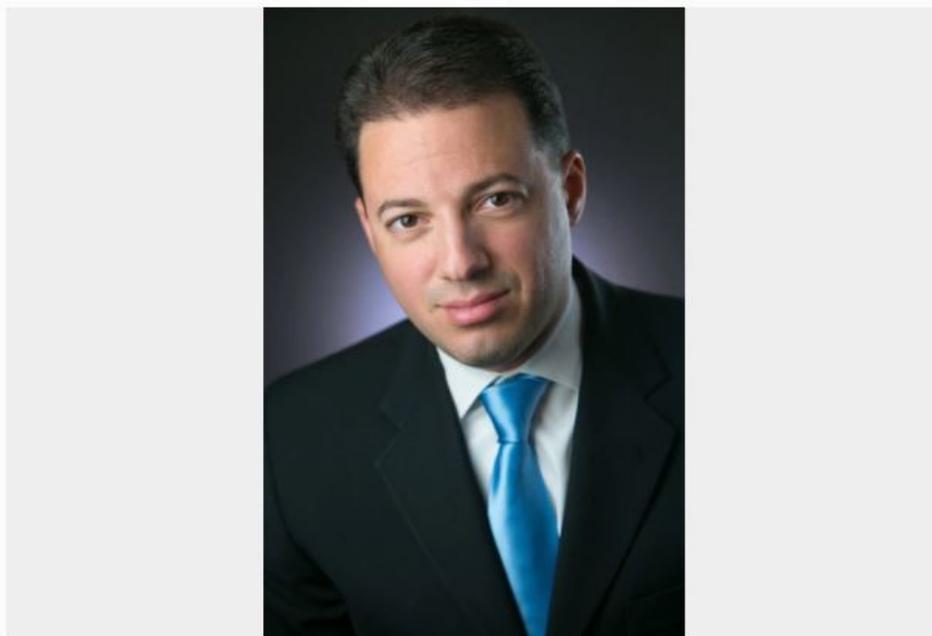


Emerald Creek's Mark Penna Talks 10 Years of Bridge Lending

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MARK PENNA. CREDIT: EMERALD CREEK CAPITAL



Happy Birthday, Emerald Creek Capital! The bridge lender turned 10 recently, having been launched at a pretty interesting time—shortly after the global financial crisis. Since then, it's grown its staff count, its capital base and its average loan size. Despite increased competition in the bridge lending space, the company is sticking to its core disciplines and prides itself on its speed of execution when the right deal presents itself. In November, it provided [a \\$40 million loan](#) to Emmut Properties for its new hotel at 138 Bowery on the Lower East Side.

SEE ALSO: [Emerald Creek Provides Emmut \\$40M Bridge Loan on New Bowery Hotel](#)

Commercial Observer caught up with co-founder Mark Penna to get his take on the past decade.

Commercial Observer: You co-founded Emerald Creek in 2009 with Mark Bahiri. What was the opportunity you saw for the firm at that time?

Mark Penna: I was in finance my whole career, and spent seven years at Neuberger Berman, which was a

wholly-owned subsidiary of Lehman Brothers at the time. Coming off the financial crisis in 2008, I had a very acute, inside view of the market distress. I recognized that capital markets were going to be dislocated for a substantial period of time, and I thought that presented an opportunity to be a supplier of capital.

What were the key lessons that the crisis taught you?

Things can always get worse than people predict. In extreme times things tend to “break the model” and get far worse than people anticipate. So, to be truly conservative, you really have to think about extreme assumptions. Also, good times tend to stay good for longer than people think—even when people think things are overvalued—and bad times tend to stay bad a little bit longer, too. Going through the tremendous stress in the system really played into people’s emotions, they got very emotionally concerned about their capital and how bad the world was going to be. But, that also created opportunities.

What was Emerald’s first year like, given the state of the market?

Obviously, starting a business in the real estate debt space in 2009 was not the most popular choice. There was a lot of damage that had been done and people were very gun shy, so the amount of lending opportunities in the market place was limited but quite good. There wasn’t a lot of volume because people were scared to transact—both on the debt and equity side. I think a long-term positive to us was that we did not believe this was Armageddon; we knew it was bad but we did believe that the markets would come back and heal. We knew that if we were able to come into the market and establish ourselves as a reliable check writer and lender in times of stress, we would gain a lot of credibility when the market was healthy again.

What was the biggest challenge in establishing yourself?

