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New money for building

\$100M fund to help commercial projects

Austin Business Journal - by [Kate Harrington](#) ABJ Staff

In an environment where the pace of development has been slowed by a dearth of loans, a Central Texas investor is bucking the trend by offering big bucks to builders.

J.P. Newman, who has been involved in acquisition and equity in Austin-area real estate for four years, formed First Capital Funding with two affiliates in August. The company extended its first loan in September to a residential builder in College Station.

The private capital lending group's fund of about \$100 million makes commercial real estate loans to income-producing properties — bridge loans, mezzanine financing and first trust deed finance — from \$100,000 to \$10 million.

"I'm looking for good projects and good borrowers who haven't been able to get loans fast or at all because banks have been conservative," Newman says of the work First Capital does.

Newman is no stranger to commercial real estate in Central Texas. As vice president of investment firm Principals Capital Funding, he worked with New York-based Glenmont Capital and Jacksonville, Fla.-based Atlantic Coast Development in late 2006 to acquire land for the Crossings at Carmel Creek, a 476-acre master-planned, mixed-use project north of Austin in Hutto. That project's first phase is set to break ground in early 2009.

Newman says First Capital Funding is a natural extension of the work he was doing with Principals Capital Funding, where he was making loans on a smaller level in addition to the equity financing that is Principal Capital's primary business. When the credit crunch hit, Newman says, it made sense to shift the debt work he'd been doing into a separate business.

Jeff Wilkinson, president and CEO of Dripping Springs-based Pioneer Bank, says more people are considering forming groups like First Capital Funding as the credit crunch takes its toll on commercial development.

While Austin has been somewhat insulated from the downturn, the larger banks in Central Texas are based in other parts of the country and don't have the flexibility to have separate lending policies for this market, Wilkinson says. So projects here suffer from the tight credit, too.

“I think the lenders have all but left the market,” he says. “But there’s still a need for funding for [developers]. ... It’s a stark contrast to the way things were 12 months ago. It’s a lenders’ market now.”

Pioneer Bank, a smaller community bank, has had its phones ringing often as developers look for financing, Wilkinson says.

“Like many of my community bank counterparts all over the country, we are still able to make loan decisions because we are smaller, more nimble and able to make decisions that larger banks can’t right now,” he says.

Bob Shonk, director of real estate consultancy Texas Commercial Partners, says permanent financing and acquisition loans have become more difficult to obtain. That means developers are looking to lenders who offer mezzanine financing.

Shonk says many small developers are also turning to hard-money loans — loans backed by the value of property that typically come at higher interest rates.

Courtesy of JB Goodwin