Financing for a Recently Rehabbed Apartment

Transaction Summary

Date: November 2016

Property Description: A 39-unit apartment built in the 1970s was recently renovated from a Class C property to a Class B property. About $900,000 of improvements ($23,000 per unit) were completed on the property.

Owner: The owners of the property were financially strong with good commercial real estate experience.

Estimated Value: $4,950,000

Requested Loan Amount: $3,708,000 (75% LTV)

Financing Issues: The owners wanted to maximize the loan amount to receive as much cash back as possible. But the loan for most lenders was being limited by their loan-to-cost ratio. As a rule of thumb most lenders will limit the loan amount to the lower of: 1) 80 to 85% of cost, in this case the purchase price plus the cost of the improvements; 2) 75 to 80% of value; or 3) a minimum debt service coverage ratio of 1.20 to 1.25:1.

Financing Solutions: Several lenders were contacted. Most limited the loan size to less than 85% of cost. This limited the loan size to less than 65% of the property's value which was unacceptable to the owners. One lender was found that used a 90% loan-to-cost ratio; two other lenders were found that did not have a loan-to-cost requirement which boosted the loan amount to an acceptable amount.

Shown on the following pages are the three loan quotes.

Financing for a Recently Rehabbed Apartment
Loan Quote Comparison

Nov 2016	Lender #1	Lender #2	Lender #3
Loan Amount:	**$3,400,000**	**$3,700,000**	**$3,705,000**
Estimated Value:	$4,945,000	$4,945,000	$4,945,000
Loan To Value:	**68.8%**	**74.8%**	**74.9%**
Indicated Interest Rate	**3.15%**	**3.33%**	**3.75%**
Underwriting Criteria:			
Maximum Loan-to-Cost:	90%	n/a	n/a
Maximum LTV:	70%	75%	75%
Minimum DSCR:	1.20	1.40	1.20
Fixed/Variable Term:	3 Years / 27 Years	5 Years / 7 Years	5 Years Fixed
Variable Rate:	6 Mo LIBOR + 2.45%	6 Mo LIBOR + 2.75%	6 Mo LIBOR + 2.25%
Variable Ceiling:	9.50%	8.33%	8.75%
Loan Term:	**30 Years**	**12 Years**	**5 Years**
Amortization Method:	30/360	Interest Only	30/360
Years of Interest Only	None	1 Year	None
Amortization Period in Years:	30	30	30
Rate Lock:	Yes	Yes	Yes
Monthly Loan Constant:	0.4297%	0.4396%	0.4631%
Total Loan Fees (Lender/Mtg Broker):	0.75%	0.75%	0.75%
Application Deposit	$5,000	$4,500	$6,000
Are costs capped?	No	No	No
To be used for:	3rd Party Reports & Processing Fee	3rd Party Reports & Processing Fee	3rd Party Reports Processing Fee
Third Party Reports Required			
Appraisal	Yes	Yes	Yes
Environmental	Yes	Yes	Yes
Property Condition Report	No	Yes	No
Survey	No	No	No
Deposit Relationship Required?	None	None	None
Other Costs			
Processing Fee/Site Visit	$4,250	$0	$4,995
Lender's Legal Cost Estimate	$0	$3,500	$0
Escrow Impounds			
Property Taxes	No	Yes	No
Insurance	No	No	No
Replacement Reserves	No	No	No
Prepayment Penalty			
Lock-Out Period	None	None	None
Method of Prepayment	**1-1-1**	**3-2-1-1-1-1-1-1-1-1-1-1**	**2-1**
Open Period	**Last 27 Years**	**Last 60 Days**	**Last 2 Years**
Recourse/Non-Recourse	**Non-Recourse**	**Non-Recourse**	**Recourse**

Doug Marshall, CCIM
Marshall Commercial Funding, Inc

Call today for a no obligation
loan quote (503) 614-1808

doug@marshallcf.com
www.marshallcf.com

Financing for a Recently Rehabbed Apartment
Estimated Sources & Uses Statement

	Lender #1	Lender #2	Lender #3
SOURCES			
Loan Amount	3,400,000	3,700,000	3,705,000
Cash From Borrower	0	0	0
Total Sources	**$3,400,000**	**$3,700,000**	**$3,705,000**
USES			
Cash To Borrower	**1,150,825**	**1,444,263**	**1,452,231**
Pay off existing mortgage	2,125,000	2,125,000	2,125,000
Prepayment Penalty @ 4%	85,000	85,000	85,000
Financing Charges			
Financing Fee	25,500	27,750	27,788
Appraisal	0	4,500	0
Environmental Report	0	0	0
Appraisal Review Fee	0	0	0
Survey	0	0	0
Processing Fee	4,250	0	4,995
Miscellaneous Lender Fees	0	3,500	0
Title Policy Insurance	7,125	7,687	7,687
Escrow	1,800	1,800	1,800
Miscellaneous Closing Costs	500	500	500
Total Financing Charges	**39,175**	**45,737**	**42,770**
Total Uses	**$3,400,000**	**$3,700,000**	**$3,705,000**

