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# WHILE THE BANKS ARE AWAY, NONTRADITIONAL LENDERS HAVE COME OUT TO PAY

Sep 19, 2016 | Benjamin Mazzara, Bisnow, New York Reporter

Last week, we discussed how the **market's increasing uncertainty** was making many cautious and **slowing the market**, but no party's more **skittish** these days than **investors** and **financiers**. Several panelists for *Bisnow's NYC State of the Market Event*—which will be held at **11 Times Square** Sept. 27—said **nontraditional lenders** have stepped up to fill the void left by **conservative banks**.

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Courtesy of Freddie Mac

Seeking **lower risk**, banks have become more selective about sponsors, usually favoring **well-capitalized, proven sponsors** and developers they've worked with before.

Thus, while the **bigger firms have no issues** getting loans at attractive rates, smaller developers will struggle unless they have the support of "a reliable source of takeout financing and a consistent, reliable capital provider" like Freddie Mac, Freddie Mac SVP **John Cannon** (pictured) says. Otherwise, these smaller developers have had to explore other options.

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*Courtesy of Jeff Dvoretz*

**Foreign investors**, for example, have been **flooding** into NYC for years, with its **low interest rates**, **relatively stable** laws and economy and the looming cloud of **Brexit** hanging over London. **Kuafu Properties** EVP **Jeff Dvoretz** says Kuafu's only **disappointment** this year is that it hasn't had *more* transactions and investment opportunities.



*Courtesy of Goulston & Storrs*

There are indeed **question marks** for international investors—**421-a** and the election top the list—but Jeff

says Kuafu's investor pool has **dramatically diversified** and has, as Goulston & Storrs director **Brian Cohen** (pictured) put it, evolved from “stabilized assets and trophy buildings to **higher-yield transactions, investments and outer markets.**”



*Courtesy of Drew Fletcher*

But this cash flow comes with a catch. The **EB-5 program**, which has catalyzed more than **\$3B** of international investment this year alone, is up for **renewal** in the next few weeks. While **Greystone Bassuk** president **Drew Fletcher** (pictured) is confident the program will be renewed due to the uncertain election, he admits it's not guaranteed.

**Arent Fox** real estate partner **Mark Fawer** says even if the program is renewed, there could be **significant changes**—such as an increase to the minimum amount of required investment or the elimination of **investment threshold gerrymandering**—which could be retroactively applied to EB-5 projects from years prior.



*Courtesy of Ron Cohen*

Perhaps the most interesting new party is **other developers**, who are investing capital into different asset classes to diversify their portfolios. **The Besen Group** chief sales officer **Ron Cohen** (pictured) is **fascinated** by this phenomenon, pointing to **RXR Realty**'s residential project at **810 Fulton St** in Brooklyn and luxury condo developers' **180-degree strategy** shift into **affordable housing**.

It's important to note that some of these investors may only be investing to **capitalize on the distress** of the later part of a market/credit cycle.

“Some are financing projects **expecting** the sponsor to fail and they can take it over,” Drew told *Bisnow*. “Even if the project does go well, they get a **strong return**, so it's really a **win-win**.”

It's not all bad, though. John and Ron remind us that plenty of capital providers, such as **NY Community** and **BankUnited**, continue to **actively lend** on multifamily, although loan-to-values are trending lower than **75%**, a dip from peaks over **80%**.

This faith in multifamily, John says, comes from the fact many lenders think the asset class still has “**plenty of**

**room** left to run,” especially when considering the **affordable housing shortage**. Lenders know housing demand in NYC will always to be strong, and are more willing to throw a small loan towards **improvements** for older and/or lower-quality properties in order to get a **strong return**.

**Freddie Mac** has lent **\$1.2B** in loans below **\$10M** on simple, Class-B and Class-C multifamily properties throughout the metropolitan area, and John’s expecting even **more activity as the year closes out**.

To learn about other nontraditional lenders and their effects on the market, sign up for *Bisnow’s* **State of the Market**.

See Also: **Manhattan Office Market Corrects Itself In August Full Of Leases**

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