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Mission Capital Sees Spike In Secondary, Tertiary Market Deals

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Mission Capital Advisors is seeing a rise in transactions in secondary and tertiary markets. The New York-based advisory company began to see a trickle of activity in the long-term lending space a couple of years ago but over the past few months this has transformed into a full slate of lending products, including construction financing, mezzanine lending and bridge loans, said **Ari Hirt**, a director in the debt and equity group.

The shift is being driven by investors who are seeking higher yields than are available in prime, gateway markets as well as lenders—including banks, mortgage real estate investment trusts and private equity funds—that need to put out capital. "Clients who are priced out of primary markets are willing to expand their investment criteria," said **Gregg Applefield**, director.

The firm has done deals recently in markets in Alabama, suburban Detroit, the Midwest and Las Vegas, but has worked in a broad swath of secondary and tertiary markets nationally. "Some of these deals are for clients who are taking a chance to take out short-term bridge financing that has a high cost of capital and others are for clients who are entering these markets for the first time," Hirt said.

The assets don't have to be the best in class for their submarkets but have to be dominant assets in strong locations. For example, Mission Capital has been working to arrange financing on retail centers in highly traveled retail corridors including a loan it arranged for Florence Square, a retail center in Florence, Ala. "The center is well located, adjacent to a **Walmart**, and is in a heavily trafficked retail corridor," Hirt said.

Leverage is often in the area of 75-80% for long-term fixed-rate loans, which can be priced as low as 5-5.5%. One sector that is particularly attractive to lenders is apartment development, where construction loans with an LTV of about 75% are being priced at LIBOR plus 2%.

Still, not all lenders are going into secondary and tertiary markets. "The key is finding the lender who will go into the market. It's not like you can call every lender who is doing a loan in Chicago or Los Angeles and see if they will go to Troy, Mich., or Indianapolis," Hirt said. "But the capital is there and it wasn't there a couple of years ago."

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