



ITS LIKE MAKING A STEW

OCTOBER 30, 2018





LENDER'S GOULASH

- Loan to Cost
- Loan to Value
- DSC
- Cap Rate
- Discretionary Cash Flow
- Collateral



LOAN TO COST

- Acquisition Cost
 - Must be backed by an appraisal for “As-Is” Value
- Pre-Development expenses if looking for reimbursement
- Stabilization Expense
- Construction costs
- Developer’s fee
- Interest Expense



LOAN TO VALUE

- Estimated Value of the Property as completed based on Appraisal
 - Appraisals for properties being financed for potential Sale is based on sales of comparable properties
 - 6/6 rule
 - Market Value and Income Analysis
 - Appraisals for properties being rented is based on comparable cash flow and a separate based on sale of comparable property
- Full set of plans and specifications
- Comparable income Stream and property sales
- Market Study
 - Provides Absorption, FMR, competition



OPERATING INCOME

- Potential Gross Income
 - Contractual Leases
 - Market rents
 - Mixed Use
 - Mixed Income
- Other income
 - Parking, laundry, etc.



OPERATING EXPENSES

- Property Taxes
- Property Insurance
- Property Management Fees
- Utilities
- Replacement Reserves (\$300 to \$350 per unit annually)
- Vacancy Allowance 5% to 10%



DSC

- Debt Service Coverage
 - Total estimated net income as a percentage of total debt service
 - Five years net Income/ 5 years Debt Service= DSC
- NOI
 - NOI = income generated from all sources minus reasonable operating expenses
 - Income is estimated to increase by 2%
 - Operating Expense is estimated to increase by 3%

CAP RATE

- Capitalization Rate is used primarily for evaluating value for financing for larger long term rental developments
- Capitalization Rate is the ratio of stabilized Net Operating Income to property asset value
 - $\text{Cap Rate} = \text{Annual Net Operating} / \text{Value}$
- Represents the return an investor would receive
- A higher Cap rate for a number of properties in a given market area indicate market values in decline
- Conversely a compression of Cap rates for a number of properties could indicate increasing market values.



Discretionary Cash Flow

- Money left over once all debt and expenses are paid
- Income from other investments
- Income from other sources
- Co-borrower income



Collateral

- Gives the lender assurance that if the borrower defaults the lender can repossess additional items of value
 - Subject property
 - Other property owned by the borrower
 - Cash
 - Stock
- Additional Collateral
 - Abundance of caution



RATIOS

- Loan to Cost 75% to 80%
 - Private Equity 10 to 20% of net income w/preferential repayment
- Loan to Value 80% to 90%
- DSC 1:2 or greater
- Cap Rate Between 7% to 10%
- Assumption Foreclosure 50% or more



FIVE C'S

- Character
 - History of repaying debt
- Capacity
 - Comparing income against recurring debt
- Capital
 - Capital invested by the applicant
- Collateral
- Conditions
 - What the borrowed money is being used
 - Project type and location



Sources of Equity

- Equity Partner
 - VC Firm
 - Family
 - Hard Money
- Public Subsidy
 - City of Baltimore
 - State of Maryland
- Property owned free and clear
- Community Development Corporations
- Deferred Developer Fee

Sample Cost Estimate Sheet

Hard Costs & Related Expenses	
Site Development/utilites/Alley Construction Cost	
Construction (Inc. Landscaping & P&P Bond)	
Construction Contingency (5%)	
Local permits/bonds	
Storm-Water/Waste Water/Sewer	
Water Service-Main Line& New Meter/ Sub-drainage	
Electrical Site Sub Structure	
Environmental Remediation	
Demolition	
Developers Agreement Cost - Baltimore City	
General Requirements/ Builder Overhead/Profits	
	SUBTOTAL
Soft Costs & Professional Fees	
Architectural Fees (construction adm)	
Appraisal/Market Study	
Engineer (Civil & Structural)	
Reimbursables/Reproductions	
Engineering Stakeout	
Environmental - special analysis (full report completed)	
Legal - Borrower	
City Legal	
Street and Alley Closings	
Accounting/Adminstrative/Audits	
Insurance (Liability & Builder's Risk)	
Inspection Fees	
Soft Cost Contingency (5%)	
	SUBTOTAL

Sample Cost Estimate Sheet

Financing & Related Expenses

Origination Fee

Construction Interest 7.00% - Total 24 months

Accrued Interest - Equity 1

Accrued Interest - Equity 2

Closing Cost 8%

Financing Contingency

SUBTOTAL

Marketing & Promotions

Model

Other - Marketing Packages/Signage

SUBTOTAL

Development Mgmt.

Developer's fee .15% of project costs

Other

SUBTOTAL

FUNDED PROJECT COSTS



- **William Ariano, Jr.**
 - 410-319-0726
 - **Frank Coakley**
 - 410-319-0735
 - **Sean Russell**
 - 410-319-0725
 - **Dierdra Pressley**
 - 410-319-0723
- President & CEO**
William.Ariano@bclending.org
- Chief Lending Officer**
Frank.Coakley@bclending.org
- Vice-President and Senior Loan Officer**
Sean.Russell@bclending.org
- Assistant Vice-President and Loan Officer**
Dierdra.Pressley@bclending.org