

**Loan Stream Commercial
January 9th
ELEVATING YOUR COMMERCIAL LENDING STRATEGIES**

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Lender

WEBINAR HOSTS

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Intended for Mortgage/Real Estate Professionals



Mixed Used Properties



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AGENDA

Introduction

Industry Overview: Current trends, economic factors affecting lending decisions

Types of Mixed Used Properties

Risk assessment: Identifying the occupancy of the property and maximizing the financing options based on occupancy.

Loan Structuring options

Asset quality

MAIN OBJECTIVES OF TODAY'S PRESENTATION



First Step when faced with a request of financing a mixed used property



Understand the asset categories and the quality of the asset



Do you have a deal or no deal? Basic Calculations



Common Rate terminology and structures



What is required to submit for optimal results

CURRENT TRENDS

If 2024 was the year companies gained some clarity on future office needs, 2025 is expected to be the year they start calling workers back to fill them.

From corporate giants to smaller professional services firms, employers across the country are stepping up their in-person requirements to move past the pandemic-related shift toward increased flexible work arrangements. Office market stakeholders point to the escalated mandates, many of which take effect in 2025, as a signal that demand for office space will be on the rebound after years of depressed leasing activity.

In-person policy: The retail giant plans to effectively eliminate its remote-work in 2025 when it begins demanding all corporate workers to return to an office for five days a week starting in January, though it has postponed that requirement for some employees in cities where Amazon says it doesn't yet have enough space. The company had been operating on a hybrid policy that asked employees to be in person at least three days per week.

THINGS TO CONSIDER...

Post-Pandemic Shifts: With changing work patterns, mixed-use properties are adapting to accommodate remote work, flexible office spaces, and more amenities. This trend is creating more demand for areas that combine residential, retail, and office spaces in one location.

Sustainability and Green Design: Mixed-use properties are increasingly being developed with a focus on sustainability, including energy-efficient buildings, green roofs, and use of renewable energy sources. Cities and developers are more focused on minimizing the environmental impact of these properties.

Urban Revitalization: Many cities are investing in the redevelopment of underused or dilapidated areas through mixed-use projects. This approach often targets urban renewal areas, offering a blend of affordable housing, retail, and office spaces to create vibrant communities.

Rising Demand for Convenience: With consumers preferring convenience, developers are incorporating more services, entertainment, and dining options into mixed-use spaces. This trend is linked to a preference for "live-work-play" environments that minimize the need for long commutes.

Technological Integration: Smart buildings, with integrated technology systems for managing energy use, security, and tenant needs, are becoming a key feature of mixed-use properties. This trend is growing, especially in tech-centric cities.

Mixed Used Properties Examples



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What are Mixed-Use Properties?

Mixed-use properties combine residential, commercial, and/or retail spaces in a single development.

The concept creates live-work-play environments, improving convenience and reducing commuting.

Key Features:

Multiple functions within a single property

Can range from small buildings to large urban developments

Involves residential spaces (apartments or condos) and commercial spaces (offices, retail).

Mixed Use Property Examples:

1. Retail and Residential

- Description: These properties typically feature retail spaces on the ground floor (e.g., shops, cafes, restaurants) with residential units above. **Example: A building with storefronts at street level and apartments on the upper floors, promoting a vibrant street life.**

2. Office and Retail

- Description: This type combines office spaces with retail on the lower levels, catering to businesses and their employees. **Example: A building with a coffee shop and convenience store on the ground floor and office spaces above.**

3. Residential, Retail, and Office

- Description: A comprehensive mixed-use property that integrates residential units, retail spaces, and office areas within a single development. **Example: A large urban development featuring apartments, shops, and corporate offices, creating a self-sustaining community.**

4. Live-Work Units

- Description: These properties are designed for individuals or small businesses to live and work in the same space, often appealing to creatives and entrepreneurs. **Example: A loft-style apartment that includes a home office or studio space, allowing for a seamless work-life balance.**

5. Transit-Oriented Development (TOD)

- Description: Mixed-use developments located near public transportation hubs, designed to encourage public transit use and reduce reliance on cars. **Example: A development near a subway station that includes residential units, offices, and retail, making it convenient for commuters.**

6. Hospitality and Residential

- Description: This type combines hotel accommodations with residential units, offering both short-term and long-term living options. **Example: A property that features a hotel on the lower levels and luxury condominiums or serviced apartments above.**

7. Cultural and Community Spaces

- Description: Mixed-use properties that include cultural institutions (like theaters or museums) alongside residential and commercial uses, fostering community engagement. **Example: A development that houses a community center, art gallery, and residential units, creating a hub for cultural activities.**

8. Mixed-Use Town Centers

- Description: Larger developments designed to function as a town center, integrating various uses such as retail, office, residential, and community spaces. **Example: A suburban town center with shops, restaurants, parks, and apartments, designed to create a pedestrian-friendly environment.**

