THE BRIDGE LOAN - WHAT IS IT AND WHEN TO CONSIDER USING IT?

By: Chris Datz, President and CEO of Datz Real Estate Capital September 15, 2017

When in the market for Commercial Real Estate Financing today, a borrower is faced with extensive options to consider. The traditional lenders like banks, Wall Street conduits and life insurance companies are active and in the market in a big way, but have very precise parameters in terms of how much they will lend, to whom, and how quickly. The implementation of Dodd-Frank regulation is mostly complete and the overlay of the Basel III (Potentially Basel IV) International Banking reform initiatives have created a fairly material void for borrowers seeking loans from conventional sources on transactions that are perceived to be on the outer range of the risk spectrum.

ENTER THEN BRIDGE LENDER.......

So, you are a seasoned real estate investor who has a unique opportunity to acquire a property in a market you believe know better then anyone and you have the inside track on the deal, but there is an "issue" or "story" that has caused the traditional banking relationships you have spent years cultivating to say no to your request for some reason or offer terms at extremely low leverage. Drop the deal? Pay cash?

It may be time for a bridge loan.......

WHEN (REASONS) TO CONSIDER A BRIDGE LOAN:

Speed - You have to close quickly. Bridge Lenders don't have long approval processes and don't have to answer to federal regulators or credit committees so they can move fast. Some can close in a fast as a week. A bank or traditional lender can almost never perform that quickly.

Leverage and Debt Service Coverage - Bridge lenders are typically willing to listen to a "story" surrounding the collateral they are lending against. As a result they may lend up to 80% of value and don't rely as heavily on appraisals as traditional lenders. The people running the firms that make Bridge Loans are often entrepreneurs and seasoned real estate investors themselves and they understand the business plan and the property's potential, again the "story". Many bridge lenders are willing to lend down to a 1.0-1.10 Debt Service Coverage Ratio (DSCR) while most traditional lenders require 1.20-1.30 DSCR.

Major Event- Perhaps there is an event like a near term material tenant expiration in the rent roll, a management change, a significant capital improvement item which will drive rents or the transition form a "mom and pop" owner to a more institutional caliber firm that will drive NOI? Due to the fact that the aforementioned event(s) has not occurred yet, it's probably too early to lock in permanent financing which may carry pre-payment penalties and not have the benefit of the future NOI growth needed to qualify for maximum proceeds. Bridge loans typically carry a1-3 year term which allows time for stabilization to occur before approaching the permanent loan market and locking in. The most important thing to a bridge lender is getting repaid, so they will focus most heavily on the path to stabilization and how realistic they believe the plan and its timing to be.

Borrower Limitations - If the borrower is unable to qualify for traditional financing because their past issues, credit, net

The foregoing information was furnished to us by sources which we deem to be reliable, but no warranty or representation is made as to the accuracy thereof. Subject to correction of errors, omissions, change of price, prior sale or withdrawal from market without notice. This article is for informational purposes only.
© 2016 WCRE All Rights Reserved

Wolf Commercial Real Estate
www.wolfcre.com

NJ OFFICE
951 Route 73 North | Suite D
Marlton, NJ 08053
P 856 857-6300 | F 856 283-3950

PA OFFICE
630 Freedom Business Center | 3rd Floor
King of Prussia, PA 19406
P 215 799 6900 | F 610 768 7701

worth or liquidity are not consistent with the perceived risk of the transaction, a bridge lender may be willing to consider the loan request.

How much can I borrow?

- There are bridge loans available from $500,000 to $100,000,000.

How much do bridge loans cost?

- Typically we see loans price on a risk adjusted basis, between an interest rate of Libor+550 & Libor+1100. Bridge Lenders also typically charge origination points between 1% and 3%. Like most loans, the borrower will be expected to cover any costs relative to closing the transaction (legal, appraisal, other 3rd parties etc.).

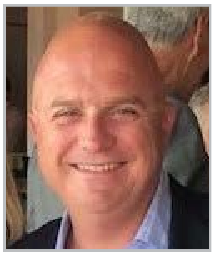
Who are these bridge lenders?

- There are many Bridge Lenders in market today who are all attempting to fill the large gap left by the recent banking regulations mentioned earlier. Some have called them "Shadow Banks" and they are often grouped into the "Hard Money Lender" category, which may or may not be correct given the specific lender. The group is comprised of dedicated debt funds, private equity groups, family offices, high net worth individuals, mortgage REITS and other fiduciaries that will all consider making bridge loans. Their parameters differ in terms of geography, loan size and asset class. There are easily 50 firms that we speak with fairly regularly.

SUMMARY:

- Bridge loans are readily available for tougher "story" deals.
- Term is 1-3 Years
- Rate is L+550 - L+1100 plus 1-3% Origination Fee payable to lender.
- LTV/LTC up to 80%
- Proceeds of $500,000 to $100,000,000

For more information, contact:



Chris Datz
President & CEO
Datz Real Estate Capital
(610) 585-2586
rcd@drealcap.com

www.drealcap.com

DATZ Real Estate Capital

Datz Real Estate Capital is a capital advisory firm which arranges debt, joint venture equity and subordinate debt for real estate transactions across the United States for all asset classes.

follow us:

"Building Successful Relationships" is our Mission.

The foregoing information was furnished to us by sources which we deem to be reliable, but no warranty or representation is made as to the accuracy thereof. Subject to correction of errors, omissions, change of price, prior sale or withdrawal from market without notice. This article is for informational purposes only.
© 2016 WCRE All Rights Reserved