News: Regional

February 21, 2012

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$44M TI Loan Package Helps Secure 400,000-SF Lease in Brooklyn

Richard Podos Shares Success of Lance Capital's New Loan Structure for Closing Lease Deals

New York-based Lance Capital has structured a unique tenant improvement financing deal that helped close a 400,000-square-foot lease in downtown Brooklyn. The firm, which specializes in funding for tenant improvements for landlords and lenders, was able to access a different source of real estate capital by focusing on the tenant's credit in a multi-tenant building, as opposed to the underlying real estate itself.

The multi-faceted, $44 million TI loan package financed a portion of the rent to pay for improvements and commissions in New York City Human Resources Administration's recent 20-year lease with the owners at 470 Vanderbilt Ave. in Brooklyn, NY, including GFI Development, Starwood Capital and The Carlyle Group. The debt is not secured by the building itself, rather by a portion of the rent payable by HRA utilizing unrated bonds (though benefiting from the double-A rating of New York City) tied to the TI loan.
The Brooklyn Office Exchange is a 10-story, 470,000-square-foot, four-star office building that delivered in 1931 on three acres in the North Brooklyn submarket of Long Island. The ownership group acquired it in September 2011 for $177.5 million, according to CoStar data.

The TI financing was arranged by Lance and provided by CGA Capital Corporation. The unique formula included a specific portion of the rent that can be amortized over the course of the lease. The funding was part of more than $100 million for the landlord's building renovation and improvements as part of the new tenant's space.

"The combination of Lance's focus on understanding tenant improvements funding in the context of both leasing and finance practices, with CGA's 20 plus years of expertise in credit tenant lease financing structures, allowed us as a team to deliver an innovative and cost-effective TI funding solution that met all of landlord, senior lender, and tenant requirements," said W. Kyle Gore, managing director at CGA.

The financing provided the owners with a low-cost, non-recourse alternative to expensive additional equity or mezzanine capital. By focusing on the creditworthiness of the tenant rather than the building's cost of capital or the security collateral value of the tenant improvements, CGA offered a sub-5% rate for the TI and commission funding.

Richard Podos, founder of Lance Capital LLC, hopes to replicate the transaction with deals across the country and overseas. Podos noticed over the last two years that commercial real estate deals are happening less frequently as market volume and velocity are down. "In today's tight economic times everyone -- major tenants, landlord and lenders -- is much more conscious of the precious nature of capital."

Podos noticed a big problem in getting deals done: that lenders were requiring perfection to execute anything, including capital for tenant improvements, which he knows is often the key to closing a difficult and complex lease transaction. TIs often fall far short of actual costs of above-standard improvements, with the burden falling on tenants that would rather spend their money on core business. Landlords and owners often don't have equity capital or don't want to use it for TI, and so tenants are reluctant to enter into major deals. "In general, no one likes to put money into improvements. Lenders say that TIs are not accretive to residual value and mess up loan-to-value ratios," Podos explains.

"This creates a big problem for getting deals done. Our new real estate marketplace demands a new form of tenant improvement financing that works with owners, tenants and lenders. The old rules no longer apply," said Podos, who says he may have found the solution.

Tenant improvement costs impact everything, from vacancy rates, valuations and the landlord’s ability to close a big deal. Podos, CEO and president of Lance Capital, expects this new form of TI financing to catch on, and lead to many more deals completed in 2012 than in recent years.

"The TI financing structure is widely applicable across many property types domestically and internationally," Podos shared.

The tenant at Vanderbilt Ave. needed to build the TI costs into rent. The transaction required the GFI-led partnership to refinance a senior loan by CIBC World Markets. CGA issued the financing secured by a portion of the rent rather than the building, so it does not affect the LTV ratio of the refinancing loan provided to the owners by CIBC.

CoStar Research Associate David Egbert contributed to this report.