

Project Financing for Small Volume Home Builders

Thursday, January 22 | 10:00 - 11:00 AM

Location: South 221

Moderator:

Tom Farrell, Director – Landmark Capital Advisors

Panelists:

Bruce Beck, Senior Vice President - Citizen's Business Bank

Loren Borstein, President - Borstein Enterprises

Chuck Salas, Senior Underwriter- Seattle Funding Group of CA

Tom Farrell

Landmark Capital Advisors

Tom Farrell is Director of Business Development for Landmark Capital Advisors, a Land Advisors Company. Landmark is a real estate capital advisory firm disciplined in finance and private equity that works with owners, investors, commercial developers, home builders and residential land developers.

Prior to Landmark, Tom was Director of Real Estate Finance at Bellstone Capital Advisors, a boutique investment-banking firm that sources debt and equity for real estate developers and homebuilders, primarily in California.

Before Bellstone, Tom was with Sabal Financial Group where he was the Director of Home Builder Finance, providing non-recourse A&D and construction loans to homebuilders nationally. This was a start-up group, which successfully took advantage of the gap created when commercial banks largely deserted the space during the housing downturn.

Prior to Sabal, Tom was at Bank of America for 25 years in a number of positions of increasing responsibility in the Commercial Real Estate Bank. His last position at Bank of America was Division Executive in charge of the Home Builder Division, which was the largest provider of financing to homebuilders nationally with over \$13 billion in commitments.

Tom earned his B.S. from Cornell University and his MBA from Pepperdine University. He is a member of ULI, NAHB, CBIA, HomeAid America (Treasurer), and the Cornell University Real Estate Council.

Bruce Beck

Citizen's Business Bank

Bruce Beck is a Senior Vice President and currently manages the Construction Loan Department at Citizens Business Bank, headquartered in Ontario, CA. Citizens Business Bank has more than \$7 billion in assets with a strong residential construction loan portfolio.

Since 1982, Mr. Beck has financed over 500 residential projects in California. His clients include some of the largest builders in Southern California as well as smaller real estate developers. He has managed commercial real estate lending portfolios throughout the United States.

From 1982 through the mid '90s Mr. Beck was with Bank of America's Real Estate Industries Group. He left Bank of America to become a founding executive at Construction Lending Corporation of America (CLCA), a non-bank lender affiliated with Countrywide Home Loans. He was with City National Bank prior to moving to Citizens Business Bank.

Mr. Beck graduated from the Haas School of Business at the University of California at Berkeley, with a Bachelor of Science degree.

Loren Borstein

Borstein Enterprises

Loren Borstein is the President of Borstein Enterprises, a leading Southern California real estate investment company. Since its inception in 1980, Borstein has financed, developed and/or constructed over 100 residential subdivisions and more than 3.6 million square feet of industrial and commercial property. In its joint venturing activities, Borstein Enterprises has been responsible for the development and construction of over 4,900 houses, renovation and sale of over 2,300 units and has financed the acquisition and sale of an additional 26,200 lots. Borstein is privately held and has no outside investors. Loren oversees the organization's residential investments.

With 18 years in the real estate industry, Loren has worked for three private urban infill homebuilders and has been involved in all facets of the business. Loren began his career at the E&Y Kenneth Leventhal Real Estate group, working in five countries with residential & retail developers, financial institutions, investment banks and government agencies. Loren spent almost a year in Asia during the economic crisis of 1998, working on asset valuation, loan workouts and portfolio sales.

Loren is a board member the USC Lusk Center and the Borstein Family Foundation and is a former board member of the Ronald McDonald House of Los Angeles. Loren received his Bachelor's degree from Emory University and has an MBA from the University of Southern California

Chuck Salas

Seattle Funding Group of CA

Chuck Salas is the Senior Underwriter at Seattle Funding Group's CA branch. Established in 2007, the branch services CA loan demand, and Chuck is responsible for lending decisions at the branch level and for management of the CA loan portfolio.

During the past eight 8 years, Chuck has utilized his product expertise and deep market knowledge to expand SFG's California lending operations through placement of highly responsive bridge and construction financing. Given market conditions and demand, most of the construction financing has centered around spec residential, including ground-up, construction completion, broken projects and higher-end fix & flips.

Celebrating its 27th year, SFG is a small balance lender (\$400k up to \$8m), and remains one of the west's oldest and most active, fund-based, private money lending firms. SFG lends throughout much of the Western Regional US, and its portfolios, services and retains all loans it funds. It also provides fund control services, processes draws and manages inspections for all construction loans it originates and funds.

Chuck started his career in the private money industry in San Diego in 1977. He has originated, underwritten and managed hundreds of millions in private money financing on a wide variety of asset classes in over 25 states.

