Financing for a Neighborhood Shopping Center

Transaction Summary

Date: February 2014

Property Description: A 77,000 sq. ft. grocery-anchored shopping center with a total of eight tenants. Originally built in the 1980s; it was renovated about ten years ago. The property is in average condition.

Owner: The owner recently filed for divorce and needs to refinance the property to pay the terms of the divorce settlement. His net worth and liquidity after the divorce are marginal for a loan of this size.

Tenants: The grocery anchor is a small local owner with four locations. Many of the tenants have been at the property for years; however they are mostly local businesses, i.e., no regional or national tenants.

Estimated Value: $6,600,000

Requested Loan Amount: $4,620,000 (70% LTV)

Financing Issues: There were three issues from the lenders' perspective:

1. The borrower's net worth and liquidity were marginal.
2. The tenant profile consisted of local, small businesses, i.e., no regional or national tenants.
3. Although the property was currently 100% occupied, the property's recent history showed a vacancy rate in the 10 to 15% range for the past three years.

Fifteen lenders were contacted: 5 life companies, 2 credit unions and 8 banks, both national and local. Of these only two lenders could get comfortable with this deal and neither could provide a 70% LTV.

Shown on the subsequent pages are the two loan quotes.

NEIGHBORHOOD SHOPPING CENTER
LOAN QUOTE COMPARISON

Feb 2014

Lender Type:	**Lender #1**	**Lender #2**
Loan Amount:	$4,270,000	$3,950,000
Estimated Value:	$6,600,000	$6,600,000
Loan To Value:	64.7%	59.8%
Indicated Interest Rate	4.875%	5.350%
Interest Rate Calculation:	30/360	30/360
Underwriting Criteria		
Maximum LTV:	65.0%	60.0%
Minimum DSCR:	1.4	n/a
Loan Term:	5	10
Amortization Period:	25	25
Rate Lock When?	at loan approval	n/a
Rate Lock Fee:	n/a	n/a
How long?	n/a	n/a
Refundable?	n/a	n/a
Monthly Loan Constant:	0.5773%	0.6052%
Total Loan Fees (Lender/Mtg Broker):	1.75%	1.75%
Application Deposit	$1,500 + $15,000	$5,000
Are costs capped?	No	No
To be used for:	appraisal, environ, pcr, etc	appraisal
Third Party Reports Required		
Appraisal	$5,200	$4,000
Level I Environmental Report	$1,750	$0
Property Condition	$1,750	$0
ALTA Survey	no	no
Other Costs		
Processing Fee/Site Visit	$1,500	$0
Lender's Legal Cost Estimate	$1,750	no
Escrow Impounds		
Property Taxes	yes	yes
Insurance	yes	no
Tenant Impr & Leasing Comm Res.	no	no
Replacement Reserves	no	no
Assumable loan?	yes	yes
Prepayment Penalty		
Lock-Out Period	none	none
Method of Prepayment	none	5%, 4%, 3%, 2%, 1%
Open Period	none	Last 5 years
Recourse/Non-Recourse	recourse	recourse

NEIGHBORHOOD SHOPPING CENTER
ESTIMATED SOURCES AND USES STATEMENT

	Lender #1	Lender #2
SOURCES		
Loan Amount	4,270,000	3,950,000
Cash From Borrower	0	0
Total Sources	**$4,270,000**	**$3,950,000**
USES		
Cash To Borrower	1,377,500	1,073,500
Pay off existing mortgage	2,800,000	2,800,000
Prorated Property Taxes	0	0
Financing Charges		
Financing Fee - Lender & Mtg Broker	64,050	59,250
Appraisal & Review	5,200	4,000
Level 1 Environmental Report & Review	1,750	0
Property Condition Report	1,750	0
Lender Legal	1,750	0
Processing/Inspection Fee	1,500	0
Miscellaneous Lender Costs	1,000	0
Title Policy Insurance	12,000	12,000
Escrow	3,000	750
Miscellaneous Closing Costs	500	500
Total Financing Charges	92,500	76,500
Total Uses	**$4,270,000**	**$3,950,000**

Disclaimer: This Sources and Uses Statement is only a preliminary estimate. The financing fee is a function of the loan amount which has yet to be determined. Other financing charges shown above, the appraisal, the engineering report, etc. are based on usual and customary charges and should not be considered actual quotes.

NEIGHBORHOOD SHOPPING CENTER
MONTHLY CASH FLOW AFTER DEBT SERVICE

Square Feet: 77,501

		Lender #1	Lender #2
INCOME			
1.	Rental Income	$792,469	$792,469
2.	CAM Reimbursements	$396,418	$396,418
3.	Miscellaneous Income	0	0
4.	GROSS INCOME	1,188,887	1,188,887
5.	Vacancy & Credit Loss	(59,444)	(59,444)
6.	**EFFECTIVE GROSS INCOME**	**$1,129,443**	**$1,129,443**
Operating Exenses			
7.	Cleaning & Maintenance	40,000	40,000
8.	Insurance	15,583	15,583
9.	Legal & Other professional fees	40,000	40,000
10.	Security	2,232	2,232
11.	Taxes	399,288	399,288
12.	Utilities	65,551	65,551
13.	Management Fee	33,883	33,883
14.	Other	5,000	5,000
15.	Replacement Reserves	38,751	38,751
16.	**TOTAL OPERATING EXPENSES**	**$640,288**	**$640,288**
17.	% Expense/Effective Gross Income	56.7%	56.7%
18.	Expense Per Unit or Square Feet	$8.26	$8.26
19.	**CASH FLOW BEFORE DEBT SERVICE**	**$489,155**	**$489,155**
20.	Monthly Net Income	$40,763	$40,763
21.	Loan Amount	$4,270,000	$3,950,000
22.	Interest Rate	4.88%	5.350%
23.	Amortization	25	25
24.	Less: Mortgage Payment	$24,652	$23,904
25.	**CASH FLOW AFTER DEBT SERVICE**	**$16,111**	**$16,859**

NEIGHBORHOOD SHOPPING CENTER
BEFORE & AFTER TAX RETURN ON EQUITY

	Lender #1	Lender #2
PROJECTED TAXABLE INCOME		
NET CASH FLOW BEFORE DEBT SERVICE	$489,155	$489,155
Annual Interest Expense	207,469	210,621
Cost Recovery (Depreciation)	135,379	135,379
TAXABLE INCOME	$146,307	$143,155
CASH FLOW BEFORE & AFTER TAXES		
Net Operating Income	$489,155	$489,155
Annual Debt Debt Service	295,824	286,847
CASH FLOW BEFORE TAXES	$193,331	$202,308
Tax Liability @ 25%	36,577	35,789
CASH FLOW AFTER TAXES	$156,754	$166,519
RETURN ON EQUITY		
BEFORE TAX	8.3%	7.6%
AFTER TAX	6.7%	6.3%

DEPRECIATION AND TAX ASSUMPTIONS	
Estimated Value	$6,600,000
Building Value as % of Total Value	80%
Depreciation Schedule	
Apartments	3.636%
Commercial Buildings	2.564%
Ordinary Income Tax Rate:	25%