9. Industrial and Commercial

- Description: Some mixed-use developments incorporate light industrial spaces alongside commercial and retail uses, supporting small businesses and startups. **Example: A complex that includes workshops, showrooms, and retail spaces, catering to creative industries.**

10. Healthcare and Residential

- Description: Mixed-use properties that combine healthcare facilities (like clinics or wellness centers) with residential units, promoting health-focused living. **Example: A community that offers senior living apartments along with a nearby health clinic and wellness amenities.**

UNDERWRITING BASICS

Underwriting Basics

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



FINANCING: Common Financing Obstacles

1. Zoning Issues

- Zoning regulations often restrict mixed-use developments.
- Challenges arise when the combination of residential and commercial is not permitted in certain areas.

2. Property Valuation

- Valuing a mixed-use property can be complex, as it involves multiple revenue sources (e.g., rent from commercial tenants and residents).
- Lenders may face challenges in appraising the property properly, leading to financing delays.

3. Higher Risk Perception

- Mixed-use properties can be perceived as riskier than single-use properties, especially if demand for commercial spaces fluctuates.
- Economic downturns can affect commercial tenants more than residential tenants.

4. Complex Cash Flow Models

- The income generated from mixed-use properties can vary significantly, depending on the mix of tenants and market conditions.
- Lenders may be concerned about whether the property can generate sufficient revenue to cover loan payments.

5. Environmental and Sustainability Concerns

- Environmental regulations and green building requirements may complicate financing, especially for older buildings being converted into mixed-use properties.
- Sustainable development can increase construction costs and time.

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MITIGATING RISK:

1. Loan-to-Value Ratio (LTV)

- Lenders may require a lower LTV due to the complexities of mixed-use properties, which increases the down payment required by the borrower.

2. Tenant Risk

- Lenders might be concerned about tenant stability, particularly in commercial areas, where vacancies or defaults can affect cash flow.
- The success of the residential aspect of a mixed-use development may not always translate to the commercial part.

3. Cash Flow Uncertainty

- Mixed-use properties often have varying income streams from different tenants (residential, commercial).
- If one portion of the property underperforms (e.g., commercial vacancies), lenders may hesitate to provide financing.

4. Market Conditions

- Economic downturns or shifts in real estate trends may make it more difficult to secure financing.
- Fluctuations in demand for retail or office spaces may make lenders wary of financing mixed-use projects.

5. Experience of the Developer

- Lenders often prefer experienced developers with a proven track record, especially for larger mixed-use developments.
- New developers may face difficulties in obtaining loans without a solid history of successful projects.

MITIGATING RISK:

6. Working with Specialized Lenders

- Developers may benefit from working with lenders who specialize in mixed-use or **complex real estate projects**.
- These lenders understand the intricacies of financing mixed-use properties.

7. Diversifying Income Streams

- Having a balanced mix of tenants (both residential and commercial) can reduce the risk and improve financing prospects.
- Ensuring tenant diversity in terms of lease terms, business types, and occupancy rates can stabilize cash flow.

8. Thorough Property Valuation

- Accurate and comprehensive property valuation, including income projections from both residential and commercial units, can help mitigate financing risks.

9. Sustainable and Green Financing

- Using green building certifications (e.g., LEED) can attract financing options with better terms, especially if the property is energy-efficient or environmentally friendly.

10. Government Programs

- Explore government-backed financing programs such as SBA loans, which can offer favorable terms for mixed-use property developers.

BASIC FORMULAS:

Analyzing mixed-use properties requires a comprehensive approach that incorporates various financial metrics and ratios. Here are some key financial projections and ratios that can help in the evaluation of mixed-use properties:

1. **Net Operating Income (NOI)** – Formula: $NOI = \text{Total Rental Income} - \text{Operating Expenses}$

– Purpose: *NOI measures the profitability of the property by assessing the income generated from operations, excluding financing and tax expenses.*

2. **Capitalization Rate (Cap Rate)** – Formula: $\text{Cap Rate} = \text{NOI} / \text{Current Market Value or Purchase Price}$

– Purpose: *Cap Rate provides an estimate of the property's return on investment. A higher cap rate typically indicates a higher risk and potential return.*

3. **Cash Flow** – Formula: $\text{Cash Flow} = \text{NOI} - \text{Debt Service}$

– Purpose: *Cash flow indicates the amount of cash generated by the property after covering all operating expenses and debt obligations. Positive cash flow is essential for sustainability.*

4. **Debt Service Coverage Ratio (DSCR)** – Formula: $\text{DSCR} = \text{NOI} / \text{Total Debt Service}$

– Purpose: *This ratio measures the property's ability to cover its debt obligations. A DSCR greater than 1 indicates that the property generates sufficient income to cover its debt payments.*

5. **Gross Rent Multiplier (GRM)** – Formula: $\text{GRM} = \text{Property Price} / \text{Gross Rental Income}$

– Purpose: *GRM offers a quick way to compare the value of different properties based on their rental income. Lower GRM values typically indicate better investment opportunities.*

BASIC FORMULAS Cont....

