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
  – Cap Rate=Annual Net Operating/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

### 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/Administrative/Audits
- Insurance ( Liability & Builder's Risk)
- Inspection Fees
- Soft Cost Contingency (5%)

### SUBTOTAL
## Sample Cost Estimate Sheet

<table>
<thead>
<tr>
<th>Financing &amp; Related Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origination Fee</td>
</tr>
<tr>
<td>Construction Interest 7.00% - Total 24 months</td>
</tr>
<tr>
<td>Accrued Interest - Equity 1</td>
</tr>
<tr>
<td>Accrued Interest - Equity 2</td>
</tr>
<tr>
<td>Closing Cost 8%</td>
</tr>
<tr>
<td>Financing Contingency</td>
</tr>
</tbody>
</table>

**SUBTOTAL**

<table>
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<tr>
<th>Marketing &amp; Promotions</th>
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<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>Other - Marketing Packages/Signage</td>
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**SUBTOTAL**

<table>
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<th>Development Mgmt.</th>
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<tr>
<td>Developer's fee .15% of project costs</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

**SUBTOTAL**

**FUNDED PROJECT COSTS**
• William Ariano, Jr.  President & CEO
  – 410-319-0726  William.Ariano@bclending.org

• Frank Coakley  Chief Lending Officer
  – 410-319-0735  Frank.Coakley@bclending.org

• Sean Russell  Vice-President and Senior Loan Officer
  – 410-319-0725  Sean.Russell@bclending.org

• Dierdra Pressley  Assistant Vice-President and Loan Officer
  – 410-319-0723  Dierdra.Pressley@bclending.org