

LOANSTREAM COMMERCIAL
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ELEVATING YOUR COMMERCIAL LENDING STRATEGIES

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1 The ONE
Lender

WEBINAR HOSTS

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ELEVATING YOUR COMMERCIAL LENDING STRATEGIES

A photograph of two business women in a high-rise office, looking at tablets. The scene is dimly lit with a blue tint, and the background shows a city skyline through large windows.

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AGENDA

- Introduction
- Industry Overview: Current trends, economic factors affecting lending decisions
- Understanding the deal in front of you
- Risk assessment: identifying the borrower's risk, credit analysis and financial statements, best practices
- Loan Structuring terms
- Client relationship management

MAIN OBJECTIVES OF TODAY'S PRESENTATION

- Identify by loan size where it falls in the lending box
- Understand the asset categories and the quality of the asset
- Common Rate terminology and structures
- What is required to submit for optimal results

An aerial photograph of a city skyline, featuring a mix of modern glass-fronted skyscrapers and older, more traditional buildings. The foreground shows a large, modern white building with a curved facade and a swimming pool. The background is filled with a dense urban landscape under a clear blue sky.

DISTINCTIONS BETWEEN LOAN SIZE AND WHERE THEY FALL IN THE LENDING BOX

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WHERE DOES IT FIT?

The distinctions between commercial lending, middle market lending, and corporate banking primarily relate to the size and type of businesses they serve, as well as the typical loan amounts and financial products offered.

Commercial Lending

- **Definition:** This generally refers to lending to small to medium-sized businesses. It often includes products like retail spaces, industrial properties, multifamily 5+ units, hospitality, business loans, lines of credit, and equipment financing. Commercial zoning and commercial appraisal forms.
- **Dollar Cutoffs:**
- Typically targets businesses with annual revenues ranging from \$1 million to \$10 million.
- Loan amounts can vary but often range from \$100,000 to \$5 million.

Middle Market Lending

- **Definition:** This segment focuses on mid-sized companies that are larger than small businesses but not as large as corporations. These companies often need more substantial financing for expansion, acquisitions, or other large projects.

WHERE DOES IT FIT?

- **Dollar Cutoffs:**
 - Generally, targets businesses with annual revenues between \$10 million and \$500 million.
 - Loan amounts usually range from \$5 million to \$100 million, though they can sometimes go higher depending on the institution and the specific needs of the borrower.
- **Corporate Banking**
 - **Definition:** This area focuses on large corporations and provides a wide range of financial services, including loans, treasury management, and investment banking services.
- **Dollar Cutoffs:**
 - Typically targets companies with annual revenues exceeding \$500 million but can extend to larger corporations with billions in revenue.
 - Loan amounts often start at \$100 million and can reach into the billions, depending on the transaction.

WHERE DOES IT FIT?

- **Summarizing the dollars for lending segments.**
- **Commercial Lending:** Smaller businesses, loans from \$100K to \$5M.
- **Middle Market Lending:** Mid-sized firms, loans from \$5M to \$100M.
- **Corporate Banking:** Large corporations, loans starting at \$100M and up.
- The specifics can vary by lender and region, but these are the general trends in the industry

ASSET CATEGORIES WE CAN FINANCE

- ✓ Multifamily 5+ / Mixed Use
- ✓ Retail Store Fronts / Strip Malls / Office Space
- ✓ Warehouse
- ✓ Industrial
- ✓ Hospitality
- ✓ Gas Stations
- ✓ New Construction



UNDERWRITING BASICS

Underwriting basics

- Analysis of location and rental demand.
- Evaluation of tenant demographics and income levels.
- Assessment of property condition and potential for rent growth.
- Owner use VS Investment.
- Borrower's experience.
- Cash Flow of the asset by industry benchmarks.
- Credit
- Loan to Value
- Source of funds

PROPERTY TYPES



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MULTIFAMILY TYPES OF PROPERTIES

There are several different types of multi-family commercial properties, each with its own unique characteristics and investment potential. Some common types of multi-family commercial properties include:

