

September 20, 2017

Is Leverage Climbing on Construction Deals?

Quantum Capital secured an 80% loan-to-cost for the development of an apartment property in Oxnard, but the firm says that despite the high leverage, they still met HVCRE requirements.

By [Kelsi Maree Borland](#) | Los Angeles



Quantum Capital has secured a construction loan with an 80% loan-to-cost. The high leverage is surprising, considering that construction financing had begun to tighten in the last year. The unnamed borrower is using the funds to construct a 72-unit apartment complex in Oxnard. While the leverage is high, Quantum Capital demonstrated strong market fundamentals and a lack of supply,

and stayed within HVCRE regulations to generate lender interest in the deal.

“While the leverage was high on this transaction, we were still within the parameters of HVCRE compliance,” **Max Mellman**, VP with Quantum Capital Partners, tells [GlobeSt.com](#). “Taking this into account, we produced several competitive term sheets for our client. We were able to illustrate several aspects of the deal that created more interest from lenders—a strong borrower with experience and willingness to start a relationship with a bank goes a long way. Considering that we were HVCRE compliant with multifamily construction in an area where there is not an oversupply of projects; there was little concern regarding the higher leverage.”

For deals like this, Mellman says that the strength of the borrow is crucial to securing a deal. In this case, the strong borrower was able to secure a loan at 275 bps over 90-day LIBOR. “Borrowers with high net worth, liquidity, a strong background in construction as well as a willingness to make a personal guarantee are prime candidates for securing maximum loan proceeds,” explains Mellman.

This deal may not be a sign that lenders are increasing their appetite for construction deals, but rather that there is a lender who will take on most deals with a quality borrower. “Since we’re at a mature stage of the cycle, construction lending is decreasing,” says Mellman. “However, there are always viable sources of financing for every project. It comes down to what rate the borrowers are willing to pay. Quantum currently has several large construction transactions that are either under application or in the process of securing lender bids. We anticipate closing another 100-150 million of construction financing by yearend.”

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About Quantum Capital Partners

Quantum Capital Partners (www.quantumcp.com) is a leading mortgage banking firm that provides comprehensive real estate finance and advisory services across all major asset classes. We have more than \$4 billion of debt and equity financing experience nationwide, working with a wide and diverse network of capital providers. Combined with our comprehensive knowledge of the capital markets that encompass the entire capital stack, Quantum repeatedly delivers expert advice and customized financing solutions on the most complex real estate transactions.