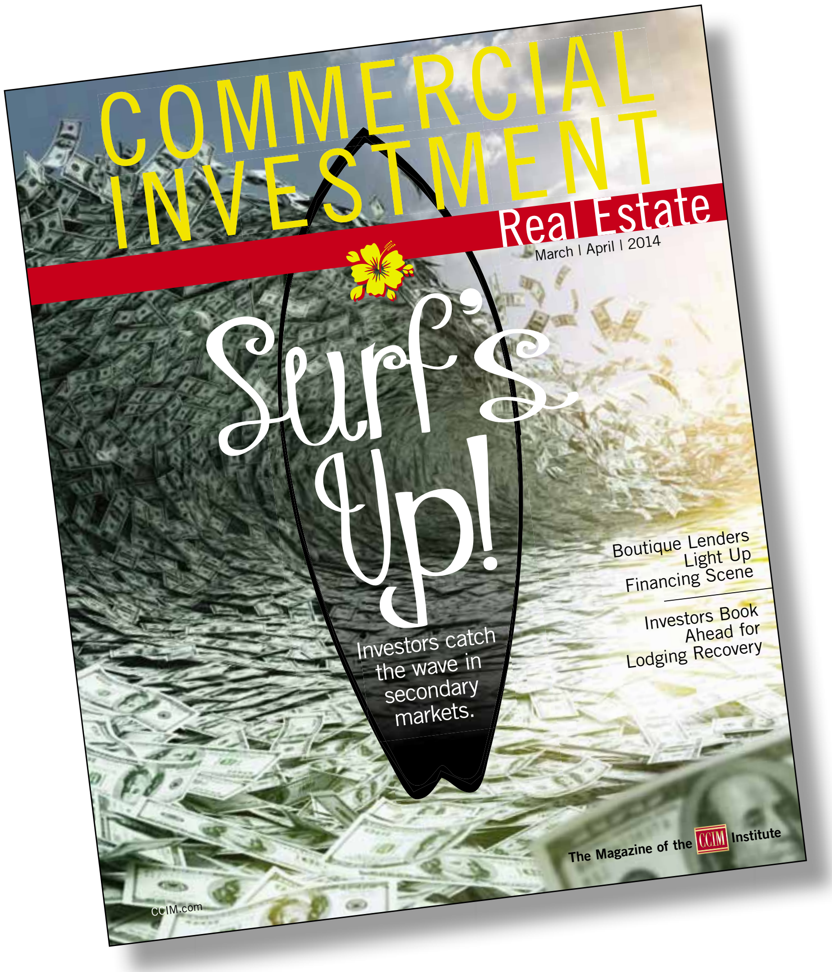

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Financing Niche

How are boutique lenders setting themselves apart?

Commercial real estate has come a long way in three years. In 2011, financing was scarce and transactions were difficult to close. Now, lenders are ready to step off the sidelines. But, to their surprise, the field is quite crowded.

"There is a tremendous amount of capital in the marketplace, which is increasing every day," says Elizabeth Braman, CCIM, chief production officer with ReadyCap Commercial. "In order to compete, lenders are gravitating toward niches where they can specialize and avoid competition." These niches include small-balance loans, equity for development, and nonrecourse financing for unstabilized properties, among others.

To find creative solutions for closing these transactions, it pays to know the financing firms that specialize in them. *CIRE* magazine talked to representatives from three boutique firms about best practices for securing financing and why they prefer to work with CCIMs.

What types of commercial real estate deals does your firm favor?

Elizabeth Braman, CCIM: ReadyCap Commercial specializes in small-balance commercial loans made nationwide, from $500,000 to $10 million. We offer conventional, bridge, and owner-user financing for apartments, office, retail, industrial, self-storage and mixed-use purchases and refinances. We realize that many good loans have a story that needs to be heard, and we offer two-to-three-year bridge loans, and five-, seven-, and 10-year conventional products.

As a non-bank lender we offer more creative financing solutions, like lending to nonrecourse borrowers, foreign nationals, unstabilized properties, empty buildings, and those projects needing capital for rehab, leasing commissions, and tenant improvements. We can assist in financing for discounted payoffs and maturity defaults and look at storied borrowers and properties — for example, borrowers with little liquidity or properties requiring tenant improvements — with a greater focus on the strength of the real estate. For our quick

by Rich Rosfelder

close transactions this year we're rolling out an express program to address borrowers' need for speed. And over the next few months we are looking forward to rolling out our Small Business Administration programs for owner-users.

Robert Lee: Silver Portal Capital specializes in raising equity capital for private real estate developers and operators, unlike most capital firms that primarily raise debt capital. We believe that the overall market is getting better; however, the favorable deals are those that can still be acquired below replacement cost and have value that can still be added through skilled sponsorship and experienced operators.

Most of our time is spent on securing multiyear, multiasset equity capital for operators who are adding that value to reposition or improve existing real estate. However, we are starting to see more development across the country, especially in urban infill multifamily projects, senior housing, and even hotel development. Most of our clients have had a lot of success, and primarily raised capital through friends and family but are now at the level where they need larger institutional capital to help take them to the next level.

Jerry Dunn: A10 Capital, a full-service and nationwide lender, focuses on financing unstabilized commercial properties on a nonrecourse basis. Our loans typically come with a tenant improvements/leasing commissions future funding facility to fund up to 100 percent of the lease-up cost. Loan terms are up to five years to provide sufficient time for borrowers to execute their lease-up plan. Our loan sizes range from $1 million to $15 million per property, with larger loans considered on a case-by-case basis. Property types include office, retail, industrial, multifamily, and self-storage and are typically A and B quality located in the top 150 MSAs.

