



## A CLIMATE OF UNCERTAINTY

*Paul P. Braungart is founder and president of the Marlton-based Regional Capital Group. RENJ editor Eric C. Peterson talked to him recently about the state of the market.*

### What's happening out there right now?

**BRAUNGART:** The major issue is the uncertainty. You've got lenders, borrowers and investors that are cautious, but

not really sure what's happening. There's definitely been a serious pullback in funding sources, especially the more traditional sources. Obviously, the long-term market has somewhat been impaired.

We're even finding with projects we're lenders on and looking for access to more traditional financing, or even projects we own, that it's difficult to get any finance options on a long-term basis, or even on a bridge basis, that makes sense. The spreads have widened and costs have increased, and a lot of these are very well performing assets, with very stable cash flow with coverage ratios. So it's kind of narrowed the playing field.

That impacts us two-fold in the assets we have under management. It changes some of our exit strategies, but it also creates opportunities. Because we're a private lender, we might not always be the avenue of choice. We're seeing deals now that the more traditional lenders like the banks have had a shot at in the past. That's one of the major changes we've seen.

We're actually out in the market very actively looking for funding for projects that we own, so it's kind of impacted us directly, but other than that we've fared very well. We've been able to see a good number of new opportunities—we actually have a few that are getting ready to close in the coming weeks.

### What about government efforts to fix things?

**BRAUNGART:** Nobody really knows how this TARP plan is going to impact a lot of the lenders. We've been a player. We'll buy notes in underperforming assets and things like that. A lot of people are waiting to see how it might impact them and whether some of their assets are eligible. I don't think anybody really understands or has a general feel for how big the residential piece of it is. That's just not what we do. We're more of a commercial lender. Lenders are just generally very cautious until they really see how this all unfolds.

### You mentioned residential. What about other property types?

**BRAUNGART:** We've got a little bit of all of them. We have some office, some warehouse, some retail sites but not buildings. We're

seeing a little bit of pullback in retail, but the projects we're involved in are still pretty solid. Everything always depends on the market you're in...as far as office, the projects we've seen are still looking pretty good. I know that in some markets there's been a lot of sublet space that's come back on the market, where companies have consolidated or cut back some regional operations.

As far as industrial, we don't have a lot of it, but seems to be still pretty solid. Multifamily is still pretty solid. We see a lot of projects that were originally planned as condominiums that are now being retooled as rental. It's difficult sometimes to make the numbers work, but there've been some discounts offered.

Land deals are happening. We've seen some repositioning of multifamily in addition to existing projects, and that still seems to be a pretty solid property type. We've seen some mixed-use in urban areas that have been able to attract rental residential, retail and office uses. The leverage has been pushed back a little bit. We might not be as aggressive as we once were. It might require more money in a deal just to feel more comfortable with the business plan, and make sure there's a pretty solid exit. Are we certain that a particular project can be sold or financed? That's the biggest question mark today.

### You said you're not being as aggressive. Is there anything else you're doing differently?

**BRAUNGART:** We do a pretty thorough job of underwriting our projects, and we pride ourselves in being somewhat nimble and intuitive. We'll try to find a solution. We're looking harder at property values, looking harder at exit strategies because, again, there might have been 30 or 40 lenders that might look at permanent financing for a project, and now maybe it's eight to 10. We're working with people we have relationships with. There seem to be buyers, but obviously you have to get the right mix of debt and equity in leverage to be able to make it work and get your return. Our focus is probably appraisals and exit strategy right now more than anything else.

We continue to grow. We think '09 is going to be a good year for us. Again, we see opportunities where we have borrowers we like to call "left at the altar," where a lender at the last minute couldn't help. But we've always seen that. We're busy when the market's good, and we're busy when the market's not good.

We get opportunities in all types of markets. We'll continue to bridge—our platform is really bridge financing. We also do some mezzanine and preferred equity. Depending on the transaction, we're still actively looking for deals and actively funding deals. —RENJ