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BRIDGE LENDING CONSTRICTS

Bridge lending will see a slower second half of the year, especially due to the fact that exit strategies are limited. It will be harder to make many bridge deals work because of higher interest rates, as well as reliable exit sources becoming more difficult to achieve at current rate levels. Uncertain values and rising cap rates pose a challenge to the bridge market. Watch for many bridge deals having to be extended or restructured. High interest rates and uncertain rental market growth will result in lower loan amounts across the board, brought on by DSC ratios of 1.25x and higher. Pricing will reach as high as the low double digits, which can be tough for property owners to swallow.

Count on bridge lenders to shift focus toward cash-flowing deals and be more conservative on sponsorship. In the past, bridge lenders could underwrite to favorable permanent financing, which allowed them to push bridge lending. However, as perm rates have increased and permanent lenders' leverage has decreased, bridge lenders have had a harder time exiting their initial loan terms. This has created a cycle of needing to refinance a bridge loan with another bridge loan. Moving forward, expect newly originated bridge loans to be lower leverage and more cautious based on the permanent rates. Once long-term rates come down, bridge lending should pick back up to more normal levels.

Leverage will be in the mid-60% to 70% range. Layering in mezzanine or pref equity can increase leverage up to 90%, but the current interest rates can seriously impair the borrower's cash flow. All-in rates will be in the 10% to 11% range, with strong cash-flowing deals starting at 8.5% to 9%+.

Banks such as **Bank OZK**, **East West Bank**, **Cathay Bank**, **Axos Bank**, **CTBC Bank**, **Preferred Bank**, **Hanmi Financial Bank** and **Bancorp** will fund deals. Count on banks to be extremely relationship-driven and require recourse, as well as deposits. Borrowers will see max leverage at 50% to 55% with the banks. Look for some life companies such as **New York Life** to also fund bridge deals.

Expect **Mesa West**, **Prime Finance**, **Madison Realty Capital**, **ORIX Real Estate Capital Group**, **A10 Capital**, **Greystone**, **Arbor Realty Trust**, **Torchlight Investors**, **CrossHarbor Capital**, **BridgeInvest**, **Romspen**, **Canyon Partners Real Estate**, **3650 REIT**, **HALL Structured Finance**, **Revere Capital**, **UC Funds**, **Pensam Capital**, **Emerald Creek Capital**, **First Bridge Lending**, **Pangea Mortgage Capital**, **Basis Investment Group**, **LaSalle Debt Investors**, **Access Point Financial**, **Avant Capital**, **AVANA Capital**, **Red Oak Capital Holdings**, **Edgewood Capital**, **Post Road Group**, **Hankey Capital**, **Money360**, **Lone Oak Fund** and **W Financial** to be some of the most active bridge lenders.

Underwriting will most likely become even tighter due to uncertain rent growth levels and valuations. Lenders will be concerned about rising insurance costs. Expect bridge lenders to look closer at rent rolls and tenant rosters. They will be concerned about increasing expenses, especially in the multifamily and hotel sectors. Sizing a bridge loan is often a product of the take-out financing. Understanding if a lender is focused on a debt service coverage ratio test, debt yield test or stabilized leverage will be key. Lenders will focus on market leasing assumptions and there will have to be tangible examples of the business plan — in the specific market — in order for lenders to get aggressive.

Bridge lenders will target multifamily, industrial, self-storage and MHC deals. Retail, especially centers with internet-resistant tenants, will see more bridge financing. Bridge lenders understand a story, but there has to be a realistic business plan with a clear exit in sight. Hotel deals will see more available capital but will be priced accordingly. Office is weak due to high vacancy rates and growing work-from-home trends, so owners will have to provide a lot of color to get lenders comfortable.

Count on bridge lenders to target deals in Sunbelt markets along with areas that have favorable growth metrics and that continue to attract active and strong borrowers. Look for available capital in Miami, Austin, Atlanta, Las Vegas, Dallas and Phoenix.

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EDITOR'S PICKS FOR TOP EQUITY PROVIDERS
(2023 Projected Investment Volume And Preferences)

