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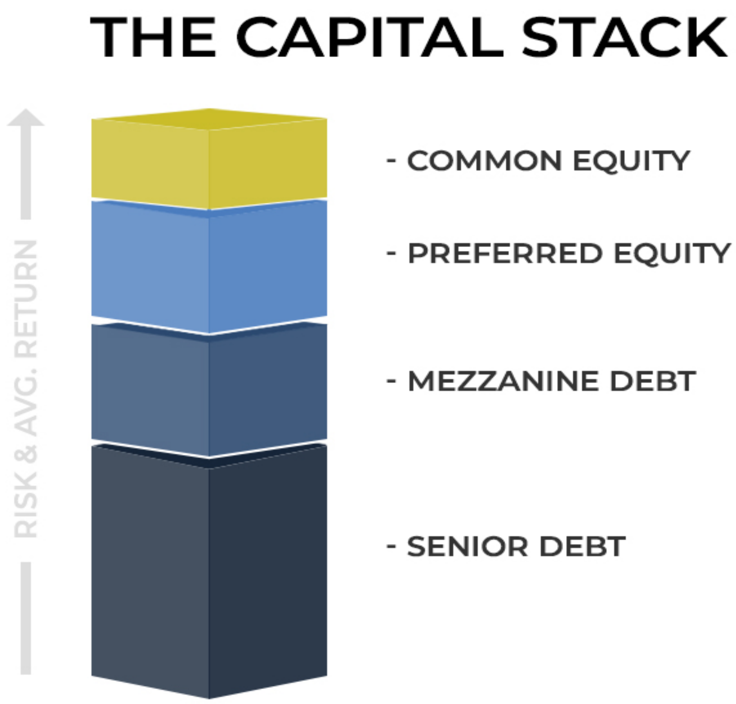
Stable Returns in Short-Term Bridge Lending

Real estate debt investments can play an important role in a portfolio, offering diversification benefits and opportunities for yield, as well as some inflation protection. Real estate debt investments have garnered increasing interest from yield-hungry investors particularly over the last 10-15 years amid the historically low yield environment since the Great Financial Crisis. Capital raising activity for private debt funds has rebounded from a more subdued pace in 2020.

Preserver has been building exposure to real estate debt investments over time to provide portfolio diversification and enhance portfolio yield. Private real estate debt strategies can offer institutional investors the potential for consistent yields and a lower risk profile as they are more senior in the capital structure. We have focused our private real estate debt exposure in short-term bridge loans secured by commercial real estate. Bridge loans are a form of short-term financing that "bridges the gap" for a borrower providing time to obtain long-term, permanent financing. Bridge loans may be used to finance acquisitions, value-add investments, construction completion, or refinancing. Some managers in this specialized field focus on smaller to mid-sized deals where the need for debt capital is often not met by traditional bank lenders which may be deterred by the smaller deal size, time needed to close and regulatory constraints. The quality of underwriting is critical to mitigate default risks. Some important underwriting components are the sponsor quality, gross yield, loan to value ratios, property fundamentals, and loan term.

Gina Miles joined Preserver in 2021 and serves as Managing Director. As a senior member of the investment team, Gina focuses on investment manager due diligence, portfolio construction and risk management. She holds a B.A. in Economics/Business Administration and a minor in French from Rhodes College. She maintains the Chartered Alternative Investment Analyst designation.

Preserver has invested with various commercial real estate bridge lending teams over the years. We prefer diverse portfolios across sponsors and geographies. The typical loan size is $10-50 million and the typical loan term is 12 to 36 months with interest rates ranging from 7-12%. The loans are secured by different types of real estate collateral including multi-family, condo, mixed use, and land. The graphic below depicts a typical capital stack for a real estate investment by risk and average return. Senior debt tends to have the lowest risk when compared to the other forms of capital.



Preserver continues to allocate capital to short-term bridge loans for several reasons. First, it provides exposure to short duration real estate debt, which is a diversifying strategy for our private funds. The loan maturities can mitigate the risk of a sudden change in the local market fundamentals or sponsor financial strength. Second, gross yields of 7-12% meet our target yield. While yields have compressed in recent years, the yield advantage over many fixed income sectors remains meaningful. We prefer more conservative underwriting with defined exits. The average weighted loan-to-value (“LTV”) ratio typically ranges from 40% to 60%, providing a low attachment point for the underlying real estate collateral in case of default. Finally, since loan rates are floating, there is some hedge against inflation.

Preserver believes that short-term, commercial real estate bridge lending can provide investors with attractive risk-adjusted returns in the current economic environment. Real estate debt investments can play an important role in a portfolio, offering diversification benefits and opportunities for yield, as well as some inflation protection.