

ACE Commercial Acquisitions:



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Lending, Syndication, and Capital Stacks



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Learning Objectives

At the end of this course, the student will be able to:

1. Calculate Net Operating Income (NOI) and Debt Service Coverage Ratio (DSCR) to determine if a commercial property's income can support proposed financing before writing an offer.
2. Identify which type of commercial lender (traditional bank, CMBS, life insurance company, debt fund, SBA, or bridge lender) is most appropriate for a client's specific deal based on property type, loan size, timeline, and transaction structure.
3. Explain the capital stack structure to clients, including the role and return expectations of senior debt, mezzanine debt, preferred equity, and common equity in a commercial real estate transaction.
4. Recognize when a client is syndicating a deal and understand the roles of General Partners (GPs) and Limited Partners (LPs), including how profits are typically split and what investors expect.
5. Read and interpret a Sources and Uses statement to verify that a client has adequate capital to cover not just the purchase price, but also closing costs, immediate repairs, and required reserves.
6. Evaluate commercial property financial statements critically, identifying common errors in seller pro formas such as overstated income, understated expenses, and missing vacancy assumptions.
7. Build appropriate financing contingency periods into purchase contracts based on lender type, ranging from 30 days for bridge loans to 90-120 days for CMBS, life insurance companies, and SBA loans.
8. Identify common deal killers early in the due diligence process, including environmental issues, major deferred maintenance, title problems, appraisal gaps, and unrealistic seller expectations.
9. Assist clients in gathering the required documentation for commercial loan applications, including T-12 financials, rent rolls, environmental reports, property inspections, and borrower financial statements.
10. Describe how leverage affects return on equity and risk, enabling agents to explain to clients why different capital structures produce different returns on the same property investment.
11. Distinguish between recourse and non-recourse financing and explain to clients how this impacts their personal liability and affects loan terms such as interest rates and down payment requirements.
12. Position commercial properties effectively to lenders by preparing deal summaries that highlight property strengths, explain the business plan clearly, use conservative assumptions, and demonstrate borrower experience and credibility.

Timeline

Introduction

10 min.

Chapter 1: Commercial Lending Fundamentals

35 min.

- Commercial vs. residential lending - why the property matters more than the borrower
- DSCR (Debt Service Coverage Ratio) - the most important metric in commercial lending
- Calculating NOI (Net Operating Income) with practice problems
- Loan-to-Value (LTV) ratios by property type
- The Five C's of commercial lending
- Property types and their lending profiles
- Recourse vs. non-recourse loans and when each is used

Chapter 2: Lender Types and Loan Products

40 min.

- Traditional banks and credit unions - relationship lending for smaller deals
- SBA 504 and 7(a) loans - low down payments for owner-occupied properties
- CMBS loans - non-recourse financing for larger stabilized deals
- Life insurance companies - long-term financing for trophy assets
- Fannie Mae and Freddie Mac - multifamily lending powerhouses
- Debt funds and bridge lenders - speed and flexibility for value-add deals
- Matching loan types to deal types - a practical guide
- Interest rate structures and prepayment penalties
- Building your lender network as an agent

Chapter 3: The Capital Stack

35 min.

- What is a capital stack and why it matters
- Senior debt - first position, lowest risk, lowest returns
- Mezzanine debt - the middle layer with moderate risk and returns
- Preferred equity - the hybrid layer between debt and equity
- Common equity - highest risk, highest returns, all the control
- How the capital stack works together with complete examples
- Risk and return at each layer
- How leverage amplifies both gains and losses
- Why understanding capital stacks helps you serve clients better

Chapter 4: Syndication Basics

35 min.

- What syndication is and why most commercial deals use it
- General Partners (GPs) vs. Limited Partners (LPs) - roles and expectations
- Common deal structures - 70/30 splits, 80/20 splits, and preferred return waterfalls
- How GPs get paid - acquisition fees, asset management fees, and the promote
- What LPs are looking for - preferred returns, target IRRs, and alignment of interests
- Types of syndicated deals - core, core-plus, value-add, and opportunistic

- The syndication timeline and capital raising process
- Red flags in syndications and regulatory compliance basics
- How syndications differ from REITs

Chapter 5: Deal Structuring & The Acquisition Process

35 min.

- Reading a Sources and Uses statement - where money comes from and where it goes
- Common deal structures from simple bank financing to complex capital stacks
- What lenders actually need - the complete document checklist
- Realistic timelines by lender type - why 30 days isn't enough for most deals
- Common deal killers - environmental issues, deferred maintenance, appraisal gaps, and more
- How to position deals to lenders effectively
- The closing process from contract to keys
- Post-closing considerations for your clients
- Your action plan as an agent to master commercial acquisitions

Conclusion

10 min.

Total

200 min. (4 Hrs CE)

Introduction

Forward

Why Commercial Agents Need to Understand Finance

Let me tell you a story. I watched an agent spend six months working with a client on a \$3.2 million apartment building deal. Six months of showings, negotiations, inspections, back-and-forth on price. They finally got to contract, sent it to a lender, and the lender laughed them out of the office in about fifteen minutes.

Why? Because the numbers didn't work. The property's NOI couldn't support the debt the buyer needed. The deal was dead from day one, but this agent didn't know enough about commercial lending to recognize it.

Six. Months. Wasted.

Here's the thing: if you're working in commercial real estate and you don't understand how deals are financed, you're operating blind. You're showing properties you shouldn't be showing. You're writing offers that will never close. You're wasting your time and your client's money.

And worse? You look like an amateur to the lenders, syndicators, and serious investors who could become your best referral sources.

This course exists to fix that problem.

What You're Going to Learn

Over the next four hours, I'm going to teach you how commercial real estate deals are actually structured and financed. Not theory - practical knowledge you can use on Monday morning.

You're going to learn:

- How lenders evaluate commercial deals (and how to pre-qualify properties before you waste time)
- The different types of lenders and loan products (and when to use each one)
- How the capital stack works (senior debt, mezzanine debt, equity - and why it matters)
- How syndication works (because your investor clients are probably syndicating deals)
- How to read deal structures and spot red flags that kill transactions

By the end of this course, you'll be able to:

- Look at a commercial property and quickly determine if the numbers work for financing
- Have credible conversations with lenders and not sound like an idiot
- Understand how your investor clients are structuring their deals
- Guide clients toward financing options that actually make sense
- Build relationships with lenders who will take your calls seriously

Expectations from attendees of this program:

- To endeavor to conduct every transaction in the most professional and effective manner for, most importantly, the consumer (customer) but also extending to the other professionals with whom the transaction requires you to interact.
- To continue to educate yourselves at all times on the ever-changing aspects, both legal and market related in their industry.
- To clearly keep in mind the goal of the transaction and not get bogged down in the minutia and personalities that tend to distract from that.
- To find solutions and solve problems not to doubt and aggravate issues.
- To not be afraid to say “I don’t know” once but never twice.
- To work within the realm of your expertise.

Purpose of this Course

To give you the tools to build a strong real estate business, with exceptional customer service, and advertising that is both compelling to the customer and compliant with the ethical standards we have. We will give you the tools necessary to avoid all the distractions and superfluous activities that can get in the way of closing customers for life.

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Chapter 1:

Commercial Lending Fundamentals

Section 1: This Isn't Residential Lending

If you came from residential real estate, I need you to forget almost everything you know about how lending works. Commercial lending is a completely different game with different rules, different players, and different math.