Financing for a Recently Rehabbed Apartment
Monthly Cash Flow After Debt Service

No. of units: 39	Lender #1	Lender #2	Lender #3
INCOME			
1. Rental Income	$490,200	$490,200	$490,200
2. CAM Reimbursements	$19,123	$19,123	$19,123
3. Other Income	$10,885	$10,885	$10,885
4. Vacancy & Credit Loss	($24,510)	($24,510)	($24,510)
5. EFFECTIVE GROSS INCOME	**$495,698**	**$495,698**	**$495,698**
EXPENSES			
6. Property Taxes	34,923	34,923	34,923
7. Insurance	17,416	17,416	17,416
8. Repairs & Maintenance	19,500	19,500	19,500
9. Turnover Expenses	7,800	7,800	7,800
10. Grounds Maintenance	8,775	8,775	8,775
11. Payroll	22,227	22,227	22,227
12. Electricity & Gas	7,000	7,000	7,000
13. Water/Sewer	47,085	47,085	47,085
14. Trash Service	12,158	12,158	12,158
15. General & Administrative	5,850	5,850	5,850
16. Management Fee	24,578	24,578	24,578
17. Legal & Other Professional Fees	2,500	2,500	2,500
18. Capital Improvements	9,750	9,750	9,750
19. TOTAL OPERATING EXPENSES	**$219,562**	**$219,562**	**$219,562**
20. % Expense/Effective Gross Income	44.3%	44.3%	44.3%
21. Expense Per Unit or Square Feet	$5,629.79	$5,629.79	$5,629.79
22. CASH FLOW BEFORE DEBT SERVICE	**$276,136**	**$276,136**	**$276,136**
23. Monthly Net Income	$23,011	$23,011	$23,011
24. Loan Amount	$3,400,000	$3,700,000	$3,705,000
25. Interest Rate	3.15%	3.33%	3.75%
26. Amortization Method	30/360	Interest Only	30/360
27. Amortization in Years	30	30	30
28. Less: Mortgage Payment	**$14,611**	**$10,268**	**$17,158**
29. CASH FLOW AFTER DEBT SERVICE	**$8,400**	**$12,744**	**$5,853**

Financing for a Recently Rehabbed Apartment
Before & After Tax Return on Equity

	Lender #1	Lender #2	Lender #3
PROJECTED TAXABLE INCOME			
NET CASH FLOW BEFORE DEBT SERVICE	$276,136	$276,136	$276,136
Annual Interest Expense	106,106	123,210	137,774
Cost Recovery (Depreciation)	143,840	143,840	143,840
TAXABLE INCOME	$26,190	$9,086	($5,479)
CASH FLOW BEFORE & AFTER TAXES			
Net Operating Income	$276,136	$276,136	$276,136
Annual Debt Debt Service	175,333	123,210	205,901
CASH FLOW BEFORE TAXES	**$100,803**	**$152,926**	**$70,235**
Tax Liability @ 30%	7,857	2,726	(1,644)
CASH FLOW AFTER TAXES	$92,946	$150,200	$71,878
RETURN ON EQUITY			
BEFORE TAX	**6.5%**	**12.3%**	**5.7%**
AFTER TAX	6.0%	12.1%	5.8%

DEPRECIATION AND TAX ASSUMPTIONS	
Estimated Value	$4,945,000
Building Value as % of Total Value	80%
Depreciation Schedule	
Apartments	3.636%
Commercial Buildings	2.564%
Ordinary Income Tax Rate:	30%

Lender #1

Loan Amount:	$3,400,000
Annual Interest Rate:	3.150%
Effective Interest Rate:	3.150%
Amortization Method:	30/360
Amort Period (in Yrs):	30
Closing Date:	01/01/17