Trust is built with experience; you can promise a lot of things to people but, ultimately, it’s about how you execute and their experience with you. We spent a lot of time talking to people over the phone and in person, building relationships and doing deals. Each deal builds momentum, and you do your first \$5 million, \$10 million, \$20 million then \$40 million deal and once you climb that ladder you start to get good references and people know you’re a reliable source of business.

How has the company evolved over the past 10 years?

We started the company with four people; [Mark \[Bahiri\]](#), Jeff Seidler, Mike Cleaver and myself. Today we’re 16 people. It’s been 10 years and we’ve hired 12 people so essentially one person per year. The challenges are many, it’s never easy. Nobody is there to help when you’re starting a business, it’s a lot nicer reading about it

and the success stories but there are far more failures than there are successes. We've always understood that Emerald Creek does not have an ordained right to succeed and that we'd have to work very hard to make sure we're able to continue to do business and grow the company. That's a philosophy we still have today. We think about the business as if it's still day one. We don't take things for granted and we're trying to earn the trust of our borrowers and investors by doing great deals.

How long have you known Mark Bahiri?

More than 30 years! We were friends before we were business partners and we actually grew up together in northern New Jersey. We were fortunate enough that [circumstances] allowed us to partner up in 2009.

How would you describe the dynamic between you two?

I think we are very complementary to one another but what's most important is we tend to have very few disagreements when it comes to how to lend our capital and run our business. Both of us are very conservative; we always view the business from our investors' point of view, and our investors are looking to us to preserve their capital first and foremost and generate a good return second. We are lenders and we're in the debt business. We aren't equity investors and we're not tripling [investors'] money. We're trying to get them a good return relative to the risk they're taking, and we're trying to do that in a conservative fashion. If there's any doubt in a deal we're considering, we don't do the deal. We'd rather not make a mistake. We try to be very disciplined in our lending.

What's your lending sweet spot today?

When we started the business we were a \$1 million to \$25 million lender, and now we're a \$1 million to \$50 million lender. We have the capability of doing larger deals today. We've been very fortunate; we started with friends' and family money, but today we have institutional capital base with endowments, foundations and pension fund money both onshore and offshore—so we have investors all over the world. We feel very good about the capital we have behind us which allows us the flexibility to structure good deals for our borrowers and allows us to act extremely quickly, which is really our calling card. We can do things that others can't because we can move at a speed that older institutions can't. This is very much a relationship business, and we're trying to build relationships so that people know if they have a deal that needs a quick response we're very reliable and very fast.

How is U.S. real estate viewed by your investors as an asset class?

Real estate in general is something that investors are comfortable with. We only lend in the U.S. and that's another area that overseas investors are comfortable with. The market growth and innovation in the U.S. has been superior to that of the European markets over the past 20 years, and so the returns in the U.S. markets have tended to be better. A lot of investors are looking for that exposure to U.S. and particularly New York real estate. They find it attractive to have it in their portfolio.

How are you fending off the stampede of competition in the bridge lending space?

Fortunately, I think we've always done right by our borrowers. We're only a lender; we don't have a real estate equity business, we don't have a mezzanine of preferred equity fund. All we do is senior first mortgages. We're not predatory and we're not loan-to-own. I think other people in the market may do those things that we won't, but borrowers know that we're in this business to be lenders only so there's a lot of confidence there. More than 25 percent of our business comes from repeat borrowers who have had a good experience with us and know that we honor the deal.

Are you altering your approach to deals with the end of this real estate cycle in mind?

We are certainly aware that it's been a good market for a long time and that has led us to be more conservative and more selective on the transactions we're willing to do. That said, one of our strengths as a firm is that we're able to understand complex transactions that others would pass on at face value. We're able to get under the hood and understand if there's actual risk there or simply perceived risk. In our business we look at things on a deal-by-deal basis. It's about the specific transaction, the valuation, the sponsorship and the plan, more than the macro stuff.

What do you expect the next 10 years to bring for Emerald Creek?

We understand that the market is going to evolve and we want to proceed thoughtfully. We have a core set of beliefs that we want to adhere to, in terms of being conservative, disciplined and honest, and true with our borrowers and investors. Those things won't change. But the deals we are doing today are different from 10 years ago and I've no doubt that the deals 10 years from now will be different from the ones we're doing today. We're excited for the future and we think there's a lot of opportunity out there.
