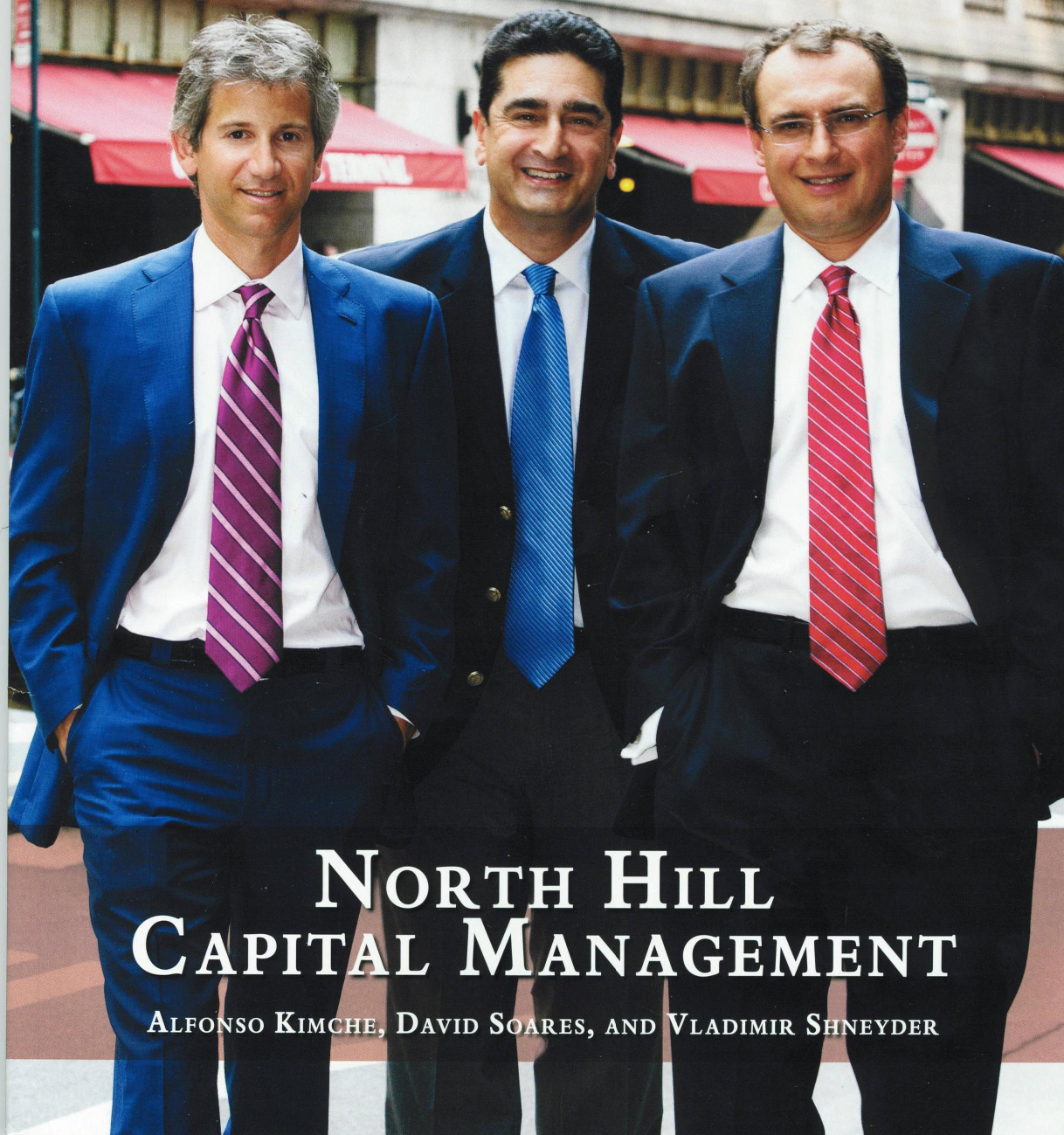


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| WALL STREET & FINANCIAL INDUSTRIES |

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NORTH HILL CAPITAL MANAGEMENT