1. **Apartment Buildings:** These are typically large, multi-unit buildings with individual apartments that are rented out to tenants. They can range from small buildings with just a few units to large complexes with hundreds of units.
2. **Townhouses:** Townhouses are multi-family properties that consist of attached or semi-detached units, each with its own entrance. They are often arranged in rows or clusters and can be individually owned or rented out.
3. **Condominiums:** Condominiums are multi-family properties where each unit is individually owned by a homeowner, but there are common areas and amenities that are shared by all residents. Condos can be rented out by the owners to tenants.
4. **Duplexes and Triplexes:** These are multi-family properties that consist of two or three units, respectively, typically with separate entrances for each unit. Duplexes have two units, while triplexes have three units.
5. **Mixed-Use Properties:** These are multi-family properties that also include commercial space, such as retail shops or offices, in addition to residential units. They offer the opportunity for diversified income streams.
6. **Student Housing:** These are multi-family properties specifically designed to accommodate students, typically located near college or university campuses. They may offer shared amenities and communal living spaces.
7. **Senior Housing:** These are multi-family properties designed for older adults, offering amenities and services tailored to their needs, such as accessibility features, healthcare services, and social activities.
8. **Affordable Housing:** These are multi-family properties that offer housing options for low-income individuals and families, often subsidized by government programs or non-profit organizations.

Each type of multi-family commercial property has its own advantages and considerations, such as rental income potential, tenant demographics, maintenance costs, and financing options. Investors should carefully evaluate the characteristics of each property type to determine the best fit for their investment goals and risk tolerance.



Key Points to consider:

Market Conditions:

- 1. **Supply and Demand:** We will assess the supply and demand for rental units in the market, as well as trends in rental rates and vacancy rates.
- 2. **Economic Conditions:** We will consider the overall economic conditions in the market, including job growth, population growth, and median income levels.
- 3. **Comparable Sales:** Lenders will look at recent comparable sales of multi-family properties in the area to determine the property's value.

Property Conditions:

- 1. **Physical Inspection:** We will conduct a physical inspection of the property to assess its condition, including the age and condition of the building, roof, HVAC systems, plumbing, and electrical systems.
- 2. **Maintenance:** We will want to ensure that the property is well-maintained and in good repair, as deferred maintenance can impact the property's value and rental income.

Borrower's Character:

- 1. **Credit History:** We will review the borrower's credit history to assess their creditworthiness and ability to repay the loan.
- 2. **Experience:** We will consider the borrower's experience in managing multi-family properties, as well as their track record of successful investments.
- 3. **Financial Stability:** We will assess the borrower's financial stability, including their income, assets, and liabilities.

WHAT IS CONSIDERED RETAIL COMMERCIAL?

Retail commercial properties encompass a variety of property types that are used for retail businesses to sell products and services to consumers. Some common types of retail commercial properties include:

- 1. **Strip Malls:** Strip malls are typically long, narrow retail buildings that house multiple stores or businesses in a row, each with its own entrance facing the parking lot. They are often anchored by a larger retail tenant, such as a grocery store or pharmacy.
- 2. **Shopping Centers:** Shopping centers are larger retail developments that consist of multiple stores, restaurants, and other businesses, often grouped around a central courtyard or common area. They may include anchor tenants, such as department stores or big-box retailers.
- 3. **Lifestyle Centers:** Lifestyle centers are upscale retail developments that combine shopping, dining, entertainment, and services in an outdoor setting. They often feature high-end retailers, boutique shops, and restaurants, as well as amenities like outdoor seating areas and landscaping.
- 4. **Power Centers:** Power centers are retail developments that are anchored by large, national retailers, such as home improvement stores, electronics retailers, or discount stores. They typically feature a mix of national and regional tenants, often with separate storefronts and ample parking.
- 5. **Malls:** Malls are large, indoor retail complexes that house a variety of stores, restaurants, entertainment venues, and services. They may include department stores, specialty retailers, food courts, and movie theaters, all connected by indoor walkways.

WHAT IS CONSIDERED RETAIL COMMERCIAL?

- **6. Outlet Centers:** Outlet centers are retail developments that feature discounted merchandise from national and designer brands. They typically offer a mix of retail stores, factory outlets, and discount shops, attracting bargain-seeking shoppers.
- **7. Stand-Alone Retail Buildings:** Stand-alone retail buildings are single-tenant properties that house a single retail business, such as a convenience store, restaurant, or specialty shop. They may be located in commercial districts, shopping plazas, or along busy roads.
- **8. Mixed-Use Developments:** Mixed-use developments combine retail space with residential, office, or hospitality components in a single property. They offer a diverse range of amenities and services to residents, workers, and visitors, creating a vibrant and walkable environment.

Each type of retail commercial property has its own unique characteristics, target market, and investment potential. Investors should carefully evaluate the location, tenant mix, market demand, and financial performance of retail properties to determine the best fit for their investment goals and risk tolerance.

