KEYNOTE INTERVIEW

Time for expansion

 

While other firms sought to weather 2023's turmoil by shoring up their businesses and concentrating on asset management, Bravo Capital is expanding its lending activity, say Aaron Krawitz and Gabi Moshayev

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Aaron Krawitz, founder and CEO at New York-based Bravo Capital, sees creativity and innovation as central to its recent successes, as the firm – named Innovative Firm of the Year – tackles increasingly complex transactions. "We've been active in each of the mezzanine, HUD and bridge strategies," Krawitz says. "Being an innovative lender also means being adaptable and being able to customize and tailor solutions to the needs of the sponsor."

The firm has two separate lending entities – Bravo Capital LLC, a fully approved national HUD lender for multifamily and healthcare financing, and Bravo Property Trust, its recently rebranded bridge-to-HUD and mezzanine lending unit.

"With bridge we really bifurcate that further into bridge-to-HUD and ground-up construction, where we're seeing lots of opportunity and not many active players these days," Krawitz adds.

The firm has bolstered Bravo Property Trust with a raft of hires in the last year. Gabi Moshayev, the former CEO of Harel Insurance's alternative real estate credit investment division, joined as managing principal and chairman, along with managing director Aiden Birnbaum, hired from S3 Capital's bridge loan program. In addition, deputy chief underwriter Ryan Patterson and senior analyst Kendall Kozikowski both joined from Greystone.

"At Bravo Capital and Bravo Property Trust we have a very strong infrastructure to bring a lot of liquidity to our sponsors and do very strong financing in 2024, especially given we have a very strong mitigant with take-out to HUD," Moshayev says of opportunities up ahead.

Q Where did you see opportunities to make new loans in what was a very challenging 2023?

Aaron Krawitz: Banks had a significant pullback in their activity levels in 2023, and they've been more tentative with new financings, even for quality sponsors. We've heard some lenders say that they won't finance any transaction if it's not with an existing client, regardless of quality. So for us, the dynamic was ideal – we're a private lender, we had a clean book and a green light for new transactions. While others in the industry saw 2023 as an asset management-focused year for them, we had our pick of new bridge financing. It was a very active year, and I think 2024 is going to be even more active.

Gabi Moshayev: With higher interest rates, the yield profile for new loans has improved, and new loan breakpoints are generally lower, especially when borrowers show support for underlying assets and commit additional equity to the deal. We anticipate a strong demand for debt financing solutions from real estate investment funds in 2024, driven by recent market developments and long-term structural trends.

Q How have you navigated the current environment?

AK: It starts with being more thoughtful, and more creative, than others. One example is that we are comfortable going all the way to 90 percent LTC on acquisitions where we can verify that there was a heavily discounted purchase, and on a value basis we were very low LTV.

We have used all sorts of innovative structures and collateral investments – different types of cross collateralization; upper-tier hold-co pledges – to ensure we are attuned to what the sponsor needs.

In terms of structure, we've had to accommodate not only the borrower's needs, but often another lender's needs if they're also in the structure. For the transactions we're doing with Bravo Property Trust's mezz buckets, it's often with an inter-creditor agreement with another first mortgage lender. We don't get hung up on form over substance – we've been creative in terms of meeting the key criteria for a co-lender, or a first mortgage lender, when we're in the mezz position.

Q Are we starting to see the start of a recovery in commercial real estate?

"With higher interest rates, the yield profile for new loans has improved"

GABI MOSHAYEV
Bravo Capital

AK: It's so heavily interest rate-dependent, and right now rates are still in a spot that's very painful for many sponsors, given they've risen at the fastest pace in recorded history. We were fortunate in terms of our structuring that we typically require a rate cap, and so we haven't been impacted in the same way. We know many peers are still in a defensive position in 2024.

GM: In the short term, borrowers are adapting to a higher cost of financing, which is not surprising given the rapid rise in interest rates that ended after more than a decade of historically low rates. As the lending market adjusts to this new environment and interest rates are expected to stabilize, debt is expected to once again become a common component of business plans for sponsors in 2024.

Q What do you see as the main challenges in lending and investing in 2024?

AK: We're continuing to see the sustained pullback from banks in terms of leverage, if not in activity. There are lots of bridge-to-bridge financing opportunities since there are very few lenders right now willing to take out existing bridge loans at the proceeds level required to avoid a cash-in. That's where our HUD program really shines, where it's a credit mitigant for our existing bridge loans, because it's one of the highest leverage, highest proceeds loan types out in the market.

I think there'll be a wave of expiring bridge loans this year where the borrower's only option may be a cash-in refinancing, which may not be palatable, or a sale, sometimes not on the timeline that the sponsor had initially intended. In terms of asset class challenges, there are significant headwinds in office and retail, not markets that we invest in or finance in, but a landscape which will be interesting to observe.

GM: We're focused on multifamily and healthcare – underlying assets that are, in our view, very conservative compared to other assets like office or retail, which we avoid. We believe we'll soon see many opportunities in our bridge platform, especially in construction loans. With our business activity, regarding the cap rates and cash flow infrastructure, we believe after two or three years, we will see a better market with better cap rates. That's why we are focused on construction loans.

Q It's been difficult for sponsors to obtain construction financing in recent years, and now it seems like there is a real demand here. What are your conversations like with borrowers?

AK: We have seen exceptional sponsors seeking construction financing in a very non-competitive construction financing market. For those who have longer lead times, we offer the 221D4 construction financing program, which has very attractive terms on rate and leverage and being non-recourse.

With our Bravo Property Trust entity, we've been aggressive in terms of pursuing top sponsors. We're not so active with those who don't have a track record.

Sponsorship is a big part of our underwriting, so we haven't been as active with newer sponsors who don't have a track record. For those who are highly institutional, who have done the same thing over and over with success, we're surprised that there aren't more construction lenders bidding on those opportunities. ■