Residential Lending Focus: The Borrower

- What's their credit score?
- What's their income?
- What's their debt-to-income ratio?
- Can they personally afford the payment?

The property matters, sure - but the lender is really betting on the PERSON. Will this individual make their payments?

Commercial Lending Focus: The Property

- Does the property generate enough income to cover the debt?
- What's the cash flow?
- If the borrower walks away tomorrow, can we operate this property and get our money back?
- What's the market for this property type?

Yes, lenders still look at the borrower - we'll get to that with the Five C's. But in commercial lending, the property's performance is the star of the show. The building has to make enough money to pay for itself.

This is why you'll hear commercial lenders talk about "the deal" rather than "the borrower." They're underwriting the asset, not just the person.

Section 2: The Magic Number - Debt Service Coverage Ratio (DSCR)

If you learn ONE number from this entire course, learn this one: **DSCR**.

DSCR = Debt Service Coverage Ratio

This is the single most important metric in commercial lending. Period.

The Formula:

$$\text{DSCR} = \text{Net Operating Income (NOI)} / \text{Annual Debt Service}$$

Translation into English:

Does this property make enough money to cover the loan payment with room to spare?

Lenders want to see a cushion. They don't want a property that barely covers the debt - that's too risky. If you have one bad month, a few vacancies, or unexpected repairs, suddenly you can't make the loan payment.

Most lenders want to see a DSCR of at least 1.20 to 1.25.

That means the property generates 20-25% MORE income than needed to cover the debt service.

Let's Do the Math:

A 12-unit apartment building generates \$150,000 in Net Operating Income (we'll define NOI properly in a minute - just stay with me).

Your client needs a loan that would require \$110,000 in annual debt service (that's principal + interest for the year).

$$\text{DSCR} = \$150,000 / \$110,000 = 1.36$$

A DSCR of 1.36 means the property makes 36% more than it needs to cover the debt. That's healthy. Most lenders will love this deal.

Now let's look at a bad deal:

Same property, \$150,000 NOI. But your client wants to borrow more money, and the annual debt service would be \$140,000.

$$\text{DSCR} = \$150,000 / \$140,000 = 1.07$$

A DSCR of 1.07 means you only have a 7% cushion. That's way too tight. Most lenders will either:

- Decline the loan entirely
- Reduce the loan amount to get the DSCR up to 1.25
- Charge a much higher interest rate to compensate for the risk

Here's What This Means for YOU as an Agent:

Before you even show a property to an investor client, you should be able to eyeball the numbers and know if the deal will work from a lending perspective.

If a property generates \$200,000 in NOI and your client would need a \$190,000 annual loan payment to make the purchase price work, you're looking at a DSCR of 1.05. That deal is DOA (dead on arrival) with traditional lenders.

Don't waste six months on a deal that can't get financed. Learn to run these numbers BEFORE you write the offer.

Section 3: Net Operating Income (NOI) - The Foundation

NOI is not the same as cash flow. It's not the same as profit. It's a specific calculation that lenders use to evaluate property performance.

The Formula:

$$\text{NOI} = \text{Gross Operating Income} - \text{Operating Expenses}$$

Let me break down each piece:

Gross Operating Income (GOI)

This is ALL the income the property generates:

- Rental income (the big one)
- Parking fees
- Laundry income
- Pet fees
- Storage unit fees
- Vending machines
- Late fees (though some lenders exclude this)
- Any other income the property produces

Operating Expenses

These are the costs to operate the property:

- Property taxes
- Insurance
- Utilities (if landlord-paid)
- Maintenance and repairs
- Property management fees
- Landscaping/snow removal
- Common area maintenance
- Trash removal
- Pest control
- Legal and accounting fees
- Marketing/advertising for vacancies
- Supplies

What's NOT in Operating Expenses:

- The mortgage payment (that's debt service - we calculate NOI BEFORE debt so we can figure out how much debt the property can support)
- Capital improvements (new roof, HVAC replacement, major renovations)
- Depreciation (that's a tax concept, not a cash expense)
- Owner's personal expenses

Let's Calculate NOI - Example 1:

12-unit apartment building

Average rent: \$2,000/month per unit

Current occupancy: 100% (all units rented)

Gross Potential Income:

$12 \text{ units} \times \$2,000/\text{month} \times 12 \text{ months} = \$288,000$

Other Income:

- Laundry: \$3,600/year
- Pet fees: \$2,400/year
- Total other income: \$6,000

Vacancy Allowance:

Even if the property is currently 100% occupied, lenders will typically assume 5-10% vacancy.

Let's use 5%.

$\$288,000 \times 5\% = \$14,400$ vacancy loss

Gross Operating Income:

$\$288,000 + \$6,000 - \$14,400 = \$279,600$

Operating Expenses:

- Property taxes: \$36,000
- Insurance: \$12,000
- Utilities (common areas): \$8,000
- Water/sewer (landlord-paid): \$10,000
- Maintenance & repairs: \$24,000
- Property management (8% of gross income): \$22,368
- Landscaping: \$6,000
- Trash removal: \$4,800
- Pest control: \$1,200
- Accounting/legal: \$3,000
- Supplies: \$2,000
- Advertising: \$1,500
- Miscellaneous: \$2,000

Total Operating Expenses: \$132,868

NET OPERATING INCOME:

$$\$279,600 - \$132,868 = \$146,732$$

Now we know this property generates \$146,732 per year to service debt and provide return to the owner.

Let's Calculate DSCR for This Property:

Your client wants to buy this building for \$1,800,000. They're putting 25% down (\$450,000) and financing \$1,350,000.

They get quoted a loan at 7% interest, 25-year amortization.

Using a mortgage calculator, the monthly payment would be approximately \$9,538.

$$\text{Annual debt service: } \$9,538 \times 12 = \$114,456$$

$$\text{DSCR} = \$146,732 / \$114,456 = 1.28$$

That's a healthy DSCR. This deal will likely get financed.

Now Let's Look at a Deal That Won't Work:

Same property, same NOI of \$146,732.

But your client only wants to put 10% down. They want to finance \$1,620,000.

Same terms: 7% interest, 25-year amortization.

Monthly payment: \$11,446

Annual debt service: \$137,352

$$\text{DSCR} = \$146,732 / \$137,352 = 1.07$$

This DSCR is too low. The lender will either:

1. Decline the loan
2. Require a larger down payment to reduce the loan amount
3. Charge a higher interest rate (which makes the DSCR even worse)

Your Job as an Agent:

When you're evaluating a property for an investor client, you need to be able to:

1. Calculate (or estimate) the NOI
2. Determine what their likely debt service would be
3. Calculate the DSCR
4. Know whether the deal will work BEFORE you write the offer

Section 4: Where Agents Screw Up NOI Calculations

Let me save you from the most common mistakes:

Mistake #1: Trusting the Seller's Pro Forma

Sellers lie. Not always maliciously - sometimes they're just optimistic or terrible at accounting.

I've seen seller pro formas that:

- Claim 100% occupancy when actual is 80%
- Understate maintenance costs by 50%

- Forget to include property management fees
- List rental income that's 20% higher than actual
- Exclude expenses they "handle themselves" (but a buyer would have to pay for)

Always verify actual numbers. Ask for:

- T-12s (trailing 12 months of actual financial statements)
- Current rent roll showing actual rents and occupancies
- Last two years of tax returns
- Actual utility bills, tax bills, insurance bills
- Service contracts for landscaping, pest control, etc.