6. **Return on Investment (ROI)**–Formula: $ROI = \text{Net Profit} / \text{Cost of the Investment} \times 100$]

– Purpose: ROI measures the efficiency of the investment. It expresses the percentage return on the total investment in the property.

7. **Operating Expense Ratio (OER)**= Formula $OER = \text{Operating Expenses} / \text{Gross Rental Income}$

– Purpose: OER indicates the proportion of income consumed by operating expenses. A lower OER suggests better management efficiency.

8. **Break-Even Ratio**– Formula $\text{Break-Even Ratio} = \text{Operating Expenses} + \text{Debt Service} / \text{Gross Rental Income}$

– Purpose: This ratio shows the percentage of gross rental income required to cover all operating expenses and debt service. A lower break-even ratio indicates less risk.

9. **Internal Rate of Return (IRR)**

– Purpose: IRR calculates the expected annualized return on investment over the life of the property, considering cash flows and the eventual sale of the property. It helps in comparing the potential profitability of different investments.

10. **Projected Revenue Growth**

Analysis: Estimate revenue growth from rental income based on market trends, lease escalations and potential new tenants. Consider factors such as local economic conditions.

Where is the highest Concentration of Mixed Used Properties?

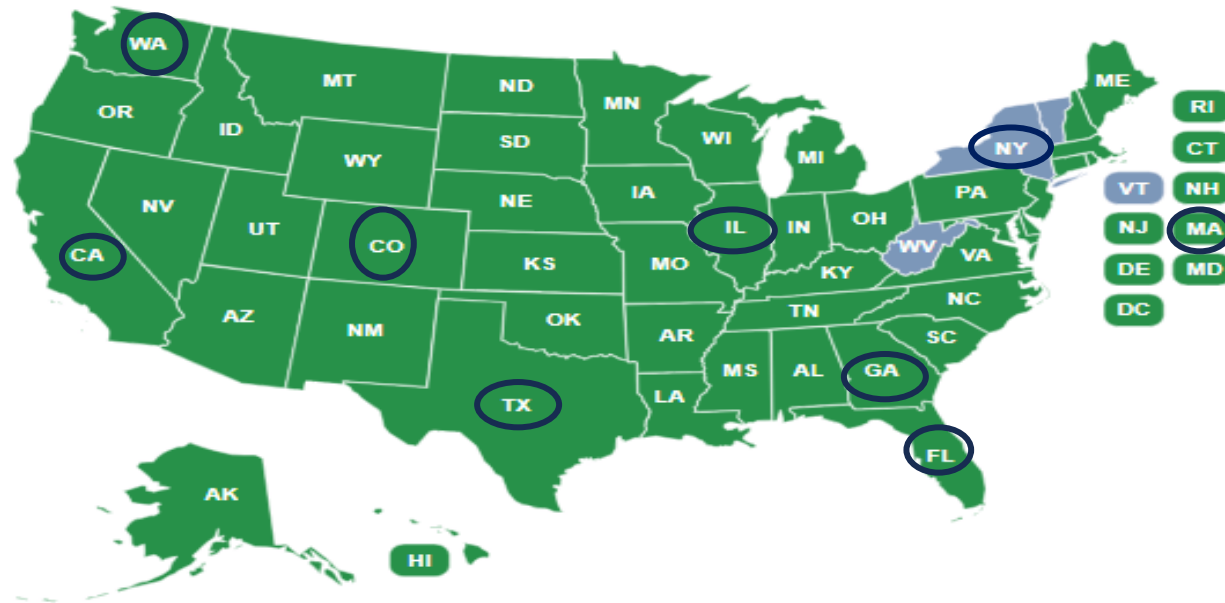


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Highest Concentration of Mixed-Use Properties:

The concentration of mixed-use properties is typically highest in states with major urban centers, significant population density, and strong demand for both residential and commercial spaces.

The following states have seen considerable growth in mixed-use developments due to their thriving economies, growing populations, and urban revitalization efforts: **CA, NY, TX, FL, IL, MA, WA, CO, WA, GA**



1. California- Key Cities: Los Angeles, San Francisco, San Diego, Oakland

Why California? California is known for its innovative urban planning and real estate development. Cities like Los Angeles and San Francisco have seen significant demand for mixed-use properties due to the need to optimize space in highly dense urban areas. California's focus on sustainability, public transit, and reducing urban sprawl also encourages the development of mixed-use buildings.