Amortization Methods - 3 Approaches

1. 30/360 - interest calculated based on 30 day months
2. Actual/360 - interest based on actual no. of days in the month
3. Interest Only - no amortization of the loan

Pmt No.	Due Date	Beginning Balance	No. of Days	Mortgage Payment	Interest	Principal	Ending Balance
1	02/01/17	$3,400,000.00	30	$14,611.05	$8,925.00	$5,686.05	$3,394,313.95
2	03/01/17	$3,394,313.95	30	$14,611.05	$8,910.07	$5,700.98	$3,388,612.97
3	04/01/17	$3,388,612.97	30	$14,611.05	$8,895.11	$5,715.94	$3,382,897.02
4	05/01/17	$3,382,897.02	30	$14,611.05	$8,880.10	$5,730.95	$3,377,166.07
5	06/01/17	$3,377,166.07	30	$14,611.05	$8,865.06	$5,745.99	$3,371,420.08
6	07/01/17	$3,371,420.08	30	$14,611.05	$8,849.98	$5,761.08	$3,365,659.00
7	08/01/17	$3,365,659.00	30	$14,611.05	$8,834.85	$5,776.20	$3,359,882.80
8	09/01/17	$3,359,882.80	30	$14,611.05	$8,819.69	$5,791.36	$3,354,091.44
9	10/01/17	$3,354,091.44	30	$14,611.05	$8,804.49	$5,806.56	$3,348,284.88
10	11/01/17	$3,348,284.88	30	$14,611.05	$8,789.25	$5,821.81	$3,342,463.07
11	12/01/17	$3,342,463.07	30	$14,611.05	$8,773.97	$5,837.09	$3,336,625.98
12	01/01/18	$3,336,625.98	30	$14,611.05	$8,758.64	$5,852.41	$3,330,773.57
			360	$175,332.65	$106,106.22	$69,226.43	

Lender #2

Loan Amount	$3,700,000
Annual Interest Rate:	3.330%
Effective Interest Rate:	3.330%
Amortization Method:	Interest Only
Amort Period (in Yrs)	30
Closing Date:	01/01/17

Pmt No.	Due Date	Beginning Balance	No. of Days	Mortgage Payment	Interest	Principal	Ending Balance
1	02/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
2	03/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
3	04/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
4	05/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
5	06/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
6	07/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
7	08/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
8	09/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
9	10/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
10	11/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
11	12/01/17	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
12	01/01/18	$3,700,000.00	0	$10,267.50	$10,267.50	$0.00	$3,700,000.00
			0	$123,210.00	$123,210.00	$0.00	

Lender #3

Loan Amount	$3,705,000
Annual Interest Rate:	3.750%
Effective Interest Rate:	3.750%
Amortization Method:	30/360
Amort Period (in Yrs)	30
Closing Date:	01/01/17

Pmt No.	Due Date	Beginning Balance	No. of Days	Mortgage Payment	Interest	Principal	Ending Balance
1	02/01/17	$3,705,000.00	30	$17,158.43	$11,578.13	$5,580.31	$3,699,419.69
2	03/01/17	$3,699,419.69	30	$17,158.43	$11,560.69	$5,597.75	$3,693,821.95
3	04/01/17	$3,693,821.95	30	$17,158.43	$11,543.19	$5,615.24	$3,688,206.71
4	05/01/17	$3,688,206.71	30	$17,158.43	$11,525.65	$5,632.79	$3,682,573.92
5	06/01/17	$3,682,573.92	30	$17,158.43	$11,508.04	$5,650.39	$3,676,923.53
6	07/01/17	$3,676,923.53	30	$17,158.43	$11,490.39	$5,668.05	$3,671,255.48
7	08/01/17	$3,671,255.48	30	$17,158.43	$11,472.67	$5,685.76	$3,665,569.73
8	09/01/17	$3,665,569.73	30	$17,158.43	$11,454.91	$5,703.53	$3,659,866.20
9	10/01/17	$3,659,866.20	30	$17,158.43	$11,437.08	$5,721.35	$3,654,144.85
10	11/01/17	$3,654,144.85	30	$17,158.43	$11,419.20	$5,739.23	$3,648,405.62
11	12/01/17	$3,648,405.62	30	$17,158.43	$11,401.27	$5,757.17	$3,642,648.45
12	01/01/18	$3,642,648.45	30	$17,158.43	$11,383.28	$5,775.16	$3,636,873.30
			360	$205,901.19	$137,774.49	$68,126.70	