INVESTOR	VOLUME	DETAILS
3650 REIT	$500M+	$20M-500M+ JV and pref equity pieces for all property types; value-add, ground-up, opportunistic and rescue transactions; mid-teens returns; growth Sunbelt markets
Basis Investment Group	$350M-$500M	Invested ~$200M so far this year; $5M+ pref equity and $10M-$20M LP equity checks for multifamily, industrial, retail, hotels, select self storage and office; pref equity for core, core-plus, value-add and ground-up transactions, LP equity for value-add and ground-up deals; low to mid-teens returns for pref equity and mid- to high teens returns for LP equity; nationwide
Torchlight Investors	$250M-$500M	$20M-$100M+ exclusively pref equity pieces for multifamily, industrial, retail and hotels; core-plus and value-add transactions; 12%+ IRRs; primary and secondary markets
Pensam Capital	$375M	Invested $230M so far this year; $5M-$75M pref equity pieces with a focus on multifamily; value-add, lease-up, repositioning business plan transactions; up to 85% leverage; all-in rates of 12%-13%, current pay rates of 7.5%-8.5%; typically three-year terms plus two one-year extensions; non recourse; nationwide
Canyon Partners Real Estate	$250M	$10M-$100M common equity, programmatic JV equity, co-developer equity and pref equity pieces; multifamily, condos, office, hotels, mixed-use, retail, industrial, student and senior housing; value-add repositioning, ground-up development and distressed/special situations; annual gross returns of 11%-20%+; the top 25-40 markets with a focus on areas that have been beneficiaries of demographic shifts and strong job growth
CenterSquare Investment Management	$200M	Invested $125M so far this year; $10M-$100M JV and pref equity pieces for industrial, retail, cold storage, MHC, self storage, student housing, industrial outdoor storage, medical office; core-plus, value-add, ground-up transactions; returns vary based on risk profile and structure; nationwide generally in markets with a population greater than one million and exhibiting outsized relative population and job growth
Parse Capital	$200M	Invested $58M so far this year, with $106M in closing; $10M+ pref equity and $20M+ JV equity pieces for multifamily, build-for-rent, student housing and active adult; ground-up, value-add, loan re-margining and other various gap equity needs including behind agency debt; 13%-17% pref equity returns; nationwide
Mavik Capital Management	$100M-$200M	Invested $50M so far this year; $10M-$40M pref and structured equity pieces for multifamily, industrial, student housing, hotels; value-add transactions; 12%-18% returns; primary and secondary markets
Hines	TBD	Residential, logistics, office, retail and other properties; check size depends on investment vehicle; core, core-plus, value-add, opportunistic and development transactions; global markets

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BRIDGE LENDING CONSTRICTS…

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Primary and secondary markets across the country will attract investors, which in turn will be where bridge lenders go. Places with negative rent growth, such as San Francisco, will not be as sought after.

Lenders are looking for strong sponsors with ample net worth and liquidity. Bridge lenders like to see a net worth equal to the loan amount and liquidity of approximately 10% of the loan amount. Many debt funds do not see recourse as a credit enhancement. The biggest factor that bridge lenders will look to is sponsor experience in the market along with the specific business plan. Having some "boots on the ground" will be particularly important to implement the business plan.

MULTIFAMILY CONSTRUCTION FACES HURDLES

Count on multifamily construction lending to be increasingly difficult as the year progresses, especially as more and more lenders move to the sidelines due to capacity issues and balance-sheet issues, or because they have run through their allocations for the year. Borrowers will see less bank capital, especially from the major money-center banks. Debt fund and private money lenders will be the most active, although they will be more selective about what deals they will finance. Look for a pickup of life companies providing construction-to-perm loans to help fill the gap.

Borrowers will see tighter lending requirements moving forward. Construction lenders will be more heavily reliant on the sponsor's and the developer's financials and experience. Lenders will target multifamily construction in high-growth markets with highly experienced sponsors. Multifamily construction lending could pick up later this year or early next year as rate expectations stabilize and developers strive to time the market by delivering units in a more supply-constricted environment after the current supply wave ends in 2025.

Count on construction lending to constrict because of the combination of the elevated interest rate environment and tighter lending standards within banks. There will also be a multifamily supply wave delivering in the next two years, making underwriting difficult when combined with normalized rent growth. The Fed will most likely raise rates two more times this year; if rates go up, loan proceeds will go down and too much equity will be required to make a project work.

Borrowers will see LTC maxing around 55% to 60%, with a few best-in-class projects pushing up to 70%. Deals with subordinate debt could reach 80% to 85%. Rates will start at SOFR+ 300 up to 650 basis points. All-in rates will be in the 6.5% to 9%+ range. Count on loans to be debt service coverage ratio constrained.

Lenders will be underwriting less rent growth, solving for their exit using stressed metrics. Many will push for some recourse although non-recourse capital will still be available, especially with the debt fund and private money lenders. Keep an eye out for stronger stress tests with the need for additional sponsor liquidity. Anticipate more focus on underwriting to where rents are today. Look for increased concern that multifamily rents have hit the top in many markets.