Learning Objectives

- Learn the various debt and equity finance vehicles available today for financing the new home communities of small volume builders.
- Review current market dynamics and recognize the unique challenges this presents to a small builder's ability to obtain capital.
- Understand the difference between bank and non-bank lenders and what each uses to make finance decisions about a potential borrower.
- Learn which projects are more likely to obtain financing and how to best prepare your project business plan for consideration by capital providers.

New Home Market Expected to Improve in 2015

The Wells Fargo Housing Data Wrap-Up, dated January 2015, raised its forecast for new home sales in 2015 driven by:

- Employers added an average of 246,000 jobs/month in 2014, marking the strongest growth in 15 years
- The pace of household formation picked up to ~1.2 million households in 2014 and appears set to rise to ~1.5 million in 2015
- The rise in household formations has cut into housing vacancy rates and kept inventories of unsold homes near record lows
- Mortgage rates have fallen and credit standards continue to loosen up on an overall basis

Access to Capital in 2015 Expected to Improve

- The CRE Finance Council 2015 Market Outlook Survey was released on Monday, Jan. 5
 - Survey respondents expect the U.S. commercial real estate finance market in 2015 to be quite healthy, buoyed by strong investor demand, rising loan maturities, relatively low levels of new construction and improving property fundamentals.
- Builders and developers continue to report easing credit conditions for acquisition, development, and construction (AD&C) loans according to NAHB's 3rd quarter survey on AD&C financing
- According to data from the FDIC and NAHB analysis, the outstanding stock of 1-4 unit residential AD&C loans made by FDIC-insured institutions rose by \$1.7655 billion during the third quarter of 2014, a quarterly increase of 3.66%.
 - The third quarter expansion marked the sixth consecutive quarter of increase. Since the first quarter 2013, the stock of outstanding home building AD&C loans has grown by 22.9%, an increase of \$9.3 billion

Current Equity Market for Home Builders

Institutional equity is prevalent in the market

- Large cap participants include firms such as Oaktree, Mountain Capital, and GTIS
 - Looking for a pipeline of +\$10M investments
- Mid cap participants include firms such as Strand Capital, TMC-America and Borstein
 - Prefer +\$5M investments
- Small cap participants are typically friends and family
 - Prefer <\$3M
 - This is a finite resource and often restricts builders' ability to grow

Structure includes co-invest; preferred return; waterfall; and promote

- Returns range from 20% IRR to low 30's IRR with 1.5X-2.0X multiples

Current Debt Market for Home Builders

Bank debt is available, albeit at conservative advance rates and structure. Vertical financing is much easier to obtain than land development financing

- Money Center banks focus on larger home builders, especially the public home builders. Wells Fargo and U.S. Bank (Housing Capital) are the most active money center banks in home building
- Regional Banks such as Texas Capital, focus on middle market home builders and, at times, are members of syndicated bank groups for the public and large private home builders
- Community Banks focus on smaller home builders, in many cases custom home builders in their local community
- Private lenders focus on smaller home builders and, in some cases, home builders with tarnished credit

How Can Small Home Builders Attract Capital?

What are the various criteria debt and equity sources are reviewing to determine whether or not they want to provide capital to a project?

What are the critical components for a home builder to address in his/her loan package to increase chances of approval?

The 4 “C’s” of Capital Consideration

- **Character**
- **Capacity**
- **Collateral**
- **Capability**

Character

- Reputation
 - Bank references
 - Trade references
 - Supplier references
 - Home Buyer feedback
- Legacy Issues
 - Any remaining?
 - Financial drain?
 - Management distraction?
 - How handled?

Capacity

Financial Strength

- Cash flow
- Liquidity
- Leverage
- Asset composition

Enterprise

- Activity Level
- Contingent Liabilities

Experience

- Geography
- Product Type

Collateral

What Product Types Will You Consider?

- SFR- Detached
- Condominium/Townhomes
- Mid-Rise or High-Rise
- Mixed Use
- Senior Housing
- Resort/Vacation Homes

What Are Primary Factors in Approving Specific Collateral

- Location
- Competitive landscape
 - New Homes
 - Re-sales
- Future projects in planning
- Barriers to entry
- Construction Complexity
 - Grading- soils or slope issues
 - Podium
 - Mid-Rise or High-Rise
 - Mixed use

Capability to Execute the Business Plan

Staffing/Team

- Expertise within team to execute flawlessly?
- Appropriate overhead for operation?

Geography

- Has home builder been active in the subject area?
- Does the builder have a prior relationship with the subject municipality?

Product Type/Complexity

- Podium
- Mid-Rise, High-Rise, Mixed Use
- Grading- soils or slope issues

Panel Contact Information

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