RETAIL STORE FRONTS

Retail Store Fronts

- A. Characteristics: Retail store fronts are commercial properties used for retail businesses such as shops, restaurants, or service providers.
- B. Underwriting basics:
 1. Market conditions: Analyzing the local market demand for retail space, competition, and economic trends that may impact the property's performance.
 2. Tenant quality and stability: Assessing the creditworthiness and stability of tenants to ensure consistent rental income and lease renewals.
 3. Property condition and future growth: Evaluating the physical condition of the property, including maintenance and potential for renovations or expansions to attract higher-quality tenants and increase property value.

Importance of Market Conditions:

- A. Market conditions play a crucial role in the success of a retail property investment.
- B. Understanding the local market dynamics helps in making informed decisions about property acquisition, rental rates, and potential for future growth.
- C. Changes in market conditions can impact property values, rental income, and the overall performance of the investment.

RETAIL STORE FRONTS

Evaluation of Tenant Quality and Stability:

- A. Tenant quality refers to the creditworthiness, reputation, and business stability of tenants occupying the retail space.
- B. Stable and reputable tenants provide a steady stream of rental income and reduce the risk of vacancies or lease defaults.
- C. Assessing tenant quality helps in mitigating risks and ensuring the long-term success of the investment.

Importance of Property Condition and Future Growth:

- A. The physical condition of the property affects its market value, rental rates, and attractiveness to tenants.
- B. Investing in property maintenance and improvements can enhance the property's appeal, rental income potential, and overall value.
- C. Evaluating the potential for future growth, such as expansion opportunities or redevelopment projects, is essential for maximizing returns and long-term investment success.

INDUSTRIAL PROPERTIES

Industrial properties encompass a variety of real estate assets that are used for industrial purposes. Some of the different types of industrial properties include:

- 1. Manufacturing Facilities:** These properties are used for the production of goods, such as automobiles, electronics, or machinery. Manufacturing facilities may include assembly lines, warehouses for storing raw materials and finished products, and office space for administrative functions.
- 2. Warehouses and Distribution Centers:** Warehouses are used for the storage and distribution of goods. They may vary in size and layout, with features such as loading docks, high ceilings, and ample storage space. Distribution centers are larger facilities that serve as hubs for transporting goods to retailers or consumers.
- 3. Research and Development (R&D) Facilities:** R&D facilities are used for scientific research, experimentation, and product development. These properties may include laboratories, testing facilities, and office space for researchers and engineers.
- 4. Flex Industrial Buildings:** Flex industrial buildings are versatile properties that can be used for a combination of purposes, such as manufacturing, storage, and office space. These buildings offer flexibility for tenants with varying industrial needs.

INDUSTRIAL PROPERTIES

- 5. **Cold Storage Facilities:** Cold storage facilities are equipped with refrigeration and freezing capabilities to store perishable goods, such as food products, pharmaceuticals, and chemicals, at controlled temperatures.
- 6. **Industrial Parks:** Industrial parks are planned developments that consist of multiple industrial properties, such as manufacturing facilities, warehouses, and R&D centers. These parks may offer shared amenities and services to tenants, such as transportation infrastructure and security.
- 7. **Data Centers:** Data centers are specialized facilities that house computer servers and data storage systems. These properties are critical for the storage and processing of digital information for businesses and organizations.

Each type of industrial property has its own unique characteristics and requirements, and underwriters must carefully evaluate these factors to assess the risks associated with insuring these properties effectively.

WAREHOUSES

There are several different types of warehouse properties that underwriters may encounter when underwriting commercial warehouses. Some common types of warehouse properties include:

- **Distribution warehouses:** These warehouses are used primarily for storing and distributing goods to retailers or consumers. Distribution warehouses are typically located near major transportation hubs, such as ports or airports, and may have high ceilings and large loading docks to accommodate the movement of goods.
- **Cold storage warehouses:** These warehouses are designed to store perishable goods at low temperatures. Cold storage warehouses are equipped with refrigeration systems and may have special insulation to maintain a constant temperature.
- **Flex warehouses:** These warehouses are versatile spaces that can be used for a variety of purposes, such as storage, manufacturing, or office space. Flex warehouses may have a combination of office space, storage space, and loading docks.
- **Bulk warehouses:** These warehouses are used for storing large quantities of goods, such as raw materials or finished products. Bulk warehouses may have high ceilings and wide aisles to accommodate the storage of large items.

In conclusion, underwriting commercial warehouses requires careful evaluation of several key factors, including location, construction, occupancy, and property type. By considering these factors, underwriters can accurately assess the risks associated with insuring commercial warehouses and determine appropriate coverage levels and premiums.

WAREHOUSES

Underwriting commercial warehouses is a crucial process for insurance companies in order to accurately assess the risks associated with insuring these properties. Commercial warehouses are unique in that they serve a variety of industries and can vary greatly in terms of size, location, and construction. As such, underwriters must carefully evaluate several key factors when assessing these properties.

