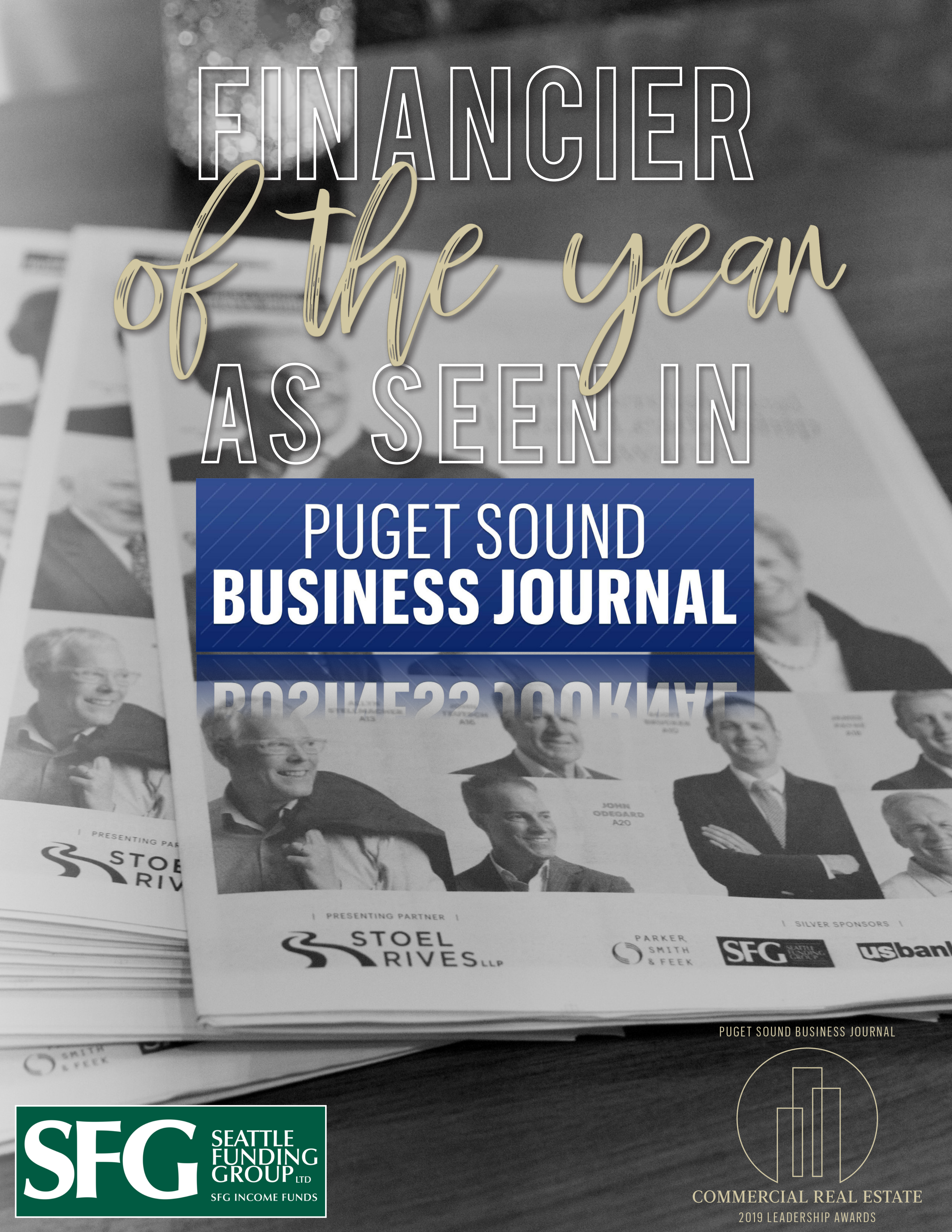

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CRE FINANCIER OF THE YEAR

John Odegard

SEATTLE FUNDING GROUP | PRESIDENT AND SENIOR PARTNER

BY MARC STILES | mstiles@bizjournal.com, 206-876-5406, @MarcStilesPSBJ

Q&A *In the mid-80s, John Odegard left his Nordstrom department manager position to go full time into buying small rental properties. He soon realized his self-employed status and need to get financing quickly didn't fit bank financing. ¶ The only other alternative in Seattle was "hard money" lenders, and back then he said they "acted and charged like gangsters." He knew there had to be a better way to serve high-quality, entrepreneurial borrowers without charging excessively. ¶ It was a huge opportunity in the market, so he started Seattle Funding Group, which now has offices in Seattle, Solana Beach, California, and Scottsdale, Arizona.*

How has the private money lending industry changed since you started? Immensely – in decades past, private lenders sourced their capital through individual investors, one deal at a time. When financing a rental property acquisition, the lender would raise capital through several individuals. Many still do. It is a cumbersome and uncertain practice. I knew there had to be a better way. In 1993 we formed our first mortgage pool to establish discretionary authority over investor capital, allowing us to serve borrowers at a much higher level and capture the best opportunities. Currently, we are on our 15th mortgage fund and now serve investors, financial advisers and broker dealers throughout the nation. Many of our first investors are still with us and continue to add to their investment.

What was the pace of your business like during the recession when traditional lenders weren't lending? It was an exceedingly difficult period. We were basically the only private lender left standing. Seemingly, everyone else either folded or completely stopped lending. Our loan volume dropped by about 60 percent, but we continued to lend when good opportunities presented. About half our time was allocated to new activity and the other half spent modifying loans, foreclosing on borrowers who disappeared or fixing and managing properties. In the end, we made it through without ever missing an investor distribution (although returns were lowered for a time). Looking back, it remains our proudest achievement. Our focus required change as we became part lender, part property manager, part developer. We learned enormously, stuck it out and are better for it today.

“This rising market is undeniably long in the tooth, but our business model does not require ‘up markets’ to be successful.”