Mistake #2: Forgetting Vacancy

"But Josh, the property is 100% occupied right now!"

I don't care. Lenders will underwrite with a vacancy assumption, typically 5-10% depending on market and property type. Use it in your calculations or your numbers won't match the lender's underwriting.

Mistake #3: Underestimating Expenses

A good rule of thumb: operating expenses typically run 35-50% of gross operating income for most multifamily properties. If a seller is showing expenses at 25%, be suspicious.

Mistake #4: Including Debt Service in NOI

NOI is calculated BEFORE debt service. If you include the mortgage payment in your expenses, you're doing it wrong.

Mistake #5: Not Accounting for Capital Improvements

While capital improvements don't go in the NOI calculation, you need to think about them. If the property needs a new roof next year (\$80,000), that affects the deal even though it's not in NOI.

Section 5: Practice Problem - Calculate NOI and DSCR

Let me give you a practice problem. Grab a calculator.

Property: 8-unit apartment building

Income:

- 6 units rented at \$1,500/month
- 2 units rented at \$1,400/month
- Coin laundry income: \$200/month
- One unit currently vacant

Expenses (annual):

- Property taxes: \$18,000
- Insurance: \$8,000
- Water/sewer: \$7,200

- Electric (common areas): \$2,400
- Gas (landlord-paid): \$4,800
- Maintenance & repairs: \$12,000
- Property management: 7% of collected rents
- Landscaping: \$3,000
- Snow removal: \$2,400
- Trash: \$3,600

Financing:

- Purchase price: \$1,100,000
- Down payment: 25% (\$275,000)
- Loan amount: \$825,000
- Interest rate: 6.5%
- Term: 30 years

Your assignment:

1. Calculate Gross Operating Income (remember to account for vacancy)
2. Calculate Total Operating Expenses
3. Calculate NOI
4. Calculate Annual Debt Service
5. Calculate DSCR

Take five minutes and work this out.

Here's the Solution:

1. Gross Operating Income:

Gross potential rental income:

- $6 \text{ units} \times \$1,500 \times 12 = \$108,000$
- $2 \text{ units} \times \$1,400 \times 12 = \$33,600$
- Total potential rent: \$141,600

Laundry income:

- $\$200 \times 12 = \$2,400$

Gross potential income: \$144,000

Currently one unit is vacant (out of 8 = 12.5% vacancy). But let's use a more conservative 10% vacancy assumption for underwriting:

Vacancy loss: $\$144,000 \times 10\% = \$14,400$

Gross Operating Income: $\$144,000 - \$14,400 = \$129,600$

2. Total Operating Expenses:

- Property taxes: \$18,000
- Insurance: \$8,000

- Water/sewer: \$7,200
- Electric: \$2,400
- Gas: \$4,800
- Maintenance & repairs: \$12,000
- Property management (7% of \$129,600): \$9,072
- Landscaping: \$3,000
- Snow removal: \$2,400
- Trash: \$3,600

Total Operating Expenses: \$70,472

3. Net Operating Income:

$\text{NOI} = \$129,600 - \$70,472 = \$59,128$

4. Annual Debt Service:

Loan amount: \$825,000

Interest rate: 6.5%

Term: 30 years

Using a mortgage calculator:

Monthly payment: \$5,215

Annual debt service: $\$5,215 \times 12 = \$62,580$

5. DSCR:

$\text{DSCR} = \$59,128 / \$62,580 = 0.94$

Uh oh.

A DSCR of 0.94 means this property does NOT generate enough income to cover the debt service. You're losing money every month on the debt alone.

This deal will NOT get financed with these terms. The buyer would need to:

- Put more money down (reducing the loan amount)
- Negotiate a lower purchase price
- Find a way to increase rents or decrease expenses
- Walk away from the deal

This is why you run these numbers BEFORE you write the offer.

Section 6: Loan-to-Value (LTV) Ratio

DSCR tells you if the income supports the debt. LTV tells you how much skin the borrower has in the game.

The Formula:

$\text{LTV} = \text{Loan Amount} / \text{Property Value (or Purchase Price)}$

Most commercial lenders will lend:

- **75-80% LTV** for stabilized multifamily

- **70-75% LTV** for office, retail, industrial
- **65-70% LTV** for special-use properties (hotels, self-storage, etc.)
- **60-65% LTV** for land or development

This means your client needs to bring 20-40% down payment depending on property type and lender.

Why Does LTV Matter?

The more equity the borrower has, the less likely they are to walk away from the property. If you only put 10% down and the market drops 15%, you're underwater and might just hand the keys back to the lender.

If you put 25% down, you have real money at risk. You're going to fight to make it work.

Example:

\$2,000,000 property

\$1,500,000 loan

LTV = 75%

The borrower is putting \$500,000 (25%) down.

Section 7: The Five C's of Commercial Lending

Lenders evaluate commercial deals using five key criteria. Understanding these helps you position deals properly.

1. Cash Flow

Does the property generate sufficient income to service the debt? This is where NOI and DSCR come in. We've already covered this extensively.

2. Collateral

What's the property worth? What condition is it in? Is it in a good location? What's the market like?

Lenders want to know: if we have to foreclose on this property, can we sell it and recover our money?

Property type matters here:

- Class A multifamily in a strong market = excellent collateral
- Vacant office building in a declining downtown = questionable collateral
- Special-use property (like a car wash or bowling alley) = harder to value and sell

3. Credit

What's the borrower's credit history? Both personal credit score and business/entity credit matter.

For smaller deals (under \$5M), personal credit is heavily weighted. For larger deals, the property's performance matters more, but lenders still want to see the sponsor isn't a disaster.

Minimum credit scores vary by lender:

- Traditional banks: usually want 680+
- SBA loans: 680+ (sometimes 650)
- Portfolio lenders: may go lower with compensating factors
- CMBS (Commercial Mortgage-Backed Securities): credit matters less, property performance matters more

4. Capital

How much money is the borrower putting into the deal? We talked about this with LTV.

But it's not just down payment. Lenders also want to see:

- Reserves (can the borrower handle unexpected expenses?)
- Liquidity (does the borrower have cash available?)
- Net worth (what's the borrower's overall financial position?)

Many lenders require the borrower to have:

- Post-closing liquidity equal to 6-12 months of debt service
- Net worth equal to the loan amount
- Reserves for capital improvements

5. Conditions

What's happening in the market? The economy? The specific submarket where this property is located?

A great property with strong cash flow might still be hard to finance if:

- The local market is in decline
- The property type is out of favor (like office post-COVID)
- The economy is heading into recession
- Interest rates just spiked and deals aren't penciling

This is the piece you have the least control over, but you need to be aware of market conditions when advising clients.

Section 8: Property Types and Lending Profiles

Different property types get treated very differently by lenders. Here's what you need to know:

Multifamily (Apartments)

Easiest to finance. Lenders love multifamily - it's stable, liquid, easy to value.

Typical LTV: 75-80%

Best DSCR requirements: 1.20-1.25

Lots of lender options available. Fannie Mae and Freddie Mac are active in this space (for 5+ units).