One of the most important considerations when underwriting commercial warehouses is the location of the property. The location of a warehouse can have a significant impact on its risk profile, as warehouses located in high-risk areas such as flood zones or earthquake-prone regions may be more susceptible to damage. Underwriters must also consider the proximity of the warehouse to other high-risk properties, such as chemical plants or hazardous waste sites, as this can also increase the risk of loss.

In addition to location, underwriters must also evaluate the construction of the warehouse. The type of construction materials used, the age of the building, and the overall condition of the property can all impact its risk profile. For example, warehouses constructed with fire-resistant materials may be less likely to sustain damage in the event of a fire, while older buildings with outdated electrical systems may be at a higher risk of electrical fires.

Underwriters must also consider the occupancy of the warehouse when underwriting these properties. Warehouses that are used to store high-value goods, such as electronics or pharmaceuticals, may be at a higher risk of theft or vandalism. Additionally, warehouses that are used for manufacturing or processing operations may pose a greater risk of fire or explosion.

HOSPITALITY-HOTELS

Flagship hotels and non-flagship hotels differ significantly in various aspects. Here's a breakdown of their typical characteristics:

Flagship Hotels

1. Brand Recognition

1. Often associated with well-known brands (e.g., luxury chains like Four Seasons, Ritz-Carlton).
2. High visibility and reputation in the market.

2. Location

1. Usually situated in prime locations (e.g., major cities, tourist attractions).
2. Designed to attract high-end clientele.

3. Amenities and Services

1. Extensive amenities, including fine dining, spas, concierge services, and event spaces.
2. Higher staff-to-guest ratio, providing personalized service.

4. Design and Quality

1. High-quality architecture and interior design.
2. Often features unique or luxurious design elements

HOSPITALITY- HOTELS

Flagship hotels and non-flagship hotels differ significantly in various aspects. Here's a breakdown of their typical characteristics:

Flagship Hotels

5. Target Market

1. Primarily targets upscale or luxury travelers, business professionals, and high end –net worth individuals
2. Focuses on Providing premium experiences.

6. Operational Standards

1. Adheres to strict operational and service standards set by the brand
2. Regular quality assessments and brand audits

7. Revenue Streams

1. Diverse revenue streams, including room bookings, food and beverage , events and partnerships
2. Often includes loyalty programs to retain high value customers

NON-FLAGSHIP HOTELS

1. Brand Recognition

1. May be independent or affiliated with smaller, less recognized brands.
2. Often relies on local reputation rather than national or global recognition.

2. Location

1. Can be in varied locations, including suburban areas, secondary markets, or less tourist-centric regions.
2. May cater to different demographics based on location.

3. Amenities and Services

1. Limited amenities compared to flagship hotels; may focus on basic offerings.
2. Service levels can vary widely; may not offer personalized services.

4. Design and Quality

1. Varies significantly; some may be well-maintained while others could be older or less updated.

NON-FLAGSHIP HOTELS

1. Operational Standards

1. May have fewer stringent operational standards; quality and service can be inconsistent.
2. Less frequent brand oversight compared to flagship hotels.

2. Revenue Streams

1. Revenue primarily from room bookings, with fewer additional revenue sources.

3. Target Market

1. Targets a broader range of guests, including budget travelers, families, or business travelers seeking value.
2. Often focuses on providing practical accommodations rather than luxury experiences.
3. May have limited or no loyalty programs.

• Conclusion

Flagship hotels are characterized by their brand recognition, luxury amenities, and high service standards, targeting upscale markets. In contrast, non-flagship hotels may cater to a broader audience with varied service levels and amenities, often focusing on value and practicality. Understanding these differences is essential for investors, lenders, and operators in the hospitality sector.

NEW CONSTRUCTION PROJECTS

- Description of the project
- Have permits been issued
- Construction Budget
- Horizontal Budget- Months to build Horizontal
- Vertical Budget- Months to build Vertical
- Property Value upon completion
- Borrower Experience- # units built in the last 18 and 36 months
- Who is doing the construction-Self or contractor
- What is the Borrower's Exit Strategy

YOUR SUBMISSION, BEST TO INCLUDE...

