



## **Private construction financing: The ideal solution for New Jersey-based homebuilders**

**By: Shane Soranno, Director, AST Financial**

In theory, times have never been better for homebuilders.

A national shortage of homes paired with demographic shifts that have caused a large number of new buyers to enter the market has led to record-high prices for new homes throughout the nation's most competitive markets.

However, the reality is that the pandemic and macroeconomic forces have placed tremendous pressure on homebuilders who are hoping to bring much-needed housing to the market. For homebuilders in New Jersey, the rising cost of materials and high labor costs are also exacerbated by a highly constricted land supply that adds yet another hurdle in an already difficult environment. Within this challenging market, small-to-medium-sized homebuilders are often met with another critical barrier in bringing their visions to life - construction financing.

### **The Haves and Have Nots of Traditional Construction Financing**

Typically, having identified a development opportunity, homebuilders will work with a bank to secure financing that will enable them to bring a project from blueprint to reality. For large homebuilders who already possess the track record and the scale that banks prioritize when extending financing, this system continues to function adequately, even in the current ultra-competitive market.

Unfortunately for many small-to-medium-sized homebuilders, the traditional construction financing process simply does not work. Whether they are looking to construct their first home or scale their homebuilding businesses, a lack of documented experience can make securing traditional bank construction financing virtually impossible.

Even if a homebuilder can work with a bank to extend construction financing, the timeline needed to secure this financing is badly misaligned with the speed at which the builder needs to operate to realize opportunities for new home construction in the current market. By the time the financing is in place, the land they might have been looking at could have already been scooped up by a deeper-pocketed investor or a larger homebuilder.

In addition, bank construction financing tends to be inflexible and "hands-off." With rapidly changing macroeconomic conditions, the lack of flexibility does not allow homebuilders the

opportunity to work with their lenders to adjust the terms in line with changing material or labor costs.

## **A Better Way**

Unlike traditional bank construction financing, private construction financing can provide homebuilders with the ideal blend of flexibility and speed they need to bring their visions to life in today's competitive residential construction market.

Private construction financing is typically offered by a non-bank capital source such as a private investor. Unlike a bank, these capital sources often do not possess the same rigid due diligence processes that can be onerous, costly and time-consuming to smaller homebuilders. In addition, the boutique experience private financing entities can provide is often far more hands-on and customized to the unique needs of a homebuilder versus the rigid, inflexible process in place with banks.

The boutique experience also allows the lender to work closely with borrowers to create financing with far more leverage than traditional bank financing. With more favorable loan-to-value and loan-to-cost ratios, homebuilders can spread their available equity across more deals and scale their businesses much more quickly.

## **How to Choose a Private Construction Lender**

Private construction financing can be the perfect solution for a homebuilder with unique financing needs. But that does not mean that all private lenders are created equal. When selecting a private lender, it is vital to ask these three questions:

1. *Has the private lender successfully extended construction financing for single-family home construction in the past?*

Home construction financing requires nuanced knowledge and understanding of the market that can only be gained through experience. Private lenders should have a deep track record of not only the financing aspect of homebuilding but the steps it takes to physically bring a project from vision to reality.

2. *Does the private lender have experience in the local market?*

As we mentioned earlier, New Jersey's residential market is unique, and the state's "home rule" traditions require a level of familiarity to ensure success. A lender from outside the state most likely does not have the deep on-the-ground knowledge required to create financing that is informed by local market conditions and an understanding of the unique aspects of real estate development in New Jersey.

3. *Can the private lender modify the loan if conditions change?*

If the past two-plus years have taught us any lessons, it is that flexibility is crucial. In just the first three months of 2022, tremendous geopolitical upheaval and changing economic conditions have already made many of the macroeconomic assumptions of late 2021 inaccurate. As a result, your private lender must be flexible to accommodate changing conditions, particularly those regarding fluctuating labor and material costs.

### **The homebuilder's Best Friend**

Private construction financing can provide the ideal mix of speed and flexibility to homebuilders who might have difficulty securing traditional construction financing or who are looking to quickly scale their businesses. Through conducting proper vetting, homebuilders can have access to a tool at their disposal to ensure they can bring their visions to life in our current market.

Since 2015, AST Financial, a subsidiary of AST, has been a trusted provider of varied debt, equity and bridge financing through direct-to-lender capital programs developed by builders for builders. Our experience, local knowledge and flexible, hands-on approach ensure that homebuilders can secure the financing they need to help people construct their dream homes across the Garden State.

Interested in learning more about our private construction financing services? Visit us at <https://ast-re.com/financial> today.