Debt fund and private money lenders such as **Greystone**, **Madison Realty Capital**, **Broadshore Capital Partners**, **Related**, **HALL Structured Finance**, **Canyon Partners Real Estate**, **Dwight Capital**, **Parkview Financial**, **Glacier**, **Romspen**, **Procida Funding**, **S3 Capital**, **ORIX USA's Real Estate Capital Group**, **BridgeInvest**, **3650 REIT**, **Pangea Mortgage Capital**, **Artes Capital**, **INCA Capital**, **Post Road Group**, **AVANA Capital**, **Partners Capital Solutions**, **Freedom Financial Funds**, **Seattle Funding Group** and **Silverstein Capital Partners** will be some of the most active lenders.

Banks such as **Bank OZK**, **JP Morgan Chase**, **Pacific Western Bank**, **First Citizens Bank**, **Truist Bank**, **Regions Bank**, **City National Bank of Florida**, **Provident Bank**, **Flagstar Bank**, **Axos Bank**, **Associated Bank** and **Applied Bank** will also consider multifamily construction. Banks will have 7.5% to 8% rates. LTC will be in the 50% range, although strong deals with recourse could hit 60%. New banking relationships need to bring 10% to 15% in deposits. **HUD** loans will still be widely available with sub-6% rates. Select life companies such as **Eagle Realty Group** will also fund deals. Borrowers will see life company pricing at around 6.5%.

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ACTIVE CONDO LENDERS
(2023 Projected Origination Volume And Preferences)

LENDER	VOLUME	DETAILS
Parkview Financial	$250M	$5M-$200M loans for all class of condos with 20+ units; rates starting from SOFR+ 650 basis points; up to 36-month terms; up to 75% LTC; no prepayment penalty; nationwide
UC Funds	$250M	$20M-$500M loans for Class A condos; up to 80% leverage; rates starting at SOFR+ 250 basis points; non recourse; one- to five-year terms; the top 30 MSAs and secondary markets nationwide
3650 REIT	$200M	$50M+ inventory loans and construction loans for Class A and B condos; for new construction, the lender prefers projects that may also work as rentals; SOFR+ 600+ basis point rates; three- to five-year terms; up to 75% LTC; typically non recourse; all domestic markets, locations are typically in the top 25 MSAs, but can invest in secondary markets
BridgeInvest	$100M-$200M	Funded $30M so far this year; $5M-$75M loans for Class A condos; up to 75% LTC; up to five-year terms; non recourse; rates starting at 5% spreads; primary markets in the Central and Eastern U.S.
Stonehill	$50M-$150M	Condos in all markets except New York City; construction and inventory loans, for construction loans the lender does require presales; SOFR+ 725 basis point rates; 70%-75% LTC; potentially just completion guarantees required
Pangea Mortgage Capital	$100M	Funded $25M so far this year; $5M-$40M loans for Class A condos in top metros; two-year terms; 11% rates; non recourse; the top 15 metro markets
Grosvenor	$50M	$10M-$40M loans for Class A new build condos with between 25 and 150 units; 96% LTC; 10%-12% interest rates; three- to five-year terms; Washington D.C., Los Angeles, Orange County, Calif., San Francisco, Seattle, Austin, Denver, Boston
Canyon Partners Real Estate	Up to $50M	$15M-$150M ground-up and inventory loans for Class A condos; Canyon has done projects with 10-500 units; non-recourse senior and subordinate debt with three- to five-year terms; up to 80%-85% of total project costs; primary and secondary markets that have supportable condo demand
Lima One Capital	TBD	$75K-$2.5M loans; up to 80% LTV; 30-year fixed terms, 5/1 ARM, 10/1 ARM, five-year interest only with 25-year amortization; 13-, 19-, 24-month interest-only bridge loans; 46 states plus D.C.
INCA Capital	TBD	$1M-$20M loans for all condos; 18-month initial terms with extensions; up to 75% LTC; flexible recourse; all markets in AZ, major metros in CA, CO, NV, UT
Freedom Financial Funds	TBD	$2M-$10M new construction loans for primary housing with infill locations west of the Rockies; generally will want to phase in 12-unit phases and keep LTV at or under 65%, usually this equates to 75% LTC, may consider LTC to 85%