Office

Much trickier post-pandemic. Lenders are nervous about office due to remote work trends.

Typical LTV: 65-75% (down from 75-80% pre-COVID)

Higher DSCR requirements: 1.25-1.30

Lender appetite depends heavily on quality, location, tenant roster. Class A with long-term credit tenants = still financeable. Class B/C with short leases = very difficult.

Retail

Depends entirely on tenants and location. Anchored by credit tenants (Starbucks, Walgreens, etc.) = easier. Mom-and-pop tenants or high vacancy = much harder.

Typical LTV: 70-75%

DSCR: 1.25-1.30

Inline retail (strip centers) harder than single-tenant net lease.

Industrial/Warehouse

Hot market right now (as of 2024-2025). E-commerce demand driving industrial space.

Typical LTV: 75-80%

DSCR: 1.20-1.25

Strong lender appetite, especially for modern facilities.

Self-Storage

Considered "special use" but popular.

Typical LTV: 70-75%

DSCR: 1.25-1.30

Lenders want to see stabilized occupancy (80%+). Climate-controlled, well-located facilities finance best.

Hotels

Difficult to finance. Very management-intensive. Performance varies wildly with economy.

Typical LTV: 60-65%

DSCR: 1.30-1.40

Limited lender appetite; often need specialized hotel lenders.

Mixed-Use

Complicated underwriting. Lenders have to evaluate multiple property types at once.

Typical LTV: 70-75%

Often need portfolio lenders or life companies. Strong residential component helps.

Bottom line for agents: Know what you're getting into. A client looking at a hotel needs to understand financing will be harder and more expensive than a similar-sized apartment building.

Section 9: Recourse vs. Non-Recourse Loans

This is a critical concept that many agents don't understand.

Recourse Loan:

The borrower is PERSONALLY liable for the debt. If the property fails and the lender forecloses, they can come after the borrower's other assets - bank accounts, other properties, wages, everything.

Non-Recourse Loan:

The lender's only recourse is the property itself. If the borrower defaults, the lender can take the property but can't go after the borrower's other assets.

Sounds like everyone would want non-recourse, right?

Not so fast. Non-recourse loans typically:

- Require larger down payments (lower LTV)
- Have higher interest rates
- Are only available for larger deals (usually \$2M+)
- Still have "bad boy carve-outs" (more on this in a second)

Bad Boy Carve-Outs:

Even in non-recourse loans, there are situations where the borrower becomes personally liable:

- Fraud or misrepresentation
- Filing for bankruptcy
- Environmental violations
- Misappropriation of rents or insurance proceeds
- Unauthorized sale or transfer of the property

These are called "bad boy carve-outs" because they only apply if the borrower does something bad.

When You'll See Each Type:

Recourse:

- Smaller deals (under \$2M)
- Regional and community banks
- Credit unions
- Most SBA loans
- Bridge loans

Non-Recourse:

- Larger deals (\$5M+)
- CMBS loans
- Life insurance company loans
- Fannie/Freddie multifamily loans
- Some debt funds

Why This Matters to Your Clients:

If your client is buying a \$10M property, they probably want non-recourse financing so their personal assets aren't at risk if the deal goes south.

If they're buying a \$1.5M property, they'll likely have to accept recourse debt - but that's okay because the deal should still work if the numbers are right.

Chapter 2:

Lender Types and Loan Products

Section 1: The Commercial Lending Landscape

Not all lenders are created equal. Understanding which type of lender to use for which deal is one of the most valuable skills you can develop as a commercial agent.

Different lenders have different:

- Loan size preferences (minimums and maximums)
- Property type preferences
- Geographic focus
- Speed of execution
- Flexibility on terms
- Pricing structures
- Documentation requirements

Your job as an agent is to know enough about each type of lender to point your clients in the right direction. You don't need to be an expert on every lender's underwriting guidelines, but you should know who to call for what type of deal.

Let's break down the major players in commercial lending.

Section 2: Traditional Banks (Commercial Banks)

These are your regional and national banks - think Wells Fargo, Bank of America, JPMorgan Chase, but also regional players like PNC, Fifth Third, Regions, and countless others.

What They're Good For:

- Small to mid-sized deals (\$1M - \$20M typically)
- Recourse loans
- Borrowers with strong banking relationships
- Deals where speed isn't the top priority
- Borrowers who want to consolidate their banking relationship

Typical Terms:

- LTV: 70-80% depending on property type
- DSCR: 1.20-1.25 minimum
- Interest rates: Competitive, often tied to SOFR or Prime
- Amortization: 20-25 years typical
- Term: 5-10 years (then balloon payment or refinance)
- Recourse: Usually yes, especially for smaller deals

Pros:

- Relationship-based lending (if you're a good customer, they'll work with you)
- Can offer other banking services (checking, savings, treasury management)
- Often more flexible on certain terms if you have history with them
- Local decision-making for regional banks

Cons:

- Can be slow (30-90 days typical)
- More bureaucracy and red tape
- Conservative underwriting (don't expect creative structures)
- Recourse is standard
- May pull back lending during economic uncertainty

When to Use:

Your client is buying a \$3M apartment building, has strong credit, good relationship with their local bank, and isn't in a huge rush. The bank knows them, trusts them, and will give them competitive terms.

Section 3: Credit Unions

Credit unions are member-owned financial institutions that can be surprisingly active in commercial real estate lending.

What They're Good For:

- Small to mid-sized deals (\$500K - \$10M typically)
- Owner-occupied commercial real estate
- Members with good credit
- Borrowers who want relationship-based lending with less corporate bureaucracy

Typical Terms:

- LTV: 75-80%
- DSCR: 1.20-1.25 minimum
- Interest rates: Often slightly better than banks
- Amortization: 20-25 years
- Term: 5-10 years
- Recourse: Usually yes

Pros:

- Often better rates than traditional banks
- More flexible and relationship-oriented
- Less bureaucratic than big banks
- Genuinely care about helping members succeed
- Keep loans in portfolio (don't sell them off)

Cons:

- Must be a member (though membership requirements are often minimal)
- Smaller loan sizes typically
- Limited geographic reach
- May lack sophistication for complex deals
- Slower than specialized commercial lenders

When to Use:

Your client is buying a \$2M building to run their business out of. They're a member of a local credit union, have good credit, and want competitive terms with a lender who will actually return their calls.

Section 4: SBA Loans (Small Business Administration)

The SBA doesn't actually lend money - they guarantee loans made by approved lenders (usually banks). This guarantee reduces the lender's risk, allowing them to offer better terms to borrowers.

The two main SBA programs for commercial real estate are:

SBA 504 Loan:

Designed specifically for owner-occupied commercial real estate and equipment. This is a powerful tool for small business owners buying their own building.

How it works:

- The loan is split into three parts:
 - Borrower puts down 10% (sometimes 15%)
 - SBA-backed loan covers 40%
 - Bank loan covers 50%
- The SBA portion has a fixed rate for 20-25 years
- The bank portion has their standard terms

Typical Terms:

- Down payment: 10-15%
- LTV: Up to 90% (85% more common)
- Property must be at least 51% owner-occupied
- Maximum loan: \$5-5.5M for the SBA portion
- Recourse: Yes
- Closing costs: Higher than conventional loans

Pros:

- Low down payment (10-15% vs 20-30% conventional)
- Fixed-rate long-term financing on the SBA portion
- Great for businesses buying their own building

Cons:

- Must be owner-occupied (at least 51%)
- Can't be used for investment properties
- Slower process (60-120 days typical)
- More paperwork and bureaucracy
- Higher closing costs
- Personal guarantee required

SBA 7(a) Loan:

More flexible than 504, can be used for various business purposes including real estate.

