



# CAPITAL VIEWS

## WELCOME TO THE FIRST EDITION OF CAPITAL VIEWS



**LANCE PATTERSON**  
 Chief Executive Officer  
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Our company, halfway through its ninth year, has a lot to celebrate. We now have 17 employees located in Atlanta (our headquarters), Charleston, Nashville and our newest market, Charlotte. We just finished the most prolific first half of any year in our history, closing 16 transactions across seven diverse markets in the Southeast. We're on plan this fall to close the 200th transaction in our company's history, now representing over \$4 billion of capital. We're very proud of what we've achieved, most proud of the fact that we now have over 80 clients - that's quite an accomplishment!

We're very pleased that Drew Barnette, a well-known and highly-regarded industry veteran, has joined the company to open our new office in Charlotte. It's fun for Drew - a homecoming for him - and it's a boon for us to lure someone of Drew's quality and character to our firm. We are excited to see what Drew will accomplish in the months and years to come.

The newsletter that you're reading is also something new for us, the first edition of what we anticipate will be a semi-annual publication going forth. Importantly, note what this newsletter isn't - it's not an explanation of the economy nor is it a recitation of real estate statistics. Rather, it's a piece about what our firm is seeing in the capital markets. We're fortunate to have a front row seat to view all types of capital - construction debt and equity, bridge debt and equity and traditional permanent debt, all of it across all product types and throughout the Southeast. We hope to provide insight not only into our company, but probably much more interesting for you, into what we're seeing and experiencing in the capital markets. Maybe some of this can be helpful in your efforts.

**I think the following best describes the debt market:**

- It's extremely competitive. We hear this from every type of lender on every type of deal.
- It's a mixed-up world. Life insurance companies are now making construction loans, banks are now doing permanent loans. Debt funds are trying to figure out how to compete as other types of lenders are getting into their space.
- Construction lending is back, available for good deals with good sponsors.

In short, it's a good time to be a borrower.

**The best way I can describe equity providers is as follows:** they're smart, they're interested, they're creative, they're prudent, they're diligent.

While equity is flowing well, it hasn't been, and we don't think it will be, doing bad deals. That's ultimately good for all of us.

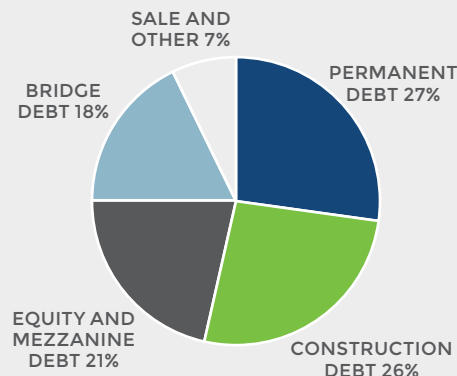
Finally, for those of you who know me, you may know that I'm a big reader of classic fiction. One of my favorite authors is Sir Walter Scott, who wrote my favorite novel, Ivanhoe. Ivanhoe is the story of a knight who has a clear view of the world, easily recognizing right and wrong, and acting accordingly. The novel is full of all types of characters, good and bad, and happily in the end, good ends up triumphing. If you haven't read Ivanhoe, I strongly encourage you to do so.

Anyway, Sir Walter Scott wrote the following poem, which you may enjoy:

*The wretch, concentrated all in self  
 Living, shall forfeit fair renown  
 And, doubly dying, shall go down  
 To the vile dust, from when he sprung  
 Unwept, unhonoured, and unsung*

We're thankful for all of our great clients. As always, please feel free to use us as a resource, and call anytime to learn real-time what we're seeing in the capital markets. We love to talk to friends.

### CAPITAL PLACEMENT THROUGHOUT COMPANY HISTORY



## SELECT RECENT TRANSACTIONS

TYPE	RETAIL REFINANCE
LOCATION	ATLANTA, GA
PROJECT COST / VALUE	\$20 MILLION
ASSIGNMENT	PERMANENT DEBT

TYPE	ADAPTIVE RE-USE DEVELOPMENT
LOCATION	ATLANTA, GA
PROJECT COST / VALUE	\$22 MILLION
ASSIGNMENT	FULL CAPITAL STACK

TYPE	OFFICE ACQUISITION
LOCATION	CHARLOTTE, NC
PROJECT COST / VALUE	\$67 MILLION
ASSIGNMENT	PERMANENT DEBT

TYPE	INDUSTRIAL ACQUISITION
LOCATION	ATLANTA, GA
PROJECT COST / VALUE	\$85 MILLION
ASSIGNMENT	FULL CAPITAL STACK

TYPE	MULTIFAMILY DEVELOPMENT
LOCATION	CHARLESTON, SC
PROJECT COST / VALUE	\$30 MILLION
ASSIGNMENT	CONSTRUCTION DEBT

TYPE	MIXED-USE DEVELOPMENT
LOCATION	NORTH AUGUSTA, SC
PROJECT COST / VALUE	\$14 MILLION
ASSIGNMENT	CONSTRUCTION DEBT

TYPE	CONDOMINIUM REFINANCE
LOCATION	ATLANTA, GA
PROJECT COST / VALUE	\$19 MILLION
ASSIGNMENT	BRIDGE DEBT

TYPE	OFFICE ACQUISITION
LOCATION	DURHAM, NC
PROJECT COST / VALUE	\$36 MILLION
ASSIGNMENT	BRIDGE DEBT

TYPE	LAND SALE
LOCATION	CHARLESTON, SC
PROJECT COST / VALUE	UNDISCLOSED
ASSIGNMENT	SALE

TYPE	INDUSTRIAL DEVELOPMENT
LOCATION	SPARTANBURG, SC
PROJECT COST / VALUE	\$15 MILLION
ASSIGNMENT	CONSTRUCTION EQUITY

TYPE	INDUSTRIAL ACQUISITION
LOCATION	ATLANTA, GA
PROJECT COST / VALUE	\$25 MILLION
ASSIGNMENT	CONSTRUCTION DEBT

TYPE	OFFICE DEVELOPMENT
LOCATION	CHARLESTON, SC
PROJECT COST / VALUE	\$51 MILLION
ASSIGNMENT	CONSTRUCTION DEBT

## CONSTRUCTION LOAN GUARANTEES

Patterson is very active raising construction debt for development transactions. In the past few years we've financed the construction of apartments, condos, hotels, office buildings, retail, industrial, senior and student housing. On all deals, lenders require various types of guarantees, primarily the following three: (1) the repayment guarantee; (2) the completion guarantee; and (3) the carve-out guarantee.

