

## **ADVANTAGE OF BRIDGE LOANS OVER**

### **OTHER TYPES OF LOANS**

Allow us to explain the key difference with our bridge fund and other lending funds.

Our fund's assets are used to help a developer finance during a short time the development of his project, till the moment he is better positioned, to get cheaper financing conditions from a bank which is much cheaper than our bridge loans, and of longer duration..

It has always been part of our strategy to manage the fund in a very conservative way. This includes the LTV (Loan to Value) the quality of the borrower, geographically, diversification, and the purpose of the loans. Bridge Loans do not finance the whole construction of buildings in long term projects (3-5 years is what takes to build a building), where the credit risk and operational risks of real estate are fully present. Our fund's assets are used to help a developer finance during a short time the development of his project, till the moment he is better positioned, to get cheaper financing conditions from a bank which is much cheaper than our bridge loans, and of longer duration.

Examples of what bridge loans are used for:

- To finance temporarily the purchase of a building in a very short time period.
- Refurbishment projects, which are short in nature (9-18 months) and carry small risks, Examples are investments to improve the energy efficiency, rejuvenate the look of a building, changing elevators, increase the parking, improve electrical or install central AC as well as other improvements which increase the value of the project.
- Projects which take 9-18 months where a property changes its use. For example to convert an hotel into a residential home or vice versa. Or to convert a student housing into a hotel.
- Projects where equity holders need a short time financing to restructure their Balance sheet prior to getting refinanced at the same or different bank at a better rate.
- Projects where it is more advantageous by the borrower to request a construction loan to a bank, after certain steps of the project are completed (underground and walls done, or pre-sale of some apartments completed or lease of some offices completed) when he will be able to receive a reduction of his construction loan or his mortgage loan from a Bank. Economically, he accepts the temporary, relative high interest rate from Marshall Bridge Fund. With the partial completion, he can negotiate a more favorable bank loan (as its not a project anymore) effectively reducing the long term rate by as much as 0,4% to 0,8% of the annual interest rate.

Construction loans (NOT BRIDGE LOANS) suffer the operational and price risk of the development until completion. Construction loans finance the whole time span of building a residential building till completion (for example), and such construction loan will suffer the potential impact of that project. Construction loans are taking all the risk of anything that could go wrong in that specific project: risk during the moments of doing the underground, risks while the walls are being done to the risks of doing the interiors and even the risk during the sale process. Many things can go wrong during such a lengthy period: all such risks will be borne by the construction loan and not by a bridge loan.

Therefore it is clear that bridge loans do NOT carry all the development risk, nor operational risk a construction loans carries, but in exchange, and this is where the value added of our fund/asset class is (your Alpha as investors), we get a higher return for taking a much lower risk for a shorter time span, since we are not taking the development risk and on top of that we are taking a much higher return from borrowers.