We recently funded the acquisition of an 80,000-square-foot class B-plus office in the Southeast. The prior owner had over-leveraged the property with a $15 million commercial mortgage-backed securities loan. The property lost tenants, and occupancy ultimately fell to 30 percent, resulting in a loan default. Our borrower acquired the property from the special servicer for $6 million. To partially fund the purchase, we structured a $4 million nonrecourse loan, which also included a $2 million future funding facility to fund 100 percent of the projected costs to re-tenant the building. The borrower had a "tenant in tow" to bring occupancy up to 50 percent at closing. The borrower was a principal of a global commercial real estate brokerage firm and nonrecourse was crucial to him.

Have your firm's lending constraints changed during the past few years?

Braman: We're new to market having opened our doors one year ago. This means we don't have any legacy loan issues and are aggressively lending across the country. We're a subsidiary of a real estate investment trust, externally managed by Waterfall Asset Management, and will look to do our first securitization in early 2014. The good news is that, in our opinion, values have already hit the bottom in nearly all major MSA markets, so we're lending at the right time.

THE LENDERS

Elizabeth Braman, CCIM, is chief production officer with ReadyCap Commercial. Learn more at www.readycapcommercial.com. **Robert Lee** is director of capital markets for Silver Portal Capital. Learn more at www.silverportalcapital.com. **Jerry Dunn** is principal and chief executive officer for A10 Capital. Learn more at www.a10capital.com.

Lee: Yes, capital is harder to obtain than pre-2008, but much easier than 2011. Co-investment requirements for real estate owners and operators have increased. If the transaction is larger than $50 million, then the equity will be more flexible, as long as the sponsor-contributed general partner equity is meaningful. But the days of 1 percent co-investment are over. Because of the funds that are more prevalent in today's debt markets, there are more bridge, mezzanine, and preferred equity players, which provide more flexibility in capitalizing deals than before. For example, we were able to recapitalize a necessity-based shopping center developer last year who had become stuck during the downturn with over a half-dozen deep value-add redevelopments. We were able to secure an equity partner and a bridge lender who gave the operator the ability to buy the assets back from the bank — out of bankruptcy — and inject the equity and debt needed to turn the projects around and provide a nice return for all investors involved.

Dunn: A10 Capital was founded in 2008 to fill the void in the banking industry created by the credit crisis and banks' limited commercial real estate appetite due to regulatory pressure. So we don't have any legacy loans and have been aggressively originating loans in the past few years. Over that period, we've increased our maximum loan size per property and closed loans up to $20 million. We've also added a stretch loan-to-value product for borrowers requiring higher leverage. And our interest-only payments are competitive with bank and CMBS mortgage constants.

What advice can you offer commercial real estate professionals who are seeking financing for their transactions and projects?

Braman: It is critical to understand the strengths and weaknesses of a transaction and to present them completely. Many borrowers have had issues getting financing over the past few years and are reticent to tell lenders what issues they've had, but they always come up in a proper underwriting. It is always better to structure the deal from the start than to wait until the deal is with a credit officer. Almost all deals in major markets can get financing these days, perhaps just not on the rates and terms borrowers want.

Lee: We work with a lot of companies that have a lot of experience as brokers and investors. The groups that have the most success in obtaining joint venture equity or debt for their projects have taken the time to package their track record and define a clear strategy based on their past experience. If the track record is there, we can help with the rest. I would also recommend securing 5 percent of co-investment capital from your network of friends and family and provide fresh examples of some post-downturn deals. Do your research, know your market, and take the time to do some due diligence before taking the projects to capital. With many capital groups, you only get one shot at a first impression.

Dunn: For unstabilized properties with a story, it's important to work with a lender who specializes in that situation. Also, borrowing on a nonrecourse basis is cheap insurance and provides peace of mind, especially when financing a property with vacancy issues and suboptimal net operating income.

How does your firm benefit from its partnership with CCIM Institute?

Braman: ReadyCap has enjoyed a great relationship with the CCIM Institute in our first year. We advertised in *CIRE* magazine, which helped to bring our products to the real players in the market. I personally used CCIM Institute as a resource for recruiting as well as bringing in business. When I look to enter a market I reach out to CCIMs via MailBridge and local chapters to get the lay of the land and get the right connection and make our presence known. Wherever I go, I reach out to CCIMs and get the best introductions to decision makers and knowledgeable deal makers.

I use the CCIM education concepts to train my staff and encourage my loan officers to get involved with their local chapters. Last year I spoke at a CCIM Los Angeles Chapter event and brought one of my staff who met some valuable contacts. We use STDB all the time for market data. In short, I constantly use CCIM education, technology, and networking to advance my business.

Lee: A lot of CCIM designees work with real estate operating companies that have a need for equity or debt on projects today. Traditionally, everyone had a few capital relationships. In this market, real estate professionals see the value in working with experts, like us, who spend all day every day working with capital of all sorts. As a boutique investment/merchant banking group, we also refer business out to CCIMs because we may be working with an operator who needs help with leasing or with sourcing new deals. CCIMs typically add value in their market knowledge, analysis skills sets, and through their relationships in specific product types or markets.

Dunn: A10 Capital recognizes that the CCIM Institute is the hallmark of excellence in the commercial real estate industry. Our partnership with CCIM allows us to tap into the unlimited knowledge base of the Institute and its members through STDB, *CIRE* Magazine, the *CCIM Quarterly Market Trends* report, and direct two-way contact with CCIM designees through MailBridge. As a national lender, access to market-specific information can be invaluable.

Through participation in local, regional, and national events sponsored by CCIM, we are able to identify and connect personally with decision makers who can benefit from our lending program, furthering our business development opportunities. Our staff members who hold the CCIM designation garner instant credibility and recognition with other professionals in the industry for their accomplishments and expertise.

Rich Rosfelder is integrated marketing manager for CCIM Institute.

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