ALFONSO KIMCHE, DAVID SOARES, AND VLADIMIR SHNEYDER

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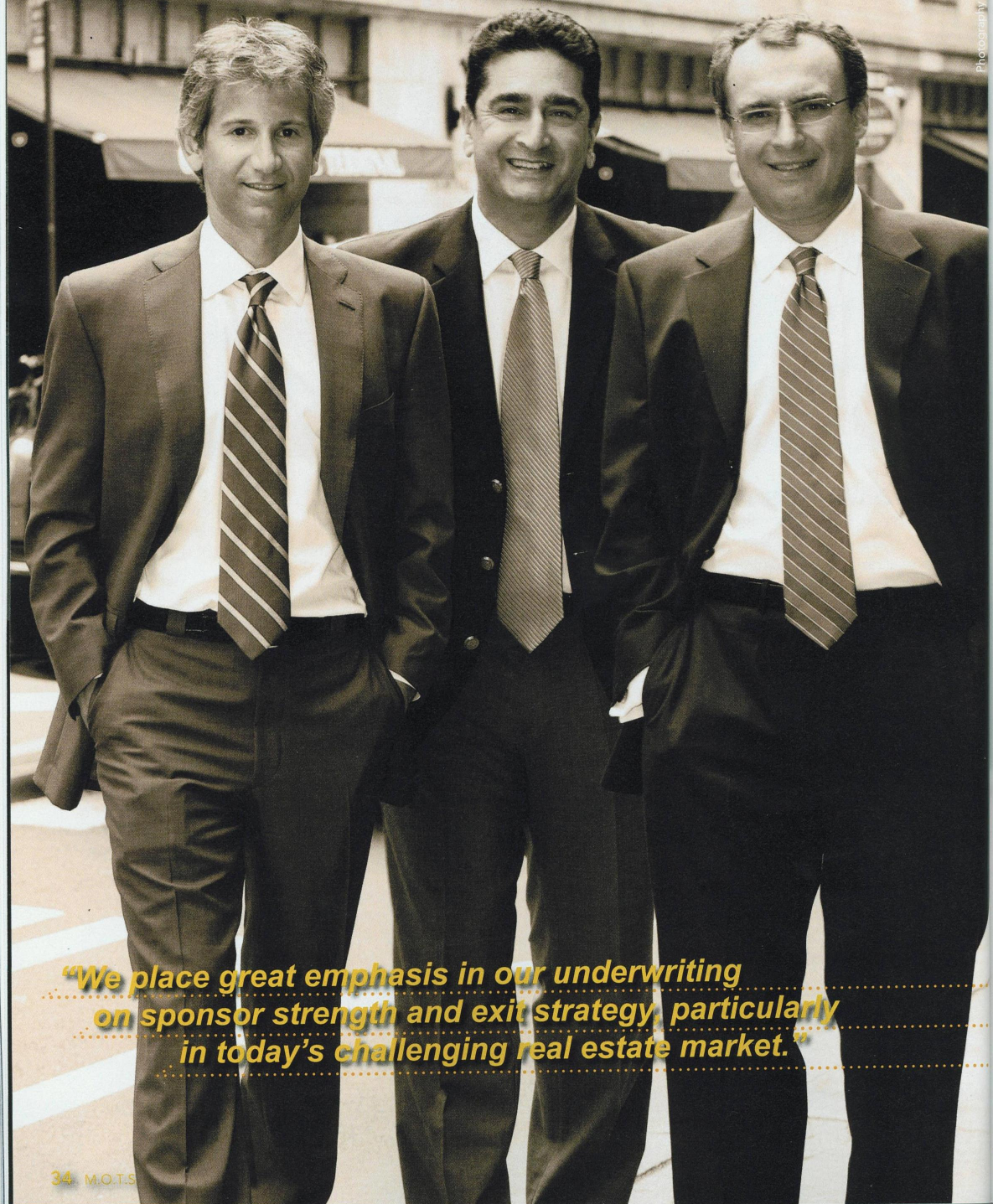
"We'd like to think that our solid performance
is a direct result of our careful due diligence
and intelligent deal structuring."

Alfonso Kimche, David Soares, Vladimir Shneyder

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*"We place great emphasis in our underwriting
on sponsor strength and exit strategy, particularly
in today's challenging real estate market."*

Seizing Today's Opportunities In Bridge Loans

North Hill Capital Management

North Hill Capital Management is a privately held commercial real estate bridge lender. North Hill originates, underwrites and services its loans, which are held in its own portfolio. *Mann On The Street (MOTS)* sat down recently with the firm's three principals—Alfonso Kimche, Vladimir Shneyder and David Soares—to learn more about what the firm is doing today to provide liquidity to the commercial real estate community.

MOTS: Would you give us, first, some background on North Hill Capital Management?

Kimche: The three of us founded the firm in 2006 to originate, underwrite and service one-to-three-year first mortgage bridge loans. Our portfolio typically consists of loans between \$5 million and \$40 million, but we have gone higher at times. We place great emphasis in our underwriting on sponsor strength and exit strategy, particularly in today's challenging real estate market. However, as so many banks and other lenders have withdrawn from the market, North Hill sees tremendous opportunity to book quality first mortgage loans and obtain attractive risk-adjusted returns for our investors. We predict this market opportunity will persist through 2013.

MOTS: What in your individual backgrounds led you to form this partnership?

