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Meecorp Rolls Out Novel Preferred Equity Structure

Meecorp Capital Markets, a Fort Lee, N.J.-based commercial real estate lender and private equity firm, has come up with a twist on a traditional preferred equity investment. The company used the structure, which allows developers to take a larger slice of a project's returns in exchange for allocating their private equity partner a priority position in the payout, for $14.2 million of preferred equity that it provided to **Gale International** for 21W20, a luxury condominium development in New York's Flatiron District.

The structure has its roots in a shift the company was compelled to make during the financial downturn, said **Daniel Edrei**, president. As borrowers defaulted on properties, Meecorp was presented with many potential foreclosures. "In order to keep our shirts, we had to do a lot of turnarounds and developments. The bottom line is that we were successful at it and we became very interested in the types of returns you can only get as a developer," he added.

There are also substantial development opportunities nationally that need preferred equity, particularly because construction lenders typically don't allow mezzanine debt behind construction financing. "Most of the [existing private equity] is structured so the private equity investor takes 70-75% of the economics of a deal and gives the developer 25-30%," Edrei said. "Our structure is similar to a loan in that it offers a preferred return of 12-13% before capital is returned to the sponsor and equity splits of between 35% and 55% after that. By awarding us a priority position in the waterfall, developers get improved economics."

The company, which was formed in the mid-1990s, originates loans and preferred equity joint venture investments of $10-300 million throughout the U.S. and in a handful of international markets and provides creative, bridge and mezzanine financing. Still, its sweet spot is in the middle-market neighborhood of between $10 and $30 million. Meecorp aims to stay in primary markets in the U.S. and is working on deals in New York, Houston and Seattle. It is also bullish on its hometown given its proximity to New York and demand for housing close to the city.