Robert T. Gibney & Associates

Commercial Real Estate Financing from $200,000
"Selecting the lender is as important as choosing the loan program"
LENDING UPDATE 8/22/06

Deal Summary

Hayward Apartments -2049 W. Hayward
15 Units - 14 2/1 apartments and 1 1,100 sf house
Sales Price $1,000,000 $66,666/Unit
$300,000 Cash Down
$700,000 Loan Amount / 7.98% / 3-year fixed

Underwriting Issues

The seller was in the process of increasing rents to market levels. It was determined that all of the leases would be adjusted by the 1st quarter of 2007.
Actual NOI - $55,000 based on $550 rent (house @ $695)

A rent survey confirmed that market rents were $595 for the apartments and $695 for the house. Based on this data, the Stabilized NOI was $62,000.

The challenge was to obtain financing based on Stabilized NOI in order to close the escrow.

Conventional underwriting would result in a loan amount of $575,000 (using 1.15 Debt Coverage Ratio based on current NOI) with a possible rent achievement holdback of $70,000 subject to achieving market rents for all units.

Financing Solution

We identified a loan designed for this situation using the following underwriting criteria:
- The loan was underwritten to 1.0 Debt Coverage Ratio based on Market Rent and NOI as determined by the appraiser.
- This enabled the borrower to obtain a $700,000 loan in order to acquire the property.
- This loan amount is an increase of 22% compared to the conventionally underwritten loan
- The Buyer was required to employ a professional property manager to oversee the planned rent increases. The Buyer chose REMS, Inc. to oversee this process.

Long-Term Plan

The loan includes a 3-year prepayment penalty, which allows the borrower to refinance or sell the property in the fourth year.

Similar loans are available that may help you to negotiate your next real estate transaction.

I invite you to call or email me to discuss your client's financing needs.

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