Tight Timelines: How to get Equity whn you are in a Hurry to Close

The process for closing a stabilized deal with preferred equity typically runs around 4-6 weeks once a term sheet is signed. However, sponsors may find themselves in a position of needing a faster close than that. There are several variables that preferred equity providers will consider when determining whether a tighter timeline is feasible, including familiarity with the sponsorship, status of the senior loan diligence, type of deal and type of execution. It's important for a sponsor to assess these areas when seeking a preferred equity provider so that delays are minimized, making a shorter closing process more likely.

Familiarity with Sponsorship

When a preferred equity provider has a prior relationship with a sponsor, they will be able to lessen the amount of upfront diligence needed to evaluate a sponsor's reliability. With a familiar partner, providers spend less time checking out reputations and track records because they have already performed those checks as part of previous transactions. While a preferred equity provider likely will not waive a current credit or background check as part of due diligence, initial investigations during the sizing process are generally unnecessary. This allows providers to focus time and energy on evaluating the deal metrics rather than the sponsorship.

Senior Loan Status

The further along in the diligence process the senior lender is the faster a preferred equity transaction may be able to occur. Since preferred equity providers frequently take advantage of third-party reports the lender has ordered as part of its diligence, less time will be needed in obtaining reliance on those reports. This can save sponsors up to a couple of weeks in the diligence process.

Another aspect of the senior loan process that can add time to the preferred equity diligence process is the term sheet. Because the preferred equity provider will need to analyze the senior loan terms as part of its sizing and diligence, the firmer those terms are the more time can be saved in the process. The fewer questions there are around the loan terms the better, in these cases.

Type of Deal

Deals that contain a CapEx component can be more complex than deals that do not, as the preferred equity provider needs to evaluate the proposed plan. Additionally, more involved CapEx programs may take more time to review and underwrite than programs that will only address a few items.

Another potential increase in the timeline is how detailed and firm the CapEx budget is when the preferred equity provider is underwriting the deal. If the provider has to spend time going back and forth with the sponsor to determine the details of the proposed CapEx budget or the timing of the plan, it can increase the process significantly.

Type of Execution

Agency executions can be beneficial because they are consistent. This helps to reduce timelines because the preferred equity provider will be familiar with the senior loan requirements for both legal terms and deal underwriting. Due diligence also follows the same timeline from deal to deal. One of the main benefits of choosing an agency execution on the senior loan is that the preferred equity provider can be more confident in matching the closing timeline since agency requirements generally stay the same from deal to deal, while non-agency diligence requirements can vary quite a bit. This makes it slightly more difficult to get an accurate estimate of the timeline for diligence and closing.

What It All Means

Preferred equity can still be a good choice for sponsors who find themselves needing to close a deal on a shorter timeline. Sponsors can find it helpful to assess their deals, keeping in mind the points in this article, when choosing a preferred equity provider on a tight timeline to make it easier to obtain equity in those situations.