

Mezz Lending Gets More Popular

More mezz lenders are entering the game each day, especially since first mortgage lenders are pulling back on proceeds in the wake of rising interest rates. Still, the air gets a bit thin for lenders when they must contend with hairier deals, and mezz players are no exception. Mezz sources like **Ascent Real Estate Advisors** and **Mecorp Capital** see opportunities to take advantage of senior lenders' reluctance to go too high in the capital stack.

One of the hotter potatoes nowadays is condo conversion, especially in Florida. Mezz lenders are seeing their senior counterparts getting a bit skittish about plowing too much money into deals, especially unstabilized ones. The go-go years of condo conversions were between 2002 and 2005, but absorption of these units has slowed in 2006. Developers in the early stages of a business plan face more reluctance from lenders, and these developers are increasingly calling on mezz players to provide the gap capital to get the project on track.

The heat is on mezz lenders, too. Instead of first lenders requiring the traditional 75% of gross sellout to retire the senior note, more and more want a lion's share of sales to retire the first mortgage, in some cases 100% of gross sellout. Of course, this leaves the mezz lender near the end of the line, hoping there's enough meat left on the carcass once all is said and done.

Continued on Next Page

Mezz Lending Gets More Popular...

Continued from Page 1

Dean Benjamin, a principal at Ascent, has been kicking around the Los Angeles area in search of deals recently. In general, the lender is looking for diamonds in the rough backed by passionate sponsors. Redevelopments and repositionings are its stock in trade. It likes the office sector, especially if a market's absorption rate and rent growth look promising.

The lender also has an appetite for industrial, although costs for this property type are on the rise and are sometimes prohibitively expensive when practical rents are factored in. Ascent also likes multifamily again and, as more of a contrarian play, hospitality and retail. It will also consider land.

For mezz, Ascent will generally go up to 90% LTV. Pricing is about 6% over LIBOR, depending on leverage. Terms are two to five years. It generally charges up front fees of 2% and may also layer in exit fees. Loan size is between \$2M and \$10M. The lender recently hired **Adam Kies** to close more mezz and bridge deals. Kies previously worked for **Carl Icahn** and **American Real Estate Partners**. Look

for the lender to add one or two more people to its team.

Daniel Edrei, director of originations at Mecorp, sees more mezz requests for construction projects coming across his desk. He attributes the increase to banks stiffening their underwriting criteria for things like residential condo development. Mecorp is still in Florida, recently providing a mezz strip for a condo conversion in Boca Raton. Edrei sees opportunities to close mezz deals on construction of just about anything, whether it is assisted-living facilities, condo or apartments.

Mecorp will generally go up to 90% LTV, but it has gone higher, usually when there's a disparity between value and cost. The lender's pricing has become more competitive, with rates now between 10% and 13%. Fees are 3% and exit fees are normally about 5%. Terms are one to five years. Loan amounts are \$1M and up, but Mecorp tends to target deals between \$5M and \$10M. Look for the lender to originate about \$350M in loans in 2006.