



Letter of Intent - Higher Leverage

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Developers are gobbling up mezzanine lenders' super aggressive terms. The market can substantiate these much higher leverage scenarios, and Berko & Associates has had the opportunity to advise on and 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, which in general, are the most substantial payouts in the capital stack, allowing sponsors to maintain more, if not all of the equity in the project, and increase their profits dramatically.

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. The risk seems to be worth the reward, as the days of 14% mezz is behind us and we are seeing mezz loans structured at senior position rates. Time to make a move.

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