While the economic downturn of 2008-2011 now seems like a long time ago, the memory of those times has stayed with the banking community in regards to how they think about loan guarantees. This relates not only to what guarantees are required, but also to the financial wherewithal the bank requires from that guarantor.

For example, before 2008, while a construction **COMPLETION GUARANTEE** was almost always required, provided a bank: (a) felt comfortable that a borrower had good experience in building prior projects; and (b) there was a good general contractor involved working under a guaranteed maximum price contract, the bank didn't focus as much on whether the completion guarantor had significant net worth or liquidity. Now, both of those two items are critically important and are heavily scrutinized by lenders. A typical starting point for discussing these matters with a lender is that the completion guarantor must have net worth equal to the loan amount and liquidity of 10% of the loan amount. While we have been successful in negotiating these amounts down, it provides a sense of the challenge in getting development deals financed.

**CARVE-OUT GUARANTEES** - where the guarantor takes liability to the lender in the event of fraud, theft, misrepresentation, bankruptcy, etc. - have also taken on additional significance, again a reflection of lenders wanting to avoid what they see as mistakes they made previously. It is almost always required that the carve-out guarantor be someone or some entity other than the borrower, which is typically a single-purpose entity. That is almost a given. While some lenders will accept a different entity instead of an individual as the carve-out guarantor, this also becomes a heavily negotiated issue. And similar to the financial requirements for the completion guarantor, lenders will require that the

carve-out guarantor have substantial net worth and liquidity, albeit not to the same levels as for a completion guarantee. A good rule of thumb is that a carve-out guarantor has net worth of 25% +/- of the loan amount and liquidity of 5%-10% of the loan amount.

Where borrowers can sometimes see relief is in the requirement for a **REPAYMENT GUARANTEE**. Whereas a completion guarantee is released upon successful completion of construction and issuance of a certificate of occupancy from the local governing authority, a repayment guarantee obligates the guarantor to repay the loan, or portions of the loan, regardless of whether completion has occurred or whether there is nothing that would trigger the carve-out guarantee. In essence, the repayment guarantor is taking the economic risk of the project.

While this type of guarantee is usually required, we have been successful many times in finding "non-recourse" lenders, or ones that won't require a repayment guarantee. This tends to be more likely from smaller, local or regional banks, and is helped if the loan-to-cost ratio remains at 65% or less. Some larger banks have also intentionally sought to provide non-recourse loans, although on a lower-levered basis (55% +/- of cost), in order to gain market share and as a recognition that it is often difficult to collect on guarantees once a project faces difficulties. Debt funds have become more active providing construction financing as they are not encumbered by the regulatory environment that impacts the banks and their structure allows them to take on more risk. A non-recourse loan is also more likely on projects that are more desirable to lenders, e.g. buildings that are largely or fully pre-leased or industrial projects, which are generally the most sought after product type for any type of capital. Note though that when a repayment guarantee is required, the financial strength of the guarantor is critical, with net worth and liquidity covenants exceeding those, potentially substantially so, for a completion guarantee.

One final comment - even on non-recourse loans, many lenders will still require that a credit-worthy entity guarantee certain costs, specifically debt service and operating expenses. This exposure can usually be capped in some manner but in our view, does cause a drift of the loan from fully non-recourse to partially recourse.

## LOCAL PARK CLEAN UP



On May 10, 2018, a team of Patterson employees spent the day cleaning up a section of the Washington Park Tennis Center in historic Washington Park (southwest Atlanta). Washington Park is one of 45 neighborhoods connected by the Atlanta BeltLine.

## SAVE THE DATE!

Join us for our  
annual fall cocktail event at  
**FADO IRISH PUB  
IN BUCKHEAD**  
**THURSDAY, OCTOBER 18<sup>TH</sup>**

## PATTERSON OPENS NEW OFFICE IN CHARLOTTE



In July 2018, Patterson expanded its geographic footprint by opening a new office in Charlotte, North Carolina. Drew Barnette was hired to open that office and serve as Director in the Charlotte area.

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## PATTERSON MOVES TO PERMANENT LOCATION IN NASHVILLE



In October 2018, Patterson will relocate to a newly constructed office building in downtown Nashville, Tennessee. Terry Hughes will continue to serve as Director for Patterson in the Nashville market.

**TERRY HUGHES**  
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Since our founding in 2010, Patterson has closed nearly 200 transactions totaling \$4 billion in capital and \$6 billion in overall project value with more than 80 clients

**INTEGRITY + INGENUITY + INVESTMENT = SUCCESS**



309 EAST PACES FERRY ROAD | SUITE 1100 | ATLANTA, GEORGIA 30305  
701 EAST BAY STREET | SUITE 412 | CHARLESTON, SOUTH CAROLINA 29403  
615 S. COLLEGE STREET | 9TH FLOOR | CHARLOTTE, NORTH CAROLINA 28203  
615 3RD AVENUE S | SUITE 606 | NASHVILLE, TENNESSEE 37210 MOVING FALL 2018

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