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I'm too sexy for this ... loan?

Strip club landlords don't have a ton of options when it comes to financing, but it's not a lost cause

The Sapphire New York strip club at 333 E 60th Street

BY RICH BOCKMANN

The shopping corridors of Fifth Avenue, Soho and the Meatpacking District are lined with some of the city's sexiest retailers. But there are tenants in other pockets of the city that may be too hot to bank on.

Adult bookstores, strip clubs and "massage parlors" — the types of shops that often advertise with neon signs and occupy basement spaces or storefronts with the windows blacked out — can prove problematic for landlords when they go to refinance their properties.

Abe Cohen, a partner at the New York-based retail landlord Conway Capital, doesn't have any bawdy businesses in his company's portfolio, but he said he's seen lenders become a lot more selective when it comes to the tenants backing their loans — and the businesses on the bottom rung of the ladder are the first to fall off.

"When the market was hot, banks were like, 'It's okay, we can take a gentlemen's club paying good rent or an adult bookstore. Everything's on fire now,'" Cohen explained. "But the CMBS market is shrinking, and they're the guys to work with on the more nontraditional deals."

With real estate loans in limited supply, even churches can be a hard sell to lenders that worry about the risks of getting in bed with certain tenants (pure or otherwise).

"A lot of banks won't lend to places of worship because of the concern that, God forbid, if the borrower didn't make their payments they would have to close the church or the temple, and they're worried about that reputational risk," said Steven Schnall, chairman of Astoria, Queens-based Quontic Bank.

To be sure, some institutional lenders, including M&T Bank and Wells Fargo, have special divisions that serve religious institutions. But when it comes to hard-to-finance borrowers on the other end of the spectrum — such as gentlemen's clubs — Schnall called Quontic something of a specialist.

Ironically, perhaps, the 12-year-old financial firm with $260 million in assets is one of five banks in New York City certified by the U.S. Department of the Treasury as a community development financial institution. That designation allows Quontic to serve underbanked areas by providing the kinds of low-documentation mortgages that have often been restricted by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

And while the Treasury Department didn't necessarily have landlords that lease space to topless bars in mind when it wrote the rules for "underserved" communities, Schnall said that side of the business goes hand in hand with his bank's mission. In January, for example, Quontic provided a $3 million loan to Capital Realty, the owner of a three-story commercial building at 48 West 33rd Street in Herald Square, where the primary tenant is the Nasdaq-listed RCI Hospitality Holdings.

The catch? Houston-based RCI, better known to some as Rick's Cabaret International, is an operator of strip clubs, nightclubs and the "breastaurant" chain Bombshells.

While New York banks typically lend at 3 or 4 percent on less risqué assets, Quontic provided Capital Realty with a 30-year loan that carries a five-year initial rate of 6.25 percent — a rate that Schnall said was illustrative of the market for these kinds of loans. A representative for Capital Realty did not return calls for comment.

"There are other banks that wouldn't have made this loan, if for no other reason that they're somehow morally opposed to the use of the real estate," Schnall said. "But from my vantage point, this is a loan on Midtown Manhattan real estate to a creditworthy borrower with a creditworthy tenant." TRD