

DAILY BUSINESS REVIEW

FINANCING Funds more flexible in underwriting

BUYERS FIND QUICK MONEY — BUT AT A HEFTY RATE

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Real estate has always been important to Arnaud Karsenti and his company, Miami-based 13th Floor Investments, but providing short-term financing to other buyers is becoming a growing part of his investment strategy.

As the market continues to stabilize, Karsenti is looking to direct part of his \$50 million investment fund into bridge loans for investors seeking quick money to buy land, distressed properties and other assets banks won't touch.

Karsenti and others in the so-called debt-fund market are increasingly targeting investors chasing high-risk deals.

"An enormous amount of capital has been raised and is ready to be deployed in the market," Karsenti said. "As a result, people are looking for ways to find returns, and one way of finding a return is to lend rather than invest."

"Bridge financing creates more liquidity, boosting deals that otherwise wouldn't happen," said Marcos Egipciaco, a bro-

ker with Sovereign Real Estate Group in Miami Lakes.

"Most investors are not able to close all-cash and therefore require bridge lending to get them to the closing table," he added.

Egipciaco said debt and equity funds are playing an increasing role in South Florida deals.

"In the last three years, almost 100 percent of my deals were all-cash transactions," he said. "In the last six months ... that has changed. I am now seeing about 40 percent of deals come through with some sort of financing in place."

Bridge loans are typically interest only - in the 9 percent to 15 percent range - with a balloon payment due in three years. Borrowers also face paying points up front and have to come up with a 35 percent down payment. The points, 1 percent of the loan amount per point, vary with each loan and lender.

Traditional lenders usually finance up to 75 percent of the value of an asset and may charge interest rates below 6 percent, but properties require healthy cash flow to qualify.

Short-term financing is an option for investors looking for quick cash, either to buy or refinance a property.

Early this month, New York mortgage broker Adam Glick arranged a \$5 million, two-year balloon loan in less than three weeks for a waterfront project in Miami. The collateral includes an apartment building, an office building and land appraised at \$11 million, said Glick, managing member of Maxim Capital Group, which focuses in the New York



RICHARD M. BROOKS

Arnaud Karsenti of Miami-based 13th Floor Investments is looking to direct part of his \$50 million investment fund into bridge loans for investors.

and South Florida markets.

"The borrower needed the money in a matter of weeks to refinance and pull some cash out of the property for other opportunities," Glick said.

Glick declined to disclose the name of the borrower or location of the properties but according to Miami-Dade public records, on June 3 Maxim's Maxim Credit loaned \$5 million to entities affiliated with developer Irwin Tauber. The properties acquired include a 26-unit apartment

BRIDGE LOANS AT A GLANCE

- Interest-only payments
- Interest rates ranging from 9 percent to 15 percent
- Various points paid at closing
- Balloon payment after two years
- 65 percent loan-to-value ratio

building, a 26,000-square-foot office building on East Bay Harbor Drive in Bay Harbor Island and a 4.24-acre parcel in North Miami.

Glick said Maxim was confident the loan was safe because it was “overcollateralized” by properties that had the potential to be upgraded or sold for a profit, had good cash flow and were well located.

DEBT FUND ADVANTAGES

The advantage of debt funds over traditional lenders is the speed in which they can make a loan because funds don't have the same layers of underwriting. But higher interest rates typically boost the cost of borrowing. Miami mortgage broker Adam Greenberg said.

“{Debt} funds don't give you the best interest rate,” said Greenberg, managing director of BayBridge Capital Advisors, which provides bridge loans. “They compete on other facets of a transaction like timing, leverage, flexibility -- that sort of stuff.”

Greenberg said he recently helped a client secure a bridge loan for under \$10 million to acquire a retail center in North Miami Beach.

The property, which had been repossessed by a bank, was more than 30 percent vacant and needed to be re-tenanted and remodeled, he said. Still, a debt fund financed 80 percent of the purchase price, Greenberg said, declining to name the lender, which charged the borrower 2 points and 12 percent interest on the two-year loan.

“The lender was very comfortable in owning the asset if things went bad,” he said.

BETTING ON RECOVERY

Debt funds are betting on the recovery of the real estate market. When they lend money to buyers of distressed properties, they hope that two years will be enough time for a property to be stabilized and the loan paid off.

Bernie Navarro, president of Benworth



J. ALBERT DIAZ

Debt funds have a higher interest, but Miami mortgage broker Adam Greenberg said, “They compete on other facets of a transaction like timing, leverage, flexibility — that sort of stuff.”

Capital Partners in Coral Gables, said the company makes bridge loans ranging from \$400,000 to \$4 million. His clients are often investors who acquire distressed properties with the intent of renovating them and improving the tenant mix. Once the asset is stabilized, the borrower can flip the property or replace the bridge loan with permanent financing, said Navarro, who charges from 11 percent to 13.5 percent interest in bridge loans.

“So we are not going to be in it for the long term,” he said. “We are going to be in it for a short while, stabilize the property and move forward.”

Navarro said he doesn't make a loan unless the borrower has a clear plan to add value to the property and boost its cash flow.

“Every deal we do, we make sure we understand the exit strategy,” he said. Navarro who started the debt fund in 2008, said his business is picking up, in part because investors are making deals as values begin to strengthen.

Sovereign's Egipciaco agrees. He said foreign investors are doing much of the dealmaking.

“Now that {sale} volume has picked up, they feel a lot more comfortable making buying decisions,” he said. “They see South Florida as cheap relative to all other major cities worldwide.”

DISSENTING VIEW

Bridge loans may be the answer to some investors chasing discounted properties but they don't make sense to Abraham Wien's clients -- publicly traded foreign companies buying real estate in South Florida.

Wien, managing partner of Legacy Assets in Miami, performs due diligence and underwriting of proposed acquisitions on behalf of clients. That includes analyzing the cost of borrowing compared with the cash flow generated by the target property.

Wien said nearly 60 percent of his clients buy properties using traditional loans, some with interest rates below 6 percent.

“Bridge funds are very difficult,” he said. “We don't use them because their interest rates are very high. ...The interest rate would consume the cash flow of a property.”

Miami investor Karsenti understands that feeling. While his fund is branching out to become a bridge lender, his investment firm stays away from short-term financing.

“Rather than taking a bridge loan from someone else, we would rather pass on that return to our investors,” Karsenti said. “So we only get a loan if the rate of the loan is lower than the yield on the deal.”



Egipciaco

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