Typical Terms:

- Down payment: 10-20%
- LTV: Up to 90%
- Maximum loan: \$5M
- Can be used for investment property (with restrictions)
- Recourse: Yes

Pros:

- Flexible use of funds
- Longer terms than conventional
- Lower down payment

Cons:

- Personal guarantee required
- Lots of paperwork
- SBA fees can be significant
- Slower process

When to Use SBA:

Your client owns a successful small business and wants to buy the building they're currently leasing. They have good credit but limited cash for down payment. A 504 loan lets them buy with 10-15% down instead of 25-30%.

Section 5: CMBS Loans (Commercial Mortgage-Backed Securities)

CMBS loans are a different animal entirely. Here's how they work:

A lender (often a large bank or specialty finance company) makes commercial real estate loans. Instead of keeping these loans on their books, they package dozens or hundreds of them together and sell them as bonds to investors - pension funds, insurance companies, hedge funds, etc.

Think of it like this: they're bundling a bunch of commercial mortgages together and selling shares of that bundle to investors who want the steady income from the loan payments.

What They're Good For:

- Larger deals (\$2M minimum, but really best for \$5M+)
- Non-recourse financing

- Stabilized properties with strong cash flow
- Borrowers who want to lock in long-term fixed rates

Typical Terms:

- LTV: 65-75%
- DSCR: 1.25-1.30 minimum
- Loan size: \$2M minimum (realistically \$5M+)
- Term: 5, 7, or 10 years fixed
- Amortization: 25-30 years
- Recourse: Non-recourse (with bad boy carve-outs)
- Prepayment: Restricted (defeasance or yield maintenance penalties)

Pros:

- Non-recourse (your client's personal assets aren't at risk)
- Fixed-rate long-term financing
- Larger loan amounts available
- Competitive rates for strong deals
- Property-focused underwriting (credit matters less than property performance)

Cons:

- Slow process (60-90 days minimum)
- Inflexible terms (these loans are designed to be securitized, so there's little room for customization)
- Prepayment penalties are brutal (defeasance can be very expensive)
- High minimum loan amounts
- Lots of documentation required
- Difficult to modify if property performance changes

Defeasance Explained:

If you want to pay off a CMBS loan early (to sell or refinance), you often can't just pay it off. Instead, you have to buy Treasury bonds that will generate the same cash flow the lender was expecting from your loan. This is called "defeasance" and it can be VERY expensive.

When to Use CMBS:

Your client is buying a \$10M stabilized apartment building with strong occupancy and cash flow. They want non-recourse financing and plan to hold the property for at least 5-7 years. They're comfortable with the prepayment restrictions because they're not planning to sell or refinance early.

When NOT to Use CMBS:

Your client might want to sell in 3 years, or the property needs significant repositioning, or they want flexibility to refinance if rates drop. CMBS loans lock you in.

Section 6: Life Insurance Companies

Life insurance companies (think MetLife, Principal, TIAA, Prudential, etc.) are massive players in commercial real estate lending, but they're selective about what they finance.

What They're Good For:

- Large, high-quality properties (\$5M+ typically, often \$10M+)
- Trophy assets in major markets
- Long-term holds
- Borrowers who want non-recourse financing
- Stabilized assets with institutional-quality tenants

Typical Terms:

- LTV: 60-70%
- DSCR: 1.25-1.30 minimum
- Loan size: \$5M-\$10M minimum
- Term: 10-15 years fixed (sometimes longer)
- Amortization: 25-30 years
- Recourse: Non-recourse (with bad boy carve-outs)
- Interest rates: Very competitive for quality assets

Pros:

- Non-recourse
- Long-term fixed-rate financing
- Very competitive rates for quality properties
- Relationship lenders (if you do one deal well, they'll want more)
- Stable capital source

Cons:

- Very selective (they only want the best properties in the best markets)
- High minimum loan sizes
- Conservative underwriting
- Slow process (90+ days not uncommon)
- Prepayment penalties similar to CMBS
- Not interested in transitional or value-add deals

When to Use:

Your client is buying a \$15M Class A office building in downtown Austin with 95% occupancy and credit tenants on long-term leases. The property is pristine, the cash flow is strong, and they want to lock in financing for 10 years.

When NOT to Use:

Your client is buying a value-add opportunity that needs work, or it's a smaller deal, or the property is in a secondary market. Life companies want boring, stable, high-quality assets.

Section 7: Fannie Mae and Freddie Mac (Agency Lenders)

Wait, aren't Fannie and Freddie residential lenders?

Yes, but they're also HUGE players in multifamily lending (5+ units). They were created by the government to provide liquidity in the housing market, and that includes apartment buildings.

What They're Good For:

- Multifamily properties (5+ units)
- Affordable housing
- Stabilized and value-add deals
- Non-recourse financing
- Long-term fixed rates

Typical Terms:

- LTV: 75-80% (sometimes higher for affordable housing)
- DSCR: 1.20-1.25 minimum
- Loan size: \$1M+ (some programs have higher minimums)
- Term: 5, 7, 10 years (sometimes longer)
- Amortization: 30 years
- Recourse: Non-recourse (with bad boy carve-outs)
- Interest rates: Very competitive

Pros:

- Non-recourse
 - High LTV ratios available
 - Competitive rates
 - Long-term fixed-rate financing
 - Assumable loans (big advantage when selling)
 - Will finance value-add deals (not just stabilized)
-

Cons:

- ONLY for multifamily (5+ units)
- Bureaucratic process
- Lots of documentation required
- Environmental and property condition requirements
- Prepayment penalties

When to Use:

Your client is buying a 50-unit apartment building. They want non-recourse financing, competitive rates, and the ability to have the buyer assume the loan when they eventually sell.

When NOT to Use:

The property is office, retail, industrial, or anything other than multifamily. Fannie and Freddie only do apartments.

Section 8: Debt Funds and Private Lenders

These are non-bank lenders - investment funds, private equity firms, family offices, and specialty finance companies that lend their own capital or capital raised from investors.

What They're Good For:

- Deals that don't fit traditional lending boxes
- Value-add and repositioning deals
- Properties with some hair on them (high vacancy, deferred maintenance, etc.)
- Borrowers with credit issues
- Speed (can close in 2-4 weeks)
- Transitional situations

Typical Terms:

- LTV: 65-75%
- DSCR: 1.15-1.25 (more flexible than traditional lenders)
- Interest rates: Higher than banks (7-12%+ depending on risk)
- Term: 2-5 years typical
- Origination fees: 1-3% (sometimes higher)
- Recourse: Varies (often non-recourse for larger deals)

Pros:

- Fast (can close in weeks, not months)
- Flexible underwriting (will consider deals banks won't touch)
- Creative structuring available
- Asset-focused (less concerned about borrower credit)
- Will finance value-add and transitional properties

Cons:

- More expensive (higher rates and fees)
- Shorter terms (you'll need an exit strategy)
- Less regulated (terms vary widely)
- Some are harder to work with than others

When to Use:

Your client found a great deal on a 30-unit apartment building that's only 60% occupied. Traditional lenders won't touch it because of the vacancy. A debt fund will lend based on the stabilized value once occupancy is brought up to 90%+. Your client plans to fix it up and refinance into permanent financing in 18-24 months.