- Rent Roll or T-12.
- Expenses for the property: taxes, insurance, utilities, management fees, repairs.
- Percentage of occupancy- it's very important. Maybe the property is fractured.
- Personal Financial Statement if possible.
- Schedule of Real State Debt
- Appraisal if it's a construction project or a decline from an institutional bank.
- Construction Budget- Horizontal and Vertical Costs

FINANCING OPTIONS

- What determines the structure of the loan:
- Loan to Value, Credit Score, Location, Supply and demand , overall risk.
- Conventional, Bridge Loans, Participation Loans, Mezzanine Financing, CMBS.
- Multifamily Financing 3 types of loans, Lowest rates at 1.25%+ DSCR, Below 1.15% middle of the road rates, below 1% DSCR- higher rates. Or maybe a fractured property.
- SBA, Construction Loans.
- DSCR based on industry Benchmarks.
- Bridge Loans.
- Take out loans to permanent financing.

MANAGING THE BORROWER RELATIONSHIP

- Building Trust
- Better Understanding of the borrower and their loan scenario request
- Increased pull through by knowing your borrower's needs and objectives
- Risk Management
- Enhanced communication- consistent and often- minimum 8 touches to get commitment.
- Building your brand with your borrower.
- Long term partnerships by pricing right and not killingg the borrower on 1 loan.

SAMPLE MATRIX

Typical Maximum LTV and Capitalization Rates

Matrix	Multifamily	Retail	Industrial	Hopitality	Construction
LTV's Purchase	70%-80%	65%-75	70%-100%	65%-75%	90% LTC
LTV's Ref CO	70%-75%	65%-70%	65%- 70%	Varies/ Flagship	N/A
Owner Use	Not Applicable	65%-100%	70%-100%	Yes/No	Yes/No
Investment	Yes	Applicable	Yes	Yes/No	Yes/No
Cap Rate	4%-6%	5%-8%	5%-7%	4%-8%	Varies
Debt Yield	5% min	Varies	Varies	Varies	VARIABLES
Reserves	6-9 months	6-9 months	6-9 months	Varies	Project Based

QUALITY OF THE ASSET AND WHAT IT MEANS

Asset Category	Class A	Class B	Class C	Class D
Age (Years)	0-15	15-30	30-40	40+
Quality	High	Moderate	Low	Very Low
Risk Level	Low	Moderate	High	Very High
Typical Uses	Prime locations, high demand	Good condition, decent areas	Older, may need upgrades	Distressed, poor condition

TYPICAL RATES

In commercial lending, various indexes are commonly used to determine interest rates for loans, particularly those with variable or adjustable rates. Here are some of the most widely used indexes:

- **1. LIBOR (London Interbank Offered Rate)**

- Historically the most common benchmark for variable interest rates in commercial loans.
- It reflects the average rate at which major global banks lend to one another.

- **2. SOFR (Secured Overnight Financing Rate)**

- A newer benchmark replacing LIBOR, based on transactions in the U.S. Treasury repurchase market.
- Considered more robust and less susceptible to manipulation than LIBOR.

- **3. Prime Rate**

- The interest rate that commercial banks charge their most creditworthy customers.
- Often used as a base rate for various loans, including commercial loans.

- **4. Treasury Rates**

- U.S. Treasury yields (e.g., the 10-year Treasury yield) are sometimes used as benchmarks for longer-term loans.

TYPICAL RATES

- **5. Fannie Mae and Freddie Mac Rates**

- Rates published by these government-sponsored enterprises, often used in multifamily and commercial mortgage-backed securities.

- **6. Cost of Funds Index (COFI)**

- Reflects the average interest rate that financial institutions pay for their funds, often used for adjustable-rate mortgages.

- **7. MTA (Monthly Treasury Average)**

- An average of the Treasury rates over a specified period, typically used for floating-rate loans.
- Summary
- These indexes serve as benchmarks for determining interest rates on commercial loans, allowing lenders to set rates based on current market conditions and the perceived risk associated with the loan. The choice of index can influence the overall cost of borrowing and the loan's structure.

KEY TAKE AWAYS



- ✓ The more we know about the scenario from inception the better chances we have to help your borrowers. The Who, the What, When and the How.
- ✓ When you send requests stating can you do this ? It's guessed work for us, so we have to get back to you and ask you more questions to put the pieces of the puzzle together.
- ✓ DSCR- is only one component of any commercial real estate loan including multifamily.

PROCESS RECAP

- 1st Loan Scenario Worksheet or email. Property address, credit score, loan amount, type of loan, borrowers. CMLO gets back to you asap. (improved from 24 hours) unless you are looking to finance the impossible.
- We will provide you a quote if we have enough information.
- If your borrower likes the quote, we will send you a broker agreement.
- After the broker agreement is signed, the LOI is released.
- We open escrow.

Questions on a scenario, email
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QUESTIONS

THANK YOU

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