



# SAVILE CAPITAL PARTNERS

COMMERCIAL REAL ESTATE DEBT & EQUITY CAPITAL ADVISORS

LOS ANGELES | WASHINGTON DC | LONDON

# COMPANY BACKGROUND

- Savile Capital Partners is a commercial real estate capital advisory firm
- Established to leverage the institutional backgrounds of our Principals who have billions of dollars worth of debt and equity transaction experience involving deals throughout the US
- We are former balance-sheet lenders and institutional investors and possess a depth of experience not typically found in other advisory firms
- Current focus –
  - Joint Venture Equity (project-specific or programmatic)
  - Construction Financing
  - Acquisition Financing
  - Bridge Debt
  - Mezzanine Debt/Preferred Equity
- We source and structure financial solutions for projects requiring \$20 million to over \$200 million





## STATE OF THE CAPITAL MARKETS

- Construction/Bridge Lending
- Equity Investment

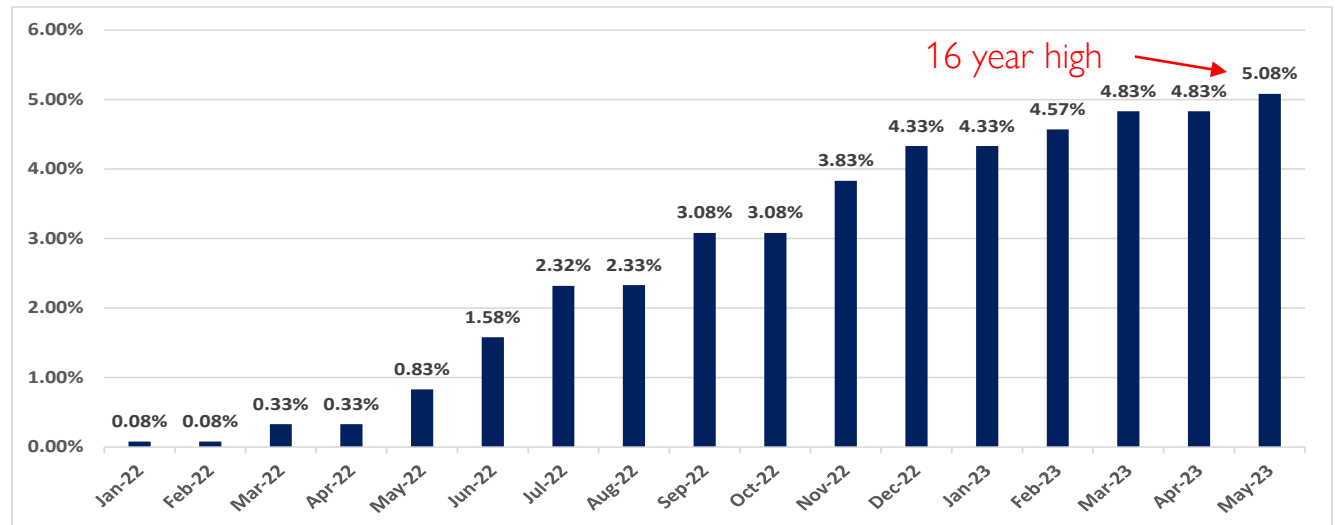
- Local, regional and even national banks are focused on commercial real estate exposure, regulators, liquidity and overall market conditions – all of which has led to a pull-back from all forms of commercial real estate
- Banks of all sizes are effectively “pencils-down” on most new construction/bridge deals although some may consider deals with previous borrowers with significant deposits
- Given the resulting reduced liquidity in the market, alternative lenders are seeing increased opportunities
- With a greater share of market activity by private debt funds and other non-traditional lenders, spreads have widened along with rapidly increasing 30-Day SOFR
- As interest rates continue to rise putting upward pressure on cap rates, private equity firms and hedge funds have increased their minimum Return-on-Cost thresholds from 5.5% in early 2022 to 7.0%+ today and transactions are more difficult to get done in the current environment
- As a result of current capital market conditions and some sectors still suffering from the aftermath of COVID-19, individual property-types are seeing diverging financing opportunities

# THE FED

## FOMC RATE INCREASES ~ Last 14 Months

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
May 3, 2023	+25	5.00% to 5.25%
Mar 2, 2023	+25	4.75% to 5.00%
Feb 14, 2023	+25	4.50% to 4.75%
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sep 21, 2022	+75	3.00% to 3.25%
Jul 27, 2022	+75	2.25% to 2.50%
Jun 16, 2022	+75	1.50% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
Mar 17, 2022	+25	0.25% to 0.50%

