Q+A

# Robert Schwartz

## Founder and Partner at S3 Capital

**Commercial Observer Finance: Could you tell me a little bit about what Spruce Capital Partners focuses on?**

**Schwartz:** We'd been investing together several years prior to [founding Spruce] and we saw opportunity in the market at that time to buy multifamily, townhouses and convert them to high-end, single-family homes. There was a big arbitrage in pricing from where those assets were trading to where their end values were as single-family homes. We sold them, and that market sort of traded away from us as the underlying assets got more expensive. Through that platform, we assembled a site on 78th Street that was three individual buildings, two smaller townhouses and one bigger townhouse that belonged to a not-for-profit on the Upper East Side. We ultimately bought those three parcels and two air rights parcels and developed a ground-up condominium at 151 East 78th Street that we sold down and delivered the units earlier this year. We bought multifamily assets and we have a large asset in Brooklyn, in Bushwick, we're big believers in North Brooklyn.

**Where is that property?**

[At] 1209 DeKalb between Bushwick and Evergreen [Avenues]. [It's a] great building, with 127 units. We're also in the process [of] building a ground-up hotel in Downtown Brooklyn with another group.

**What's your lending sweet spot?**

We do a lot of loans in the $2 million to $3 million [range] but we're closing loans in the $10 million to $12 million range now. We closed a loan for $22 million a couple of months ago. We're seeing opportunity on the larger loans as well to provide acquisition as well as construction financing, where a lot of the conventional lenders and banks have been slowing down a little bit as far as providing construction dollars. These are loans that are $40 [million], $50 [million], up to $100 million in size. We're looking at a number of deals like that, and we will probably wind up closing on them very soon.

**That's a huge jump from your $2 million to $5 million average.**

The infrastructure is in place, and besides the fund, we have dedicated capital to do these loans if we feel good about the asset and if we feel good about the sponsor and the

Robert Schwartz

values. We're not predatory, so we're not providing 80 percent leverage. [But] if we feel good about our basis and feel like there's a good partnership and good relationship with the borrower, we're happy to do those loans.

**Then what's your loan-to-value ratio?**

I would say on a loan-to-value basis, which is really what we're more focused on than cost, we're probably 60, 65 percent. Loan-to-cost is not always the right metric because sometimes [the borrower] will recapitalize a deal that was bought years ago, so we're always focused on value.

Being in the transitional space that S3 is in, we loan on value. We understand the intrinsic value of the asset whereas some of the conventional lenders can't necessarily advance that sort of capital because they need cash flow. What's interesting is that [when refinancing] our borrowers are getting 70 to 80 percent higher than what our original loan balance was. Once these assets get stabilized there's a really robust [takeout] market, especially with the multifamily assets that sponsors are creating using our capital and then taking us out with any number of local balance sheet lenders.

**Do you see lending becoming a bigger and bigger part of your business as you move forward?**

We think it's definitely a growing business and it's a business that we're very committed to. We look at S3 as a part of the Spruce platform that will be here for the long term, and that's really why we're committed to building long-term relationships with borrowers. We're not trying to be predatory—we like cultivating good relationships with good sponsors. We think there's always going to be an opportunity in the marketplace for alternative capital. It's just the nature of the beast.

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FINANCE WEEKLY

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