Section 9: Bridge Lenders

Bridge loans are short-term loans designed to "bridge" you from where you are to where you want to be. Many debt funds offer bridge loans, but there are also lenders who specialize in this type of financing.

What They're Good For:

- Quick closings (need to close in 2-3 weeks)
- Properties that need work before they qualify for permanent financing
- Situations where you need to act fast to secure the deal
- Transitional opportunities

Typical Terms:

- LTV: 65-75%
- Interest rates: 8-14%+
- Term: 6 months to 3 years
- Interest-only payments
- Origination fees: 1-3%+
- Exit fees sometimes charged

Pros:

- FAST (can close in days or weeks)
- Flexible terms
- Will finance properties that need work
- Interest-only payments preserve cash flow

Cons:

- Expensive (high rates and fees)
- Short term (you MUST have an exit strategy)

- Often recourse
- Some bridge lenders are predatory (watch out)

When to Use:

Your client found an off-market deal on a great property, but the seller wants to close in 15 days. No traditional lender can move that fast. You use a bridge loan to close quickly, then refinance into permanent financing within 6-12 months.

Critical Warning:

Bridge loans can be dangerous if you don't have a solid exit strategy. I've seen borrowers get stuck in bridge loans when they couldn't qualify for permanent financing or couldn't sell the property, and the high interest rates bled them dry. Always have a backup plan.

Section 10: Hard Money Lenders

Hard money lenders are private individuals or small companies that lend their own money (or investor money) secured by real estate. They're called "hard money" because they focus on the "hard" asset (the property) rather than the borrower's financials.

What They're Good For:

- Fix-and-flip deals
- Borrowers with credit problems
- Situations where speed is critical
- Properties that won't qualify for traditional financing
- Short-term needs

Typical Terms:

- LTV: 60-75% of current value (or 65-70% of ARV - After Repair Value)
- Interest rates: 10-18%+
- Term: 6-24 months
- Origination fees: 2-5 points (2-5% of loan amount)
- Often interest-only

Pros:

- Very fast (can close in days)
- Asset-based lending (credit doesn't matter as much)
- Will finance properties banks won't touch
- Minimal documentation

Cons:

- EXPENSIVE (highest rates and fees in commercial lending)
- Short terms

- Lower LTV
- Many hard money lenders are difficult to work with
- Some are predatory

When to Use:

Honestly? In commercial real estate, you rarely use hard money unless you have NO other options. It's more common in residential fix-and-flip. In commercial, debt funds and bridge lenders usually offer better terms.

If your client is buying a severely distressed property at a huge discount and plans to fix it up and refinance or sell within 12 months, hard money might make sense. But explore other options first.

Section 11: Construction Loans

Construction loans are specialized loans for building new properties or doing major renovations. They work differently than permanent financing.

How They Work:

Instead of giving you all the money upfront, the lender funds the loan in stages as construction progresses. You submit draw requests based on completed work, the lender inspects, and releases funds.

Typical draw schedule:

- 10% at closing
- 15% at foundation completion
- 20% at framing
- And so on until the project is complete

Typical Terms:

- LTV: 70-80% of total project cost
- Interest rate: Variable (often Prime + 2-4%)
- Term: 12-36 months (depends on project timeline)
- Interest-only during construction
- Converts to permanent financing or requires takeout loan

Lender Types for Construction:

- Regional and national banks
- Credit unions
- Specialty construction lenders
- Some debt funds

Requirements:

- Detailed construction budget
- Timeline
- General contractor information
- Plans and permits
- Pre-leasing requirements (often 30-50% for commercial)
- Experienced developer (lenders won't finance first-time developers easily)

When to Use:

Your client is building a new 20-unit apartment building from the ground up, or doing a gut renovation of an old warehouse to convert it to office space. They need construction financing that releases funds as work is completed.

Section 12: Matching Loans to Deal Types - A Quick Reference

Let me give you a cheat sheet for which lender type makes sense for different scenarios:

Small Apartment Building (\$1M-\$3M, Stabilized)

- Best option: Local bank or credit union
- Alternative: Fannie/Freddie (if 5+ units)
- Why: Relationship lending, good rates, appropriate loan size

Large Apartment Building (\$10M+, Stabilized)

- Best option: Fannie/Freddie
- Alternative: Life insurance company, CMBS
- Why: Non-recourse, competitive rates, assumable loans

Owner-Occupied Commercial Building

- Best option: SBA 504 loan
- Alternative: Local bank
- Why: Low down payment, long-term fixed rate

Value-Add Opportunity (High Vacancy, Needs Work)

- Best option: Debt fund or bridge lender
- Alternative: Fannie Mae value-add program (for multifamily)
- Why: Flexible underwriting, will lend on future value

Quick Closing Needed (Under 30 Days)

- Best option: Bridge lender or debt fund
- Alternative: Hard money (last resort)
- Why: Speed of execution

Trophy Property in Major Market (\$20M+)

- Best option: Life insurance company
- Alternative: CMBS
- Why: Long-term fixed, non-recourse, competitive rates

Small Retail Center (\$3M)

- Best option: Regional bank
- Alternative: Local credit union
- Why: Right loan size, relationship-based

Hotel Property

- Best option: Specialty hotel lender
- Alternative: SBA (if owner-occupied)
- Why: Hospitality expertise required

Section 13: Interest Rate Structures

Understanding how commercial loan interest rates are structured is important for advising clients.

Fixed-Rate Loans:

Interest rate stays the same for the entire term.

Common in:

- CMBS loans
- Life insurance company loans
- SBA 504 loans
- Fannie/Freddie loans

Pros: Predictable payments, protected from rate increases

Cons: Usually higher initial rate than variable, prepayment penalties

Variable/Floating Rate Loans:

Interest rate adjusts based on an index (usually SOFR - Secured Overnight Financing Rate, which replaced LIBOR).

Example: SOFR + 2.50%

If SOFR is 5%, your rate is 7.50%. If SOFR goes to 6%, your rate becomes 8.50%.

Common in:

- Traditional bank loans
- Bridge loans
- Construction loans
- Some debt fund loans

Pros: Usually lower initial rate, flexibility to prepay

Cons: Payment can increase if rates rise, uncertainty

Fixed for a Period, Then Adjustable:

Interest rate is fixed for 5, 7, or 10 years, then becomes adjustable.

This is common in commercial lending - you get a fixed rate for the initial term, then the loan either balloons (you refinance) or converts to variable.

Interest-Only vs. Amortizing:

Interest-Only: You only pay interest each month; principal isn't reduced. Common in bridge loans and construction loans.

Amortizing: Each payment includes both interest and principal, gradually paying down the loan. This is what most permanent financing looks like.

Section 14: Prepayment Penalties - A Critical Consideration

Most commercial loans have prepayment penalties. This is different from residential mortgages, where you can usually pay off the loan anytime without penalty.

Commercial lenders, especially those offering fixed-rate loans, don't want you paying off the loan early because they've locked in their return based on the loan term.

