Financing for a Mixed Use Building with Sketchy Tenants

Transaction Summary

Date: February 2016

Property Description: A 10,385 sq. ft. two-story building originally constructed in 1937 but completely renovated in 2007.

Owner: The owner was financially strong with good commercial real estate experience. He was refinancing his property to take advantage of the lower interest rates.

Tenant Mix: There were 3 tenants, two retail and one office. All of the tenants were local, independent businesses with little historical track record. One of the tenants, a day spa, leased over 50 percent of the building was of particular concern to the lenders.

Estimated Value: $2,700,000

Requested Loan Amount: $1,890,000 (70% LTV)

Financing Issues: From the lenders' perspective, they were concerned about the financial strength of the tenants. Were they financially strong enough to honor their lease terms?

Financing Solutions: A mitigating factor was the financial strength of the owner who had excellent net worth and liquidity. Eight lenders were contacted; only three lenders quoted.

Shown on the following pages are the three loan quotes.

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Loan Quote Comparison

February 2016

Lender Type:	Lender #1	Lender #2	Lender #3a	Lender #3b
Loan Amount:	$1,500,000	$1,525,000	$1,755,000	$1,755,000
Estimated Value:	$2,700,000	$2,700,000	$2,700,000	$2,700,000
Loan To Value:	55.6%	56.5%	65.0%	65.0%
Indicated Interest Rate	4.000%	4.125%	3.750%	3.950%
Interest Rate Calculation:	30/360	30/360	30/360	30/360
Interest Only?	Yes, 2 Years	No	No	No
Underwriting Criteria				
Maximum LTV:	70.0%	N/A	75.0%	75.0%
Minimum DSCR:	1.30	N/A	1.35	1.35
Loan Term:	5	7+7+7+4	7	10
Amortization Period:	30	25	25	25
Rate Lock When?	At Application	At Application	yes	Yes
Rate Lock Fee:	1.00%	1.00%	0.125%	0.125%
How long?	60 days	90 days	60 days	60 days
Refundable?	yes	yes	no	no
Monthly Loan Constant:	0.4774%	0.5348%	0.5141%	0.5251%
Total Loan Fees (Lender/Mtg Broker):	1.0%	2.5%	1.0%	1.0%
Application Deposit	$5,000	$10,000	$5,000	$5,000
Are costs capped?	No	No	No	No
To be used for:	appraisal + misc. reports	3rd party reports proc. fee + legal	3rd party reports processing fee	appraisal and processing fee
Third Party Reports Required				
Appraisal	$4,000	$4,000	$4,000	$4,000
Level I Environmental Report	No	$2,000	$2,000	$2,000
Property Condition	No	No	No	No
ALTA Survey	No	No	No	No
Other Costs				
Processing Fee/Site Visit	$1,500	$500	$0	$0
Lender's Legal Cost Estimate	$0	$0	$0	$0
Escrow Impounds				
Property Taxes	No	Yes	Yes	Yes
Insurance	No	No	No	No
Tenant Impr & Leasing Comm Res.	No	$0.61 per SF	No	No
Replacement Reserves	No	maybe	No	No
Prepayment Penalty				
Lock-Out Period	None	None	None	None
Method of Prepayment	2, 1	Yield Maintenance	2-2-2-2-2-1-1	Break Fee
Open Period	Last 3 years	Last 90 days	None	None
Recourse/Non-Recourse	Recourse	Recourse	Recourse	Recourse

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ESTIMATED SOURCES AND USES STATEMENT

	Lender #1	Lender #2	Lender #3a	Lender #3b
SOURCES				
Loan Amount	1,500,000	1,525,000	1,755,000	1,755,000
Cash From Borrower	0	0	0	0
Total Sources	**$1,500,000**	**$1,525,000**	**$1,755,000**	**$1,755,000**
USES				
Cash To Borrower	341,138	342,013	592,650	592,650
Pay off existing mortgage	1,100,000	1,100,000	1,100,000	1,100,000
Prepayment Penalty	33,000	33,000	33,000	33,000
Financing Charges				
Financing Fee	15,000	38,125	17,550	17,550
Appraisal & Review	4,000	4,000	4,000	4,000
Level 1 Environmental Report & Review	0	2,000	2,000	2,000
Property Condition Report	0	0	0	0
Appraisal Review Fee	0	0	0	0
Environmental Review Fee	0	0	0	0
Lender Legal	0	0	0	0
Processing/Inspection Fee	1,500	500	0	0
Miscellaneous Lender Costs	500	500	500	500
Title Policy Insurance	3,562	3,562	4,000	4,000
Escrow	800	800	800	800
Miscellaneous Closing Costs	500	500	500	500
Total Financing Charges	25,862	49,987	29,350	29,350
Total Uses	**$1,500,000**	**$1,525,000**	**$1,755,000**	**$1,755,000**

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.

