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Pembrook Buoyed By Traditional Lender Absence

Pembrook Capital Management's focus on transitional deals with middle market borrowers has allowed it to carve out a niche as traditional lenders have moved toward larger public and private players. "We are seeing the money center banks gravitate to deals where the sponsor is a public real estate investment trust that also needs investment banking services or a large, private owner who has other business needs," said **Stuart Boesky**, president and ceo of the New York-based investment management company.

Pembrook originates balance sheet loans including first mortgages, mezzanine loans, bridge loans, note financings and preferred equity and can also provide tax- exempt bond financing for the apartment sector. The company recently closed *PCI Investors Fund II* with $154 million of capital. It targets transactions of $10-50 million in markets with high barriers to entry and limited new development. Pembrook often works with traditional banks on new loans, providing mezzanine debt, Boesky noted.

The current shift in the banking industry is being driven in part by structural changes within the sector. "There are four to five banks that represent 70-80% of all deposits in the U.S. and the statistic is that the top 10% of banks represent 90% of all lending," Boesky said. Regulatory changes, including higher risk-weighted capital requirements stemming from Basle III, are also affecting lending.

Recent transactions include the origination of mezzanine and construction financing for a Brooklyn development. The developer purchased the land during the crisis at a low cost basis and is aiming to build a rental property there, Boesky said. "It's our view that there will continue to be a gradual increase in the volume of business as the market fundamentals improve and the heavy refinancing pipeline starts to hit the market," he added. "Discounted payoffs from special servicers will also improve our deal flow."