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SFG INCOME FUNDS

THE  
SOURCE

EXPRESS EDITION

*Private Money or the Bank?*  
*Answer: Both. It's a one-two punch.*

By John Odegard, CEO, Seattle Funding Group

*Here is why...* Private money has evolved immensely over the last 10-15 years, especially since the Great Recession. The value private lenders bring to a transaction is much greater than in years past - pricing is substantially lower and a broader base of top-level customers is being served. If you still perceive private lending to be what it was ten years ago, you have missed an enormous transformation and one of the most prolific tools in the sophisticated real estate investor's arsenal.

*Major Pricing Improvements*

1 Private money is substantially less expensive than it was 10-15 years ago, and private lenders are much more sophisticated. Now, high-level private lenders design loans which work for the borrower, not just for the lender. To accomplish this, pricing must be reasonable while maintaining the "quick serve" mentality needed to achieve "speed of business" objectives.

Today, sophisticated private money pricing usually costs 1-3 points (depending on the transaction's complexity and sponsorship credibility) and offers interest rates slightly above those offered by banks but well below the value added in making the deal happen. For borrowers standing at the threshold of a substantial profit opportunity, a slight premium in cost of capital is negligible and is typically factored into the purchase price.

*Sophisticated  
Fund Based  
Lenders & Banks  
Work Together  
Synergistically*

to better serve the needs of the borrowing community.

In the modern market, top echelon private lenders are all "fund based" lenders. Gone are the days of private lenders looking for investors to fund your deal. That model is too inefficient to compete in today's dynamic real estate climate, and the costs are too unpredictable as well. Today's fund-based private money lenders have dramatically changed the pricing and efficiency models within the real estate lending marketplace. Small, old school private lenders can't compete with the better pricing offered by fund-based lenders, and banks can't compete with the flexibility and speed at which fund-based lenders make deals happen. These days, sophisticated fund based lenders and banks work together synergistically to better serve the needs of the borrowing community.

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# Private Lenders Make Borrower Profits Happen

2 A substantial amount of current real estate deals, occurring in the most dynamic cities in the country, are “value add” opportunities. A small syndicate of investors, typically led by a sponsor, buys an undervalued asset, fixes it up (or perhaps repurposes the asset), raises rents and/or re-tenants the property to higher caliber tenants, and then sells for a substantial profit. Or, they may decide to refinance, based on the new much higher net operating income (NOI), and hold for a longer term. For transactions, such as this, a proven private money lender can



## Private Lenders Offer Greater Flexibility & Speed

than traditional borrowing sources, but also want the same high level borrowers as banks. This is where private money separates itself from hard money.

be a far superior choice because of inherent flexibility in deal design, sponsorship structures, and the need for deal certainty early in the process. If the transaction strategy is designed to be successful, credible private lending firms will recognize this and give the sponsor a streamlined close, whereas banks would likely still be stuck in the minutia.

However, once the asset is stabilized, the NOI is at optimal levels, and time is no longer a key factor, a bank refinance at the lowest long term rate is the best choice when “buy and hold” is the strategy. Private lenders currently not only offer greater flexibility and speed than traditional borrowing sources, they also want the same high

level borrowers as banks. This is where private money separates itself from hard money. In the modern real estate marketplace, the lending model of top echelon private lenders is designed to be attractive to the same borrower and deal sponsors as bank clientele. Since private money pricing will always be a premium above bank financing (although less today than ever before), private lenders have found their niche in offering high level clients exceptional speed of underwriting, flexibility where needed, and the invaluable component of deal certainty. Knowing one has the capacity to close on a purchase, with certainty, inside of a week or two, gives investors an extremely profitable competitive advantage.

***Working together, banks and modern private lenders offer real estate investors and developers innovative opportunities to seize profit at a higher level than ever before.***

## Success Stories

*At the corner of Speed and Profit, you find Seattle Funding Group.*



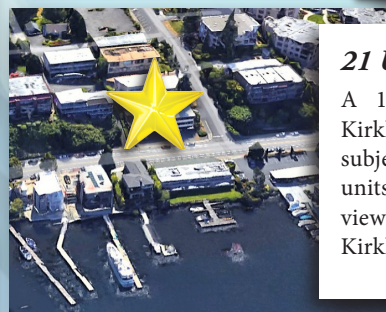
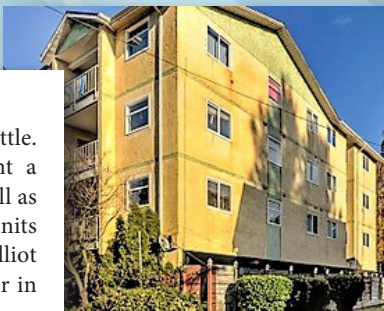
### 15 Units - Bellevue, WA

Acquired in 2012 and underwent a complete interior and exterior renovation. New kitchens, floor coverings and baths highlight the improvements. Located just 3 blocks from downtown Bellevue. A classic example of our borrower's value add business model

***This repeat-investor pledged \$18M+ in property value & SFG was able to lend over \$9M in less than 2 weeks.***

### 13 Units - Beacon Hill, WA

A vibrant neighborhood of Seattle. Acquired in 2015 and underwent a complete interior renovation as well as exterior improvements. Multiple units have Westerly views towards Elliot Bay and DT Seattle. 100% turnover in tenancy to market rate.



### 21 Units - Kirkland, WA

A 1960's vintage building on the Kirkland Washington water front. The subject consists mostly of 1 bed, 1 bath units with dramatic Lake Washington views, just 2 blocks from downtown Kirkland's restaurants and nightlife.

Using the substantial equity in several of his holdings, SFG was able to cross collateralize five apartment buildings to facilitate the purchase of the target property. This transaction underscores the need for certainty in today's dynamic marketplace. This transaction is a real-life story of “Capital at the Speed of Business!” The sponsor is a 20+ time repeat SFG client, and we are proud to be a part of his incredible success.

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