Banking Outlook for

Commercial Real Estate

"Post Meltdown" Banks are looking for a more "defined" type of CRE to lend on:

Desirable CRE:

1) Owner occupied CRE. Any type of commercial property (Office building, warehouse, restaurant, etc.) that the owner occupies at least 50% of the available square footage.
2) Medical / dental buildings.
3) Manufacturing Facility
4) Warehouse Facility

Undesirable CRE:

1) Retail "strip" centers. (Too Many)
2) "Big Box" stores. (Amazon.com impacting "brick & mortars" bottom line)
3) Hotels / Motels.
4) Single Detached Housing (Regulatory issues with regards to residential real estate)

"It Depends CRE":

1) Apartments

Financing

1) Most "deals" are funded on a balloon note basis.
   a) 5 Year Balloon / 20 year amortization is standard
   b) 10 Year Balloon / 25 year amortization for a "A1" deal
   c) 20% equity into the project is standard. The 20% is based off of loan to cost, not loan to value. (If LTV is less than cost, LTV will become the "basis")
   d) Personal Guarantors.
   e) Nonrecourse (No Guarantors) 50% LTC (Loan to Cost)

2) Straight amortization, 10 year max term

Underwriting Considerations:

1) Debt Service coverage ratio of 1.35X for the project and 1.25X for portfolio
2) Liquidity. Subjective measure, but Banks want to see "carry" ability, usually 24 months.
3) Credit history, individual guarantor and business are important.