

## Navigating the construction lending drought

*Trophy office buildings and luxury condos are becoming harder to finance, but some are tapping into the right formulas*  
July 01, 2016

By Kathryn Brenzel



(Illustration by Chris Manfre)

In November 2014, after more than a decade of political disarray and public disappointment, the first World Trade Center tower finally opened, giving New Yorkers a sense that the sprawling commercial complex was becoming a reality once and for all. Things came more into focus this year, when the transit hub opened in March, followed by the topping out of 3 World Trade Center in late June.

And yet, a crucial piece of the development project — 2 World Trade Center— is still missing.

Just six months ago, Silverstein Properties was seeking to close on \$2 billion in debt to construct the 2.8-million-square-foot, 1,270-foot-tall tower designed by Bjarke Ingels, when the developer was struck by a deal-killing blow: Its anchor-tenants-to-be, Rupert Murdoch's 21st Century Fox and News Corp., announced in a joint letter that they were pulling out of their agreement to lease 1.3 million square feet on the lower levels of the building.

"We won't start that building without some level of preleasing," the firm's CEO, Marty Burger, told *The Real Deal*. "We need either an anchor tenant or enough tenants to get to the preleasing level that will make lenders comfortable."...

As lenders become all the more sensitive to which deals make sense on their books, both commercial and residential developers have become entangled in a game of survival of the fittest. The majority of banks and other financial firms have become increasingly selective about the kinds of projects they are willing to finance.....

### Condo conundrum

Much like with ground-up office development, it's becoming an increasingly tough market for condo developers seeking construction loans — especially those developers that are new to the game. "If you're a non-recognizable developer, you may have a better time winning the lotto than getting a loan from a commercial bank," Edelstein said.

Many national and regional banks are shying away from financing luxury condos, leaving non-traditional lenders including hedge funds, EB-5 investors and a growing number of developers to fill the gap.

"To get a lender to do a condo financing now, you need to create a financing package that makes it almost impossible for them to say no to," said Scott Singer, president of the Singer & Bassuk Organization, which arranges debt and equity financing on behalf of borrowers. "Lenders don't want to stretch for condo deals. They're not interested in helping neophyte developers take the next step."

On the flip side, several sources pointed to Bank of the Ozarks as one of the few lenders to remain very active in financing ground-up condo construction deals. Woody Heller, executive managing director of Savills Studley's capital transactions group, said that the Little Rock, Arkansas-based bank is currently the go-to lender for such projects. He noted that the bank isn't cavalier about its underwriting choices but is likely benefiting from the fact that it has little competition in funding attractive projects. A representative for Bank of the Ozarks did not return requests for comment.



2WTC

Bank of the Ozarks has recently been particularly busy in Lower Manhattan, where it provided a \$64.8 million loan to Cape Advisors for its 23-unit condo building at 30 Warren Street and a \$58.3 million loan for Madison Realty Capital's 16-unit project in Noho, known as One Great Jones Alley. Many developers are pursuing condo projects that they think fill an underserved segment of the market, Heller said.

For example, in 2013, the City Council rezoned a section of Tribeca known as Hudson Square to pave the way for new residential construction. Heller said developers still view the neighborhood as fertile ground for condo projects. Bizzi & Partners Development, Halpern Real Estate Ventures and Aronov Development, the sponsors behind the proposed condo tower 100 Varick Street, secured a \$320 million construction loan from Bank of China in January 2016.

"Is there a concern about oversupply at present? Generally speaking, there is," Heller said. "But having said that, people are still trying to go forward with projects that they think address certain opportunities in the marketplace.".....