Common Prepayment Penalty Structures:

Yield Maintenance:

If you pay off the loan early, you pay the lender a penalty equal to the present value of the interest income they're losing. This can be VERY expensive if interest rates have dropped since you got the loan.

Common in: CMBS loans, life insurance company loans

Defeasance:

You can't just pay off the loan. Instead, you have to buy Treasury bonds or other securities that will generate the same cash flow the lender was expecting. You're essentially replacing your loan with government securities.

This is complicated and expensive, often requiring specialized defeasance consultants.

Common in: CMBS loans

Step-Down Prepayment Penalty:

The penalty decreases over time. For example:

- Years 1-2: 5% penalty
- Years 3-4: 4% penalty
- Years 5-6: 3% penalty
- Years 7-8: 2% penalty
- Years 9-10: 1% penalty

Common in: Bank loans, some agency loans

Lockout Period:

You can't prepay AT ALL for a certain period (often 2-3 years), then prepayment is allowed with or without penalty.

Common in: Various loan types

Why This Matters:

Your clients need to understand prepayment penalties BEFORE they take out a loan. If they might want to sell or refinance in a few years, a loan with harsh prepayment penalties could be a disaster.

Always ask lenders about prepayment terms upfront.

Section 15: Your Role in the Financing Process

As an agent, you're not a lender. But you ARE a critical part of the financing process. Here's what you should be doing:

Before Showing Properties:

Understand your client's financing capacity. What kind of loan will they likely need? What can they afford for a down payment? What's their credit situation?

This prevents you from wasting time showing \$10M properties to a client who can only get financing for \$3M.

When Evaluating Properties:

Run the numbers. Calculate NOI and DSCR. Know if the deal will work from a financing perspective BEFORE you write an offer.

During Offer Negotiation:

Build in appropriate financing contingency periods. Different lender types need different timelines:

- Bridge lender: 15-30 days
- Traditional bank: 45-60 days
- CMBS or life company: 60-90 days
- SBA: 90-120 days

After Contract:

Help your client connect with appropriate lenders. Have a network of lender contacts for different deal types. Make introductions. Follow up on the financing process.

Before Closing:

Verify that financing is actually approved and clear to close. Don't let clients waive financing contingencies until you're certain the money is coming.

Building Your Lender Network:

- Start building relationships with:
- 2-3 commercial loan officers at local/regional banks
 - 1-2 mortgage brokers who specialize in commercial deals

- 1-2 bridge lenders or debt funds
- An SBA lender if you work with small business owners
- A Fannie/Freddie lender if you work with multifamily

Take them to coffee. Learn what kinds of deals they like. Understand their lending boxes. Send them deals. These relationships are gold.

What NOT to Do:

Don't give financial advice. Don't tell clients "you should definitely do this loan" or "this is the best financing option." You're not a financial advisor.

Instead, say: "Based on what I know about commercial lending, here are a few lender types that might make sense for this deal. I'd recommend talking to 2-3 lenders to compare terms. I can make some introductions if that would be helpful."

Guide, don't advise. Connect, don't decide.

Chapter 3:

The Capital Stack

Section 1: What Is a Capital Stack?

If you're going to work with serious commercial real estate investors, you need to understand the capital stack. This concept sounds more complicated than it is, but it's absolutely critical to understanding how deals are structured.

Here's the simple version: The capital stack is the complete picture of how a commercial real estate deal is financed - all the different types of money that go into buying and operating a property, arranged by priority.

Think of it like layers in a cake. Each layer represents a different source of capital, and each layer has different:

- Priority (who gets paid first if things go south)
- Risk (how likely you are to lose your money)
- Return (how much money you make)
- Control (how much say you have in decisions)

The general rule: the lower you are in the stack (higher priority), the less risk you take and the lower your return. The higher you are in the stack (lower priority), the more risk you take and the higher your potential return.

Here are the typical layers from bottom to top:

1. Senior Debt (first mortgage)
2. Mezzanine Debt (subordinated debt)

3. Preferred Equity

4. Common Equity

Let's break down each layer.

Section 2: Senior Debt - The Foundation

Senior debt is the first mortgage on the property. It's called "senior" because it has first priority - if the property goes into foreclosure, the senior lender gets paid before anyone else.

This is the layer we spent all of Chapter 1 and 2 discussing. All those lender types - banks, CMBS, life insurance companies, Fannie/Freddie - they're all providing senior debt.

Key Characteristics:

Priority: First position. Gets paid before everyone else.

Security: Secured by a first mortgage on the property.

Recourse: Varies (can be recourse or non-recourse depending on lender type and deal size).

Typical LTV: 60-80% of property value (varies by property type and lender).

Interest Rate: Lowest in the stack (currently 6-9% for most deals, but varies with market conditions).

Payment Structure: Regular monthly payments of principal and interest (or interest-only for bridge loans).

Return Expectations: Senior lenders don't participate in upside. They get their interest rate, period. If the property value doubles, they still just get their 7% interest.

Risk Level: Lowest risk in the stack. Even if the property underperforms, senior debt gets paid first.

Example:

\$10M property purchase

Senior debt: \$7M (70% LTV)

Interest rate: 7%

Annual debt service: Approximately \$588,000 (at 25-year amortization)

If the property does amazing and is worth \$15M in five years, the lender still only gets their 7% interest. They don't share in the appreciation.

If the property struggles and is only worth \$8M, the senior lender still has first claim on the property and will likely recover most or all of their \$7M.

Section 3: Mezzanine Debt - The Middle Layer

Mezzanine debt (often called "mezz debt") is subordinated debt that sits between senior debt and equity in the capital stack.

Here's where it gets interesting: Mezzanine debt is NOT secured by the property itself. Instead, it's typically secured by the ownership interests (the equity) in the company that owns the property.

Let me explain that with an example:

Your client forms an LLC to buy a property. The LLC owns the building. Your client owns the LLC.

Senior debt = Mortgage on the building

Mezzanine debt = Lien on your client's ownership of the LLC

Why does this matter? Because if things go bad, the mezz lender doesn't have to go through the slow, expensive foreclosure process. They can take over the LLC (which owns the building) much faster.

Key Characteristics:

Priority: Second position, subordinate to senior debt.

Security: Usually secured by pledge of ownership interests in the borrowing entity, not the property itself.

Typical LTC: 10-15% of total project cost (on top of 70-75% senior debt).

Combined LTV: 80-90% when you add senior + mezz together.

Interest Rate: Higher than senior debt (currently 10-15%+ depending on risk).

Payment Structure: Often interest-only during the hold period.

Return Expectations: Higher than senior debt but still fixed. Mezz lenders want 10-15% returns, sometimes with participation in profits.

Risk Level: Higher than senior debt, lower than equity. If the deal goes bad, senior debt gets paid first, and mezz might get nothing.

When Is Mezzanine Debt Used?

Mezzanine debt is used when borrowers want to minimize the equity they put into a deal. Instead of putting 30% down, they might put 15% down, get 70% senior debt, and fill the gap with 15% mezz debt.

Example:

\$10M property purchase

Senior debt: \$7M (70% LTV) at 7% interest

Mezzanine debt: \$1.5M (15% LTC) at 12% interest

Equity: \$1.5M (15%)

Total leverage: 85%

Why would a borrower do this?