What is the biggest niche that SFG fills today? Over the years, the sophistication and acceptance of private lending has greatly evolved, becoming much more mainstream, serving a wider demand and is no longer relegated to just a niche. With today’s compressed loan pricing and the ever-present, essential need for speed, private lending has transitioned from the “lender of last resort” to an integral part of an otherwise bankable borrower’s business model.

In the greater Seattle area, which of your loan programs has the highest demand, and why? Commercial and residential value-add opportunities for real estate investors with speed and high service requirements like capturing, re-tenanting and re-purposing a building for a higher and better use. Real estate entrepreneurs are then positioned to realize profits though a long-term refinance and hold or a quick sale of the repositioned, improved and stabilized asset. Many of our borrowers are brilliant and it’s rewarding to see the enormously successful projects they have created and we have capitalized. Our construction lending programs are also in very high demand, responding in a myriad of ways that banks simply cannot.

Based on what you’re seeing, how much longer do you anticipate this cycle will last? Until tomorrow. There are far smarter people than me, all with an opinion, routinely pondering and debating the answer to that question. This rising market is undeniably long in the tooth, but our business model does not require “up markets” to be successful. We underwrite ever mindful that economic conditions could reverse tomorrow. SFG has weathered many different economic cycles over the last 30 years. We exercise the discipline necessary in good markets to ensure we will be here lending through the tough ones.

What’s the biggest challenge facing the industry today, and how is SFG responding? Overzealous lenders, chasing profits, many of whom have never experienced a down market. The last eight-year run has been easy, while rewarding complacency. When every shot is a swish, untested lenders forget the importance of defense and rationalize unsustainable lending decisions by pushing leverage levels that require a consistently healthy market. When tides shift, undisciplined capital fails, further damaging the marketplace. The unique experiences we have had over 30 years continues to govern our sustainable underwriting. It has proven to provide durable portfolio performance for decades, which is good news for our investors and borrowers. We endeavor to be proactive rather than reactive.

This interview has been edited for length and clarity.

PHOTO BY ANTHONY BOLANTE | PSBJ

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