2. New York- Key Cities: New York City, Buffalo, Albany

Why New York? New York City is perhaps the most prominent example of mixed-use developments, especially in Manhattan and Brooklyn, where high demand for both residential units and commercial spaces exists. The state's high population density, strong job market, and continued revitalization of neighborhoods drive the demand for mixed-use projects.

3. Texas- Key Cities: Houston, Austin, Dallas, San Antonio

Why Texas? Texas is experiencing a significant real estate boom, with rapidly growing cities like Austin and Dallas seeing a surge in mixed-use developments. These cities are attractive due to a growing tech and business sector, a relatively lower cost of living, and a cultural preference for suburban-urban hybrids, which makes mixed-use properties particularly appealing.

4. Florida- Key Cities: Miami, Orlando, Tampa, Jacksonville

Why Florida? Florida's large population, booming tourism industry, and strong influx of people moving from other states (especially retirees) create a strong demand for mixed-use properties. Cities like Miami have long embraced mixed-use developments, especially near transit hubs and high-density areas.

5. Illinois- Key Cities: Chicago, Naperville, Evanston

Why Illinois? Chicago is one of the largest and most established cities for mixed-use developments in the U.S. Its ongoing revitalization of urban neighborhoods, such as the West Loop, and a growing interest in live-work-play environments support the strong presence of mixed-use properties. Chicago's significant transit network also supports the mixed-use concept.



6. Massachusetts- Key Cities: Boston, Cambridge, Worcester

Why Massachusetts? Boston has long been a hub for mixed-use development, particularly with its urban renewal projects. As a major financial, educational, and healthcare center, Boston's demand for mixed-use spaces is driven by a combination of residential needs and commercial space requirements for office buildings, retail, and healthcare.

7. Washington (State)- Key Cities: Seattle, Bellevue, Tacoma

Why Washington? Seattle is a major tech hub with a high demand for mixed-use properties, especially with the growth of companies like Amazon. The state has focused on urban planning to meet the needs of its growing population and tech industry, where proximity to amenities and workplaces is highly valued.

8. Colorado- Key Cities: Denver, Boulder, Colorado Springs

Why Colorado? Denver has seen a significant increase in mixed-use developments, especially in neighborhoods like LoDo (Lower Downtown) and Cherry Creek. The city's focus on sustainability, increasing population, and growing tech and outdoor industries contribute to the demand for mixed-use spaces.

9. Pennsylvania- Key Cities: Philadelphia, Pittsburgh, Allentown

Why Pennsylvania? Philadelphia is one of the oldest cities in the U.S., and its urban renewal efforts have led to an increasing number of mixed-use developments. The demand for living spaces close to commercial, retail, and cultural venues has contributed to the growth of mixed-use properties in the region.

10. Georgia- Key Cities: Atlanta, Savannah, Augusta

Why Georgia? Atlanta's diverse economy, booming population, and ongoing urban regeneration projects have spurred the development of mixed-use properties, especially in areas near downtown and major transportation hubs like the Hartsfield-Jackson International Airport.

ASSET CATEGORIES WE CAN FINANCE

- ✓ **Multifamily 5+ No Limit/ Mixed Use**
- ✓ **Retail Store Fronts/ Strip Malls/ Office Space**
- ✓ **Warehouse**
- ✓ **Industrial**
- ✓ **Hospitality**
- ✓ **Gas Stations**
- ✓ **New Construction**



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.

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- Part of the Art of Closing.
- 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



COMMERCIAL LENDING
SCENARIO REQUEST

Borrower Name(s) _____
Subject Property Street Address _____
Subject Property City, State and Zip Code _____
Borrower Phone _____ Borrower Email _____

Property Type SFR Condominium 2-4 Units 5+ Multifamily
 Mixed Use Office/Retail Warehouse Automotive
 Other _____

Number of Total Units _____ Number of Vacant Units _____ *** Include Rent Roll ***
 Owner/User Describe: _____ Investor
Borrower Type Individual Trust LLC Corporation
 Other _____

Credit Score _____ Liquid Assets _____ Experienced / Years _____
Net Worth _____
Proposed Loan Amount _____ Estimated Value/Purchase Price _____
Transaction Purchase Cash-out Refinance Rate/Term Refinance
Existing Lien(s), if any 1st \$ _____ 2nd \$ _____ 3rd \$ _____
Current Rate (if Refinance) _____ Loan Purpose _____

DOCUMENTS AVAILABLE
 T-12 (Trailing Twelve Months Financials)
 Schedule of Real Estate
 Personal Financial Statement
 Rent Roll

Additional Notes _____

- 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.
- You can visit our website at:
<https://loanstreamcommercial.com/programs/>

Questions on a scenario, email
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QUESTIONS

THANK YOU

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