

fd Question of the Month

What is the mortgage professional's role when financing a construction loan?

mc Matthew ClassiGCP
Capital Group

There was a time not too long ago that a one-page loan request containing minimal information was enough to procure a loan offer from a credible construction lender. Now that the overall market, especially the N.Y. regional condo market, is leveling off somewhat, the days of brokering a construction loan with an incomplete financing brochure is over. These days, construction lenders are taking a more cautious approach when considering a ground-up or conversion project for financing, especially non-recourse construction financing.

More and more the fundamentals are becoming important. Who is the developer/sponsor? What is his/her experience in delivering the proposed product? Where does the project stand in the approval process? Is it as-of-right? Is mezzanine financing required? The list

of questions go on and often you only get one chance to present the loan request correctly.

Almost all sizable projects today (above say \$20 million) require non-recourse construction financing. The rate and fee premium for these types of loans are just slightly more than recourse construction loans and most sponsors refuse to sign a repayment guarantee. Often there are multiple investors comprising the ownership, many of which may not have any operating control whatsoever and conversely, the main developer or "promoter" may own considerably less than the majority of the owning entity. Why would these individuals personally guarantee repayment of 100% of an obligation when they actually own or control less than 100%? This is why the non-recourse loan has become so popular.

From the construction lender's perspective, they are able to boost their yield by offering these loan products and after all, even though the developer has no personal liability to repay loan principal in the event the project is a failure, the developer is personally liable to perform a host of obligations needed to complete the project. Some of these personally guaranteed obligations

are: 1. To complete the project in accordance with the approved plans and specs. 2. Deliver a certificate of occupancy. 3. Front load, most if not all, equity required to complete the project. 4. Keep the loan in balance. There must always be enough money remaining in the budget to fully fund hard and soft costs through project completion. And 5. All the usual "carve outs" for environmental matters and acts of malfeasance. So as you can see, securing the right construction financing package is nothing like placing a loan on a cash flowing investment property. You better have your act together if you want to have a smooth and successful experience with a top tier construction lender.

Enter GCP Capital Group LLC. Since our inception over 10 years ago, GCP has specialized in representing investors and developers throughout the construction loan process. Our involvement often starts when a client is considering the purchase of a property that requires a value added approach, whether it's an existing building with excess development rights, a conversion from one use to another, or a ground-up project. Our approach has been successful because we are able to iden-

tify the deal specifics and properly advise our clients on how to execute the financing. Very often, a particular project is not ready for presentation to a lender or a purchase contract requires a closing before a construction loan can be lined up. In this case, GCP has arranged for interim acquisition financing to secure ownership of the property and then approach a lender with a complete package. We believe that proper orchestration of the project presentation is paramount to a successful construction loan closing. Up front, we analyze the as-of-right use of the property, we look at potential value added concepts such as acquiring adjacent air rights or parcels to enhance value or reduce the cost per ft./unit, and we will advise our client on third party "team" professionals when needed.

Often, our clients/builders have not chosen a general contractor or other important trade and we are able to make introductions from our long list of developed relationships. We advise on the capital structure and arrange mezzanine financing when needed. Once the scope of the project is determined and the team is in place, we will help develop a project budget ad-

vising our client on the proper presentation of certain line items and in particular, the soft cost budget.

Once the financing brochure is complete, the "real" work begins. In that I mean we start to market the loan request to our lender relationships and this is where the real GCP value is added.

Once a lender is chosen and application is made, we manage the entire process from negotiating the application, commitment, loan documents, and working with third party professionals. We also coordinate the inter creditor agreements, if any. We are involved from beginning to end. And the end is not at loan closing. We stay involved during the construction process to advise clients on loan requisitions or budget adjustments, long after our commission check has cleared.

A successful construction loan is not about the last 10 basis points in rate. It is about matching the project (and all the variables that come with it) with the right lender. And we at GCP believe that we do that better than anyone else.

Matthew Classi is a managing member at GCP Capital Group LLC, Great Neck, N.Y.

GCP
CAPITAL GROUP, LLC

\$51,500,000

ACQUISITION/LAND LOAN

"The Super Block" Long Beach, New York

Six (6) acres of ocean front property approved for hotel and condo development

Adam Hakim and Mark Hakim, Senior Associates, arranged the financing for this transaction.

GCP CAPITAL GROUP LLC

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