Q+A

Joseph Derhake

Chief Executive Officer at Partner Engineering & Science

Commercial Observer Finance: Who is your typical client?

Derhake: We work for lenders, we work for buyers—big equity owners who own billions in properties and tend to control due diligence instead of their lenders—and then we work for developers. Our developer clients have less projects, but the amount of engineering services required to build a property is pretty high, whereas when you're buying or selling an asset not as many services are required.

Joseph Derhake.

Why is construction risk management one of your most active practices right now?

The construction risk management practice really helps lenders or joint venture investors manage the construction risk associated with a project, where they need a representative to keep an eye on the general contractor and the developer themself so they know how and when to disperse funds.

How involved are you during a project's construction?

We typically would be at a site every month if not every week. There are also weekly construction meetings because things can go sideways and it's helpful when everyone in the capital stack is aware of the challenges that are experienced. We often help the developer and contractor by calming their financial partners down when things do go sideways because we can tell them it's not that uncommon. In a complicated investment like a construction project anybody in the capital stack has a lot of money going into the project, so they generally need somebody to look after their interests in order to keep writing these big checks as the project progresses.

Which construction projects are being financed, given the tightening in lending?

Multifamily is one of the best markets for us nationwide and New York isn't an exception. It's the market where lending is most available, and there are a lot of tax credits and other incentives. Lenders love that—they consider it a very safe loan, and that's true in lots of places.

What is the biggest fear in construction lending?

The real estate market is in a seven- or eight-year bull market, and so there will be a recession someday. This is difficult in construction when you're going to deliver your product two to three years in the future. There's a lot of fear that you're going to be delivering your product into a recession. That's why you're seeing lenders being more active in areas like multifamily, where demand is so solid and such a safe bet because of demographics. It's a bit more of a sure thing that they'll have demand for their product, whereas hotel demand would shrink more in a recession.

Which regulations are most impacting construction lending?

The Dodd-Frank Wall Street Reform and Consumer Protection Act is a complicated law that generally restricts CRE lending. The High Volatility Commercial Real Estate rule is particularly affecting construction lending, and it kind of perverts that market to an extent.

So, do you believe regulation does more harm than good?

The core mission of Dodd-Frank is to keep banks safe and sound so we don't repeat the recession that hit this country in 2008 to 2009. While they may be accomplishing that mission, they do that at the expense of affecting credit markets and the availability of capital for certain projects. On the front lines I do see rules like this affecting what gets built in this country.

COMMERCIAL OBSERVER
FINANCE WEEKLY

1 Whitehall Street,
New York, NY 10004
212.755.2400

For editorial comments or to submit a tip, please email Danielle Balbi at dbalbi@commercialobserver.com.

For advertising, contact Barbara Ginsburg Shapiro at bshapiro@observer.com or call 212-407-9383.

For general questions and concerns, contact Danielle Balbi at dbalbi@commercialobserver.com or call 212-407-9385.

To receive a trial subscription to Commercial Observer Finance Weekly, contact Shannon Rooney at srooney@observer.com, or call 212-407-9367