

# A Special Challenge

Specialized properties require specialized lenders — and brokers willing to work with them

By **Jerry Sager**, senior managing director, First National of America

**T**HE SOFTENING ECONOMY AND tightening underwriting practices at many commercial lenders create challenges for brokers trying to place unconventional or specialized-property loans.

Given the pervading atmosphere, it is easy to see that conventional banks would not want to venture into asset classes they do not understand or with which they are not familiar. If they don't have a box in which to fit the loan, they are reluctant to build the box.

So what do you do when you are brokering a deal involving a specialized property?

Despite fluctuating economic conditions, loans for specialized properties still are being made. They are available if brokers seek the correct type of lender, present the property to fit the lender's refined due-diligence procedures and manage the client's expectations. If a business and the property are viable, they will always be attractive to lenders, regardless of economic winds.

## Find a specialized lender

It is more important than ever to find a lender focused on a specific asset class.

When looking for a specialized lender, identify one that has been underwriting in that asset class for many years and has the knowledge and scope to understand the particular nuances of that class. When presented with a viable loan, a specialized lender is better able to react with a detailed response, and a loan is more likely to close.

A specialized lender knows the business of its asset class and often knows more about the operations of that business than the actual operator. For example, golf courses are specialized properties that have many facets. From food and beverage operations to irrigation systems, lenders must know what makes a course efficient and profitable,

as well as the pitfalls of the business. Contacting lenders that principally work with course-owners can save time educating them about the business and the revenue streams that can support the loan request. A lender specializing in a certain industry already understands the debt requirements, credit viability and revenue streams of the various types of facilities and combination-use properties.

Specialized lenders not only know about the business in question, but they also generally have a track record of developing creative-financing solutions to leverage maximum borrowing power.

## Know what the lender wants

If brokers present a specialized lender with a scenario that has a realistic loan-to-value ratio, solid financial statements tailored to the specific market segment and bearing in a good marketplace, the loan often will close.

How brokers analyze a specialized-property loan before presenting it will help determine the outcome. In the example of the golf-course property, a specialized lender evaluates not only the property but also the viability of the course as a cash-flowing retail business.

Work with the client and tailor the course's financial statements to a format that a lender is accustomed to seeing from an operating business. The statements should link rounds-of-play revenue with greens fees, memberships, outings, cart rentals, pro-shop sales, and food and beverage consumption. The seasonal flows of the operation and working-capital provisions also should be addressed.

When approaching a lender, give clear and concise information. For example, present the client's current balance sheet and cash-flow statement along with a detailed sources-and-use statement for the loan. Show the lender where the funds received will be utilized and how the asset

will balance for all funds requested. If borrowers are seeking a construction-type loan, they also should provide the lender with a projected cash flow for the project with details of the financial picture for the completed, operating project.

The adage "location, location, location," applies equally to specialized properties as it does to traditional outlets. With an eye to some of the basic retail-marketing principles such as location, competition and area demographics, lenders will evaluate a specialized property's marketplace just as they would retail or food-franchise businesses. Brokers must examine this kind of viability from the lender's perspective.

## Manage client's expectations

Often, the due-diligence process working with a specialized lender can be more detailed than when working with a typical commercial bank. The depth of the process varies, affected by factors such as the borrower's prior experience with the specialized property type, how far along the project is, how detailed the business plans are, how complicated the project is and how leveraged the loan will be.

Remember that because specialized lenders are making loans that many other financial sources probably would not, they will ask the borrower for some documentation items that are different from or additional to those normally requested by a traditional commercial lender.

Before signing the letter of intent, alerting your clients of this often-detailed due-diligence process will help them anticipate requests and estimate a timeline.

Finally, focus on the rates, not the spreads. There is talk about spreads getting wider, but neither brokers nor borrowers should be focused on spread. It is the rate that is important. In many cases, rates now are the same as, if not better than, years past. Specialized lenders tend to maintain more consistency over the years in terms, rates and spreads.

Ultimately, these steps can help brokers succeed in meeting the individualized requirements of specialized-property loans. **■**



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