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## MORTGAGE

By Daniel Edrei, Meecorp Capital Markets

# Land loans less scary for patient private lenders: 5 key points to consider



Daniel Edrei

As residential construction continues to do well, prices of existing properties begin to level off, and the cost of money continues to increase, most commercial real estate lenders fear to tread on land subdivision and development transactions.

There is a prevalent fear

that current favorable conditions in real estate have come to a bubble and that a collapse is imminent. Even the best of borrowers, with the most extensive experience in the field and a proven track record, are beginning to have difficulty finding the money they need to remain active. Many times, their only viable alternatives to finance these projects are to take on a partner, and forfeit the lion's share of the equity, or to seek out a private lender specializing in such transactions with the willingness

and know-how to take on additional risk.

From our point of view as private lenders, the key to lending on land is patience. We lend on land under the assumption that they are not making any more of it. Should there be a default, eventually, as history has divulged, our investment will be recouped bountifully. Private money can afford to wait. There are no stockholders to answer to or shares to plummet.

So, what do you need to know to evaluate a prospec-

tive land deal?

The five key points to consider are location, value, exit strategy, loan-to-value ratio and borrower qualifications. To those that find it curious that the *borrower's qualifications* should be last on the list I offer the following axiom: We all have to go to the dry cleaner, sometime. I like to see the property speak for itself. Yes, experience speaks volume, however, the borrower's qualifications can only amount to icing on the cake. If the other points are weak we will not be

excited about the deal.

*Location*, of course, is number one. Smart lenders want to know what is going on in that particular market: What is the demand for the product? How much new construction is underway in the area and how will it affect the subject property? What is the proximity of demand generators? If possible, I want to see a feasibility study. Location is the canvas upon which the other four components can paint a loan.

The *value* of the property is a number that should move, hopefully upward. We love to do transactions that involve an immediate infusion of capital into the dirt. After the infrastructure goes in, the property becomes exponentially more marketable. As housing units are built, our collateral becomes even more secure. Every lender wants to see his caterpillar become a butterfly.

The *exit strategy* may include the sale of whole parcels of land, individual lots, housing units or refinancing with more conventional construction financing. Without an exit strategy, you could find yourself stuck with a great big white elephant. If it can't be sold, its value is nil.

The *loan-to-value ratio* is the private lenders' barometer for risk. No matter which way the wind blows, we want to know that we are sitting within predefined comfort limits. Should there be a default, this ratio will either make or break the lender's investment.

These five points certainly are not the only ones to be considered. Every loan is a hodgepodge of moving variables that affect both the feasibility of financing and the overall success of the project.

However, the impending success of a project may be completely unrelated to the viability of financing through traditional lenders. That's why there is a place in the world for private, patient money.

**Daniel Edrei is director, principals groups, for Meecorp Capital Markets, a privately owned commercial real estate lender specializing in value-added commercial real estate projects in Fort Lee, NJ. ■**

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2115 Linwood Avenue • Suite 301 • Fort Lee, New Jersey 07024

Phone: 201-944-9330 • Fax: 201-944-9332 • E-mail: [Principal@meecorp.com](mailto:Principal@meecorp.com)