Financing for a Mixed Use Building with Sketchy Tenants
MONTHLY CASH FLOW AFTER DEBT SERVICE

Square Feet: 10,385

	Lender #1	Lender #2	Lender #3a	Lender #3b
INCOME				
1. Rental Income	$166,810	$166,810	$166,810	$166,810
2. CAM Reimbursements	$41,845	$41,845	$41,845	$41,845
3. Miscellaneous Income	455	455	455	455
4. GROSS INCOME	209,110	209,110	209,110	209,110
5. Vacancy & Credit Loss	(10,456)	(10,456)	(10,456)	(10,456)
6. EFFECTIVE GROSS INCOME	**$198,655**	**$198,655**	**$198,655**	**$198,655**
CAM Expenses				
7. Marketing & Advertising	427	427	427	427
8. General & Administrative	1,945	1,945	1,945	1,945
9. Repairs & Maintenance	2,734	2,734	2,734	2,734
10. Water & Sewer	9,604	9,604	9,604	9,604
11. Cable	65	65	65	65
12. Landscape Maintenance	5,023	5,023	5,023	5,023
13. Property Taxes & Insurance	6,569	6,569	6,569	6,569
14. Professional Services	5,546	5,546	5,546	5,546
15. Management Fee	9,933	9,933	9,933	9,933
16. Replacement Reserves	2,596	2,596	2,596	2,596
17. LC & TI Reserves	0	0	0	0
18. TOTAL OPERATING EXPENSES	**$44,442**	**$44,442**	**$44,442**	**$44,442**
19. % Expense/Effective Gross Income	22.4%	22.4%	22.4%	22.4%
20. Expense Per Unit or Square Feet	$4.28	$4.28	$4.28	$4.28
21. CASH FLOW BEFORE DEBT SERVICE	**$154,213**	**$154,213**	**$154,213**	**$154,213**
22. Monthly Net Income	$12,851	$12,851	$12,851	$12,851
23. Loan Amount	$1,500,000	$1,525,000	$1,755,000	$1,755,000
27. Interest Rate	4.00%	4.13%	3.750%	3.950%
28. Amortization	30	25	25	25
29. Less: Mortgage Payment	$7,161	$8,155	$9,023	$9,215
30. CASH FLOW AFTER DEBT SERVICE	**$5,690**	**$4,696**	**$3,828**	**$3,636**

Financing for a Mixed Use Building with Sketchy Tenants
BEFORE & AFTER TAX RETURN ON EQUITY

	Lender #1	Lender #2	Lender #3a	Lender #3b
PROJECTED TAXABLE INCOME				
NET CASH FLOW BEFORE DEBT SERVICE	$154,213	$154,213	$154,213	$154,213
Annual Interest Expense	60,000	62,697	65,593	69,091
Cost Recovery (Depreciation)	43,075	43,075	43,075	43,075
TAXABLE INCOME	$51,137	$48,441	$45,544	$42,046
CASH FLOW BEFORE & AFTER TAXES				
Net Operating Income	$154,213	$154,213	$154,213	$154,213
Annual Debt Debt Service	85,935	97,862	108,276	110,582
CASH FLOW BEFORE TAXES	$68,278	$56,351	$45,936	$43,631
Tax Liability @ 25%	12,784	12,110	11,386	10,511
CASH FLOW AFTER TAXES	$55,493	$44,241	$34,550	$33,119
RETURN ON EQUITY				
BEFORE TAX	11.4%	9.8%	13.3%	12.6%
AFTER TAX	9.2%	7.7%	10.0%	9.6%

DEPRECIATION AND TAX ASSUMPTIONS	
Estimated Value	$2,100,000
Building Value as % of Total Value	80%
Depreciation Schedule	
Apartments	3.636%
Commercial Buildings	2.564%
Ordinary Income Tax Rate:	25%