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Finding FINANCING

How to Seal the Deal in a Tight Credit Market

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Finding FINANCING

How to Seal the Deal in a Tight Credit Market

By Steven Cutler

The credit market for development and apartment sales is tight for sure, but it hasn't shut down completely. While they take considerably more effort and persistence, deals are getting made and financed for qualified borrowers who know where to look.

The easiest type of property by far to finance is the multi-family rental. "Multi-family residential projects in New York and the boroughs are always the best long-term investment," says broker Alan Miller, senior director of the New York City-based Eastern Consolidated Real Estate Investment Services. "People need a place to live."

"It's challenging," he adds, but "there is financing out there," mainly from local savings banks that did not overextend themselves during the boomtime.

Of course, the rules have changed in the past several months.

"The underwriting is much stricter," observes Miller. "You have to be a strong sponsor. The equity requirement is much greater than it's been in the past—along the lines of 50 to 60 percent." The buildings banks smile on are the ones with a large upside, he says, "with half the apartments rent-controlled with way-below market rents. They're only lending today based on cash flow with in-place rents."

The privately held SK Properties secured construction financing for three such properties only recently—residential apartment complexes totaling 845 residences in New Jersey and Pennsylvania. >>

LEFT: Warehouse 11 in Williamsburg helps buyers find financing
ABOVE: View from the terrace of a condo at the FHA-approved Belle Shores in Far Rockaway

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"We closed a ground-up construction in November for a 348-unit rental," says SK Director of Finance Jamie Block. The deals included a $107.5 million loan for 225 Grand, a 12-story rental building set to rise along Jersey City's Hudson River waterfront. The building will be part of the Liberty Harbor North development, which will consist of 348 apartments with views of the Hudson River and New York City Skyline. The financing was for a three-year term, put in place by a team of banks, including PNC Bank, TD Banknorth, Capital One and Commonwealth Bank Group.

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Smaller is better

The healthiest and most willing banks are the smallest ones, says Block, and "where they used to lend 75 percent for commercial buildings and up to 85 percent for residential, now they're looking at 65 percent across the board." But, he adds, "You may be able to get up to 75 percent with Fanny Mae and Freddie Mac," the Federal Government-backed home mortgage programs.

David Berger, co-founder of Rosewood Realty Group, a mortgage brokerage established in 2007, agrees that "the asset class selling the most today is multi-family, for the simple reason that they're somewhat safe, especially the rent-stabilized stuff. We just closed on a four-building portfolio in Brooklyn, with about 190 units altogether. The buyer got about 65 percent financing. A year ago, [it] would have been 80 to 85 percent," he adds, "and it took a long time."

Indeed, developer David Sigman, principal of LCOR, waited six months for construction financing for 34 Berry, a $69 million, 142-unit rental building in Williamsburg, Brooklyn. Plus, the only reason it was granted the money, he figures, "was because we had a track record as a developer for this kind of product. We'd done similar kinds of projects with Bank of America since the 1970s."

Even in the ailing condominium market, some exceptional new >>

ABOVE: Luxury condominium at 1056 Fifth Avenue just got construction financing
LEFT: 225 Grand- a $107.5 million construction loan for a rental in Jersey City

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projects are getting financed. Developer Trevor Davis got a financing commitment in mid-March from two banks, including Wrightwood Capital, for an ultra-luxury 12-story condominium at 1055 Park Avenue, on the corner of East 87th Street in Manhattan.

"Even in a lousy market," says Davis, who has been building high-rise condominiums on the Upper East Side for 30 years, "you can still get financing if you have the right site in the right location and the right track record."

Where's the money?

Some enterprising new firms are teaming up with venture capitalists to offer financing for qualified projects.

The newly formed $300 million Carlton Strategic Ventures has joined with a billion-dollar institutional real estate investment firm to originate short-term first mortgages up to 65 percent loan-to-value for partially occupied buildings in strong markets to build out spaces for tenants or refinance their properties.

"We look at their track record, the property, the market, vacancy factors and comps," says Dax Scharfstein, principle of CSV. "We already have a pipeline on 30 deals. The key is picking the right ones."

The borrower will need to pay 11 percent for the loans, plus two points, usually for two-year terms with a one-year extension, and five-year fixed loans in special cases. The company does $10 million to $70 million loans, says Scharfstein, but can go to $100 million for multi-building portfolios.

Getting qualified

Some enterprising mortgage companies are teaming with marketing companies to help developers of condominiums coming online today get loans for their buyers. The builders face a cruel catch 22: Their buyers cannot get financing to close if the bank does not see enough closed units in the building already.

"Last year, 25 percent of the units had to have been sold or in contract in a condo for a buyer to get a loan," according to Ross Weinstein, Director of Union Square Mortgage Group. "Last year, it was 51 percent, and now, as of April 1, if a building is not 70 percent sold, buyers in that building will have an extremely difficult time obtaining financing."

Teaming up with large brokers like the Williamsburg-based Apts & Lofts, Union Square consults with developers right from the time they put together their operating plans to help them tailor their buildings to win financing for prospective buyers.

"They need to be fully aware of what the buyer financing will look like," says Weinsten. They must know whether their price points qualify for conforming loans or will require more difficult jumbo loans and how the building might qualify for FHA loans-insured loans.

"We have avenues—granted they're getting tighter—for developers to obtain financing with buyers in a building less than 50 percent sold," says Weinstein. In one recent project, Warehouse 11, a 120-unit luxury condominium at 214 North 11th Street in Williamsburg, he says, "we arranged for the people in contract to get loans with only 35 to 40 percent of the building sold."

The FHA advantage

Weinstein recommends developers aim for FHA approval early on. Union Square scrutinizes offering plans to help them meet strict, constantly changing, government guidelines.

FHA approval has been a major selling point for the apartments at Belle Shores, a 78-unit condominium near the ocean at Rockaway Beach, Queens. Belle Shores is the only new condominium development larger than six units in New York City in more than a decade to be approved for FHA-insured mortgage financing, which makes homebuyers eligible to finance up to 96.5 percent of the purchase price and closing costs.

According to Michael Ferris, principal of FrameWorks Group, the developer of Belle Shores, "the underwriting for the project took a year. Wells Fargo will finance 100 percent of the buyers, though buyers can bring in any lender."

The program seems to be working wonders. "We had people waiting on line last week [in early March] and sold five homes for sure and probably three more," says Ferris. "Most were FHA. It's not usually something you see in March. It would be a good July." ■