Soares: Since 1984, I have originated and underwritten over \$2.2 billion of commercial real estate financing. In 2005, I was introduced to Alfonso and Vlad, and I approached

them with the idea of setting up our own managed fund matching my origination strengths with their strong asset management and servicing experience.

Shneyder: I previously worked at Daimler Chrysler Capital, where I originated and serviced a portfolio of bridge loans worth approximately \$500 million, with assets throughout North America.

Kimche: And I have spent virtually my entire career as a real estate investor, developer and property manager. As bridge lenders, we're rarely evaluating only a property's current value. We are often assessing its potential, and that requires a more entrepreneurial approach to lending. So among the three of us, we possess the talents and experience to do just that.

MOTS: Since your firm began only in 2006, how much business were you able to do before the financial crisis hit?

Soares: Our goal, since inception, has been to build a quality portfolio of \$1 billion in assets under management. Unfortunately, the market had other ideas, and due mostly to very strong insight into the capital markets, we put the brakes on lending in mid-2008 and focused on asset management.

MOTS: How has your portfolio performed?

Kimche: Considering that we originated most of our port-



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folio near the top of the market, we're very pleased with our results. Only two of our borrowers defaulted, and in both cases we are progressing through workouts that we project will result in recoveries of near 100 percent.

Shneyder: We'd like to think that our solid performance is a direct result of our careful due diligence and intelligent deal structuring. In addition to a first priority lien, we also typically require personal recourse, pledges of partnership interest, and, when appropriate, pledges of additional collateral and performance hurdles prior to the loan expiration. But a little luck never hurts either! We were repaid on a \$36 million land loan just a few days before Lehman collapsed.

MOTS: Obviously you were doing land loans. Can you provide examples of other transactions?

Kimche: We provided financing on a vacant, formerly owner-occupied building along Ninth Avenue in Manhattan. The proceeds were utilized by the borrower to buy out his partner and to reposition the property as a retail site. He subdivided the space, and after securing two national brand tenants, he used a portion of our loan proceeds to build out the stores. After his tenants moved in, he was able to refinance with a local bank and repay us on time.

Shneyder: Another transaction was a cash-out refinancing of a stabilized budget hotel, also located in Manhattan. The borrower had a lot of untapped equity and needed the money to buy another property. We closed that deal in just 11 days to accommodate the borrower's closing deadline on his other purchase, where time was of the essence. Down the road, he found a local bank to replace us with more traditional financing.

MOTS: Clearly, back then, you loaned against a diverse set

of property types. What are you doing these days?

Kimche: Traditionally, as a bridge lender, our primary concern in underwriting is substantiating the borrower's business plan and getting comfortable with his ability to not only execute that plan, but also to deal with unexpected issues as they arise. In today's uncertain market, it is very difficult to get a handle on current or future market values—so our emphasis has shifted to underwriting the surety of cash flow during the term of our loan as well as lending no more than 70 percent of the capital stack. We also size our deals such that an insurance company or agency loan can provide a take-out. Cash flow is king!

Soares: Here's an example of a transaction currently in our pipeline. The borrower is acquiring a food-anchored strip center from a regional bank at a distressed price. The loan of \$15 million, which is 70 percent of project cost, includes the purchase, capital improvements, tenant improvements and leasing commissions. The existing cash flow provides 1.1 times debt service coverage from day one with no imminent lease expirations. The borrower has a strong résumé managing retail assets in the subject market, and the demographics and comparables support his business plan to improve occupancy from its current level of 68 percent. He's come to us because the bank selling the REO requires a 30-day closing and it's worth it to him to pay our rates.

Shneyder: Our rates, by the way, aren't so different today from where they used to be. We remain primarily in the ten percent to twelve percent range plus one or two points. The difference is that we are focusing on higher quality deals with more predictable cash flow. This provides a higher degree of certainty that the borrower can execute the proposed business plan for the property and makes it easier to identify potential sources of takeout financing.



David Soares, Alfonso Kimche, and Vladimir Shneyder

MOTS: How else has business changed as a result of the shifting market?

Soares: Although it's improving, the pace of transactions in the real estate market remains relatively anemic. Since we're more focused than ever on cash flowing properties, there are even fewer deals that fit North Hill's underwriting model while providing yields attractive for our investors. The good news is that when we do identify them, the cash flow component allows us to leverage our position by creating an A/B structure. In such cases, North Hill is investing in the subordinate part of the mortgage, or B piece, and a new lower cost of funds investor is taking the senior

secured part of the mortgage, or A piece. This provides each investor with an attractive risk-adjusted return and enables North Hill to provide the competitive pricing to borrowers necessary to close strong deals. It's a win-win for all parties. 📌

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