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DEALMAKER DATABANK

Bernard Financial Group 20700 Civic Center Drive, Suite 240, Southfield, MI 48076 Joshua Bernard, Principal (248) 799-9200 jbernard@bernardfinancial.com	Bernard Financial Group secured a $29.9M multifamily construction loan for 161 residential units in Detroit with Flagstar Bank.
Concord Summit Capital 1450 Brickell Ave., Suite 2560, Miami, FL 33131 Kevin O'Grady, Chairman (305) 417-6557 kogrady@concordsummit.com	Concord Summit Capital arranged financing for 400 multifamily units in Palm Beach County, Fla., with a New York-based debt fund, S3 Capital.
Dekel Capital 1901 Avenue of the Stars, Suite 120, Los Angeles, CA 90067 Shlomi Ronen, Managing Principal (310) 570- 2201 sronen@dekelcapital.com	Dekel Capital launched a new credit platform offering multifamily owners and investors mezzanine and pref equity capital between $2M and $10M for the acquisition and refinancing of assets nationwide. Dekel plans to deploy $100M in preferred equity over the next 12 months.
Franklin Street 1311 N. Westshore Blvd., Suite 200, Tampa, FL 33607 Dakota Brown, Senior Associate, Capital Advisory, Originations (813) 345-5860 dakota.brown@franklinst.com	Franklin Street closed a $12M loan for a multifamily property located in Central Florida. The loan has an 18-month term with a rate at Prime minus 25 basis points (8%). The lender required full recourse and the LTC was 70%.
George Smith Partners 10250 Constellation Blvd., Suite 2700, Los Angeles, CA 90067 Nick Rogers, VP (310) 867-2956 nrogers@gspartners.com	George Smith Partners placed a $14.5M bridge loan for the lease-up of a 54-unit, newly constructed apartment building in Los Angeles. The firm also closed an $8M bridge loan for the refinance of a 28-unit, newly constructed apartment building in La Mirada, Calif.
JLL Capital Markets 67 E. Park Place, Fourth Floor, Morristown, NJ 07960 Jon Mikula, Senior Managing Director (973) 549-2006 jon.mikula@jll.com	JLL closed $105M for a multifamily construction non-recourse loan with 55% LTC. The rate was SOFR+ 355 basis points.
Trillium Capital Resources 233 12th St., Suite 816, Columbus, GA 31901 Scott Taccati, President (706) 221-7464 staccati@trillium-capital.com	Trillium Capital Resources closed a $31.8M construction loan with a life company at 65% LTC. The interest rate was 6.40% with a flexible prepayment penalty not tied to yield maintenance with a seven-year term.

MULTIFAMILY CONSTRUCTION FACES HURDLES…

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Look for a push toward affordable housing projects and a move away from luxury development in most markets. Construction lenders will target deals in Sunbelt states, especially those with continued in-migration. Keep an eye out for plenty of available capital in Texas, Tennessee, the Carolinas, Arizona, Florida and Las Vegas. There will also be a pickup in Alabama as people look for cheaper housing. Lenders will shy away from supply-constrained markets. Projects in major metros such as San Francisco, Chicago, Seattle and Portland, Ore., will be the toughest to finance.

Lenders will target best-in-class owners with solid financial standings and proven track records on comparable projects. There will be more emphasis on liquidity and the ability to complete the project. Net worth should be equal to or greater than the loan amount with 10% to 15%+ post-closing liquidity along with depository relationships.

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Deal Of The Week

Property Type: A BTR-Style Housing Community in Monroe, N.C.
Loan: $30.6M Acquisition/Stabilization Loan
Lender: **Arbor Realty Trust**
Leverage: 65.6% LTC, 55.4% as-stabilized LTV
Rate: One-Month Term SOFR + 3.5%

Founders Point features 145 newly built detached SFR and townhome units. The borrower purchased the housing community from a major homebuilder in tranches, with each tranche delivered upon completion of construction and the issuance of certificates of occupancy (C-of-O). The structure of the financing was more challenging than a traditional purchase due to the property not being constructed at origination and because the loan financed 11 distinct purchases occurring over an expected 11-month period.

The "delayed" purchase structure used in this deal is a fairly new concept, which has only been seen in action over the past couple of years. This structure is becoming increasingly common and popular, and the lending market is still getting comfortable with it. The lender was confident in the deal as financing new rental housing communities in strong and growing markets is a primary focus of Arbor's SFR program and the subject property fits these qualifications.

Arbor has designed a loan product for this type of project, a "C-of-O Facility," and has closed almost 20 of them over the last two years. This loan structure is flexible, allowing customization for different business plans and project specifics. The loan for Founders Point was sized, structured, and approved for the financing of the entire community, prior to the first delivery of units. This allowed the borrower to have in-place and predictable financing for all units, which will be delivered over an 11-month period.

The loan has an 18-month term with one 12-month extension option, interest only. All loan proceeds will go toward the purchase and reserves for operating the property during the lease-up period. There was 1.25x stabilized DSC, tested against an underwritten take-out loan. The debt yield was 8.9%. The borrower had 34.4% equity in the deal. The loan is non recourse, subject to standard carve-outs.

Arbor Realty Trust: Steve Katz, Chief Investment Officer/EVP, Residential Financing, (212) 389-6584. skatz@arbor.com

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