## EFFECTIVE FED FUNDS RATE ~ Jan-2022 Through Today

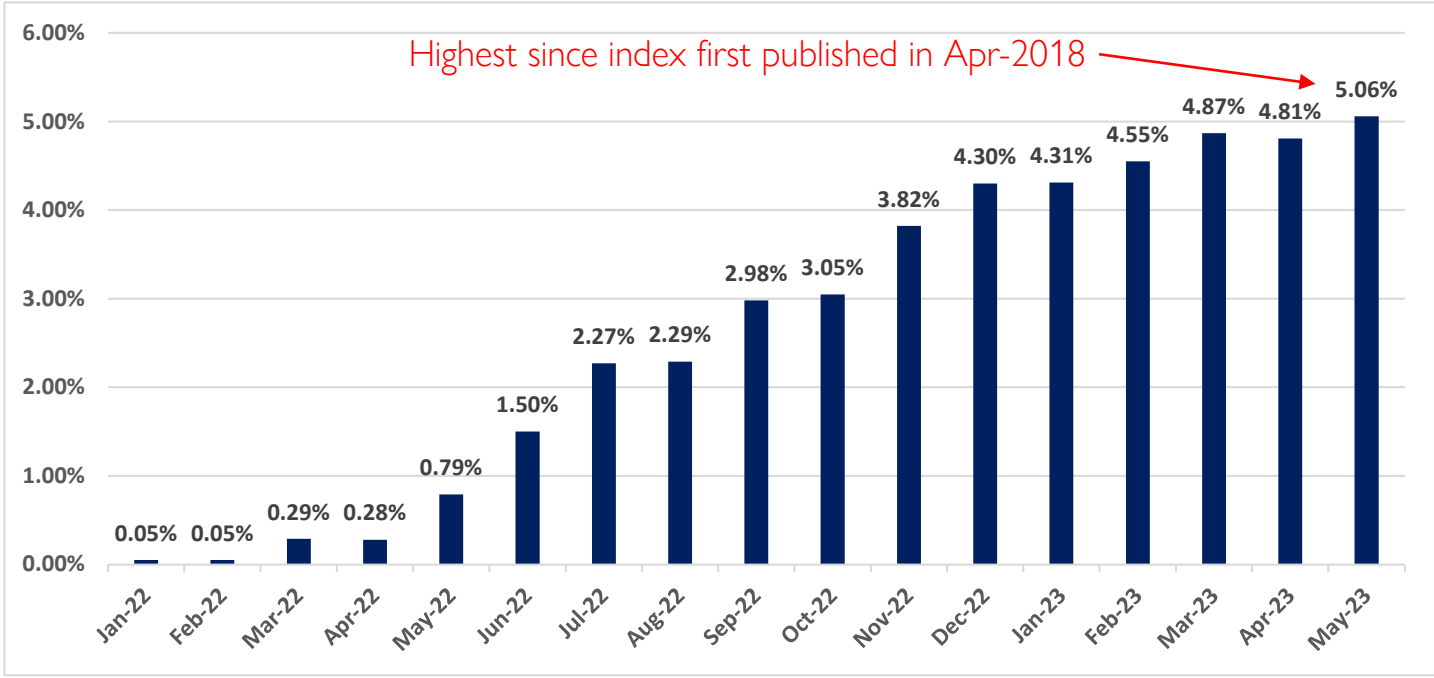






- The vast majority of construction and bridge debt today is structured with floating rate interest
- Most construction and bridge debt uses 30-Day SOFR (Secured Overnight Financing Rate) as an index
- Current short-term lender-spreads range from 350 – 700 bps over 30-Day SOFR
- Most lenders offering floating rate debt allow the purchase of an interest rate “cap” or “swap”; however, such derivative contracts are currently very expensive

30-Day SOFR ~ Jan-2022 Through Today



# INTEREST RATES & SOFR

# OFFICE



- Debt and equity providers remain extremely selective regarding the sector
- Ground-up development at or near standstill in most markets; however, adaptive reuse as multifamily can attract capital
- New office projects must have strong pre-leasing and/or anchor tenant(s) in-tow
- Very challenging sector for foreseeable future





## INDUSTRIAL

- Depending on proximity to major MSAs, debt & equity providers prefer last-mile warehouse & distribution projects
- Ground-up development primarily focused on E-commerce will likely serve as tailwind for logistics industry for years to come
- Substantial building in last few years may become a concern in some markets
- Capital markets sector activity very hot last two years; however, slowing in some markets

# MULTIFAMILY



- Debt & equity providers generally remain bullish on the sector despite rising interest rates
- Ground-up development remains active in most markets
- Equity investors' minimum Return-on-Cost has increased with cap rates – most requiring 100-150 bp spread over cap rates for new development
- Private debt funds remain active
- Construction costs expected to continue to moderate with contractor pricing becoming more competitive



# BUILD-TO-RENT



- Debt & equity providers generally remain bullish on the sector despite rising interest rates
- Markets with lower-cost land generally seeing the most development activity – primarily in the South and Southwest
- Ground-up development remains vibrant in most markets and private equity investors are actively seeking JV investment opportunities; however, most require minimum Return-on-Cost of 6.5%-7.0% for new development
- Private debt funds currently most active construction loan providers



## SINGLE-FAMILY HOUSING

- Land Development
- Land Banking
- Home Building

- Elevated residential mortgage rates have contributed to slow-down in new homebuilding, however, market activity picking-up
- Debt & equity providers generally optimistic regarding (i) single-family land development, (ii) land banking and (iii) homebuilding going forward
- Most debt & equity providers prefer to invest in projects located in or near major MSAs
- Most equity investors prefer fully-entitled projects; however, some will consider taking on entitlement risk on a case-by-case basis
- Larger institutional equity investors will also consider M&A opportunities
- Private debt funds currently most active A&D and construction loan providers



# RETAIL



- Debt and equity providers generally selective regarding the sector, with most requiring substantial pre-leasing
- Grocery-anchored shopping centers in well-populated suburban markets within reasonable proximity to major MSAs most-preferred
- Municipalities are encouraging the adaptive re-use of centrally-located regional malls that incorporate a mix of multifamily and commercial/retail uses in order to reinvigorate economic activity
- Private debt funds currently most active construction loan providers in this sector

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