



Letter of Intent - Leverage Up

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Both conventional and non-conventional lenders, as the market has gotten increasingly competitive, have pursued loftier goals: placing second position and mezzanine loans on solid product with value-add propositions. This has allowed borrowers to fill their capital stack with debt, cut down on equity partnerships, and substantially increase their returns.

Mezz lenders are feasting. Quality developers are drooling. The market can substantiate these much higher leverage scenarios, and they are being placed night and day. Berko & Associates has had the opportunity to place a number of these loans, with the goal of allowing a sponsor to bring fewer partners to the table, and the 8-9% loans that have been procured at LTVs of up to 90% have far outweighed the potential profits lost to equity partners, not to mention the benefit of less headaches from the lack of need for equity partners.

The swelling number of borrowers on the prowl for these alternative loans has driven lenders to get on board and ride the wave. Traditional lenders, funds, REITs, and individuals themselves have instituted mezzanine lending programs that they may not have had in the past, and surely were not historically at the forefront of their agendas in the past.

Structuring a mezzanine loan does have its share of complex legal issues as both the senior and junior lenders must work out an intercreditor agreement to the satisfaction of all parties. The creditors will dictate the relationship between the creditors and the borrower and since the junior position gets paid only after the senior debt is satisfied, the risk must be carefully mitigated. Typically, the second lien lender will have the option to acquire the senior debt position at par in the event of bankruptcy or borrower default as a way to protect its capital.

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