- Preserve cash/equity for other deals
- Increase their potential return on equity (we'll get to this)
- Avoid bringing in more equity partners

Why would a mezz lender do this?

- Higher returns than senior debt (12% vs 7%)
- Still relatively protected (property would have to drop below \$8.5M before they lose money)

- Faster remedies than foreclosure if things go bad

The Risk:

If the property value drops to \$8M and the borrower can't make payments, here's what happens:

Senior lender is owed \$7M. They're fine - plenty of value to cover their loan.

Mezz lender is owed \$1.5M. They're at risk. There's only \$1M of value left after the senior debt is paid.

Equity investors: Wiped out completely.

Section 4: Preferred Equity - The Hybrid Layer

Preferred equity sits between mezzanine debt and common equity. It's technically equity (ownership), not debt, but it acts more like debt in many ways.

Preferred equity investors get:

- A fixed preferred return (like interest on debt)
- Priority over common equity investors
- Usually no voting rights or control
- First claim on cash flow after debt service

Key Characteristics:

Priority: Junior to all debt, senior to common equity.

Security: Equity ownership in the property-owning entity.

Typical Amount: 5-15% of total capitalization.

Preferred Return: 10-18% typically (higher than mezz debt).

Payment Structure: Preferred return paid from cash flow after debt service. Can be current pay or accruing.

Return Expectations: Fixed preferred return, sometimes with profit participation.

Risk Level: Higher risk than debt. Only gets paid if there's cash flow after debt service.

Current Pay vs. Accruing:

Current Pay: The preferred return is paid out regularly (monthly, quarterly, or annually) from property cash flow.

Accruing: The preferred return accumulates and is paid at the end (usually upon sale or refinance). This is riskier for the preferred equity investor but helps the deal's cash flow during the hold period.

Example:

\$10M property

Senior debt: \$7M at 7%

Mezzanine debt: \$1M at 12%

Preferred equity: \$1M at 15% preferred return

Common equity: \$1M

The preferred equity investor gets 15% per year (\$150,000) before the common equity investors get anything. But they only get paid if there's enough cash flow after paying the senior debt and mezz debt.

Why Use Preferred Equity?

For the sponsor (common equity): Brings in capital without giving up control or diluting their upside as much as bringing in more common equity partners.

For the preferred equity investor: Higher returns than debt, with more protection than common equity.

Section 5: Common Equity - The Top of the Stack

Common equity is the ownership layer - the people who actually own the property (or the entity that owns the property).

This is where your investor clients typically sit. They're either the sole common equity owner, or they're raising common equity from other investors (which we'll cover in Chapter 4 on syndication).

Key Characteristics:

Priority: Last in line. Gets paid only after all debt and preferred equity.

Security: Ownership of the property (or the entity that owns it).

Control: Common equity typically has all the decision-making control.

Return Expectations: Unlimited upside potential, but also first to absorb losses.

Risk Level: Highest risk. If things go bad, common equity gets wiped out first.

Payment Structure: Distributions from cash flow after all debt and preferred equity are paid, plus proceeds from sale or refinance.

Why Take the Highest Risk?

Because common equity gets all the upside. If the property value increases, common equity captures that appreciation. If the property generates more cash flow than expected, common equity keeps the excess after paying debt and preferred returns.

Example:

Your client buys a \$10M property with:

- \$7M senior debt
- \$3M common equity (your client's money)

Five years later, the property is worth \$15M. Your client pays off the \$7M loan (let's say it's down to \$6.5M after some principal paydown).

Net proceeds: $\$15M - \$6.5M = \$8.5M$

Your client put in \$3M and gets back \$8.5M. That's a \$5.5M profit, or an 183% return on their equity (not accounting for cash flow during the hold period).

The senior lender? They got their 7% interest and that's it. They don't participate in the \$5M of appreciation.

This is why common equity takes the risk - they get the upside.

Section 6: How the Capital Stack Works Together - A Complete Example

Let's walk through a complete capital stack for a \$10M apartment building acquisition.

Purchase Price: \$10,000,000

Sources of Capital (The Capital Stack):

1. Senior Debt: \$7,000,000 (70% LTV)
 - Lender: Regional bank
 - Interest rate: 7%
 - Term: 10 years
 - Amortization: 25 years
 - Annual debt service: ~\$588,000
 - Recourse: Yes
2. Mezzanine Debt: \$1,000,000 (10%)
 - Lender: Debt fund
 - Interest rate: 12%
 - Term: 10 years (matches senior)
 - Payment: Interest-only
 - Annual cost: \$120,000
 - Secured by: Pledge of equity interests
3. Preferred Equity: \$500,000 (5%)
 - Investor: High-net-worth individual
 - Preferred return: 15%
 - Payment: Accruing (paid at exit)
 - Annual accrual: \$75,000
4. Common Equity: \$1,500,000 (15%)
 - Sponsor: Your client and their investors
 - Return: All remaining cash flow and profits
 - Control: 100% decision-making authority

Total: \$10,000,000

Now Let's Look at Cash Flow:

Property generates \$800,000 in NOI per year.

Annual Cash Flow Waterfall:

NOI: \$800,000

Less: Senior debt service: (\$588,000)

Remaining: \$212,000

Less: Mezz debt service: (\$120,000)

Remaining: \$92,000

Less: Preferred equity return: \$0 (accruing, not paid currently)

Remaining: \$92,000

To: Common equity: \$92,000

So the common equity investors get \$92,000 per year in distributions, which is a 6.1% cash-on-cash return on their \$1.5M investment.

Now Let's Look at Sale After 5 Years:

Assume the property is worth \$13M after five years of rent growth and improved operations.

Sale Proceeds Waterfall:

Sale price: \$13,000,000

Less: Senior debt balance: (\$6,300,000) (paid down from \$7M)

Remaining: \$6,700,000

Less: Mezzanine debt payoff: (\$1,000,000) (interest-only, so still \$1M)

Remaining: \$5,700,000

Less: Preferred equity return: (\$500,000 + \$375,000 accrued return)

Remaining: \$4,825,000

To: Common equity: \$4,825,000

Common Equity Returns:

Initial investment: \$1,500,000

Annual distributions over 5 years: \$460,000 (5 × \$92,000)

Sale proceeds: \$4,825,000

Total return: \$5,285,000

Profit: \$3,785,000 on a \$1.5M investment

Multiple: 3.52x

IRR: Approximately 29%

Compare to Each Layer's Returns:

Senior Debt: Got 7% interest per year. Total return over 5 years: ~\$2,100,000 in interest payments. No participation in appreciation.

Mezz Debt: Got 12% interest per year. Total return: \$600,000 in interest. No participation in appreciation.

Preferred Equity: Got 15% preferred return. Total return: \$875,000 (\$500,000 returned capital + \$375,000 accrued return). No participation in appreciation.

Common Equity: Got \$5,285,000 on \$1.5M invested (252% total return, 29% IRR). Captured all the appreciation and excess cash flow.

The Risk/Return Tradeoff:

Senior debt had the lowest risk and lowest return.

Mezz debt had moderate risk and moderate return.

Preferred equity had higher risk and higher return.

Common equity had the highest risk but by far the highest return.

What If the Deal Had Gone Bad?

Let's say the property performed poorly and was only worth \$8M after five years.

Sale Proceeds Waterfall:

Sale price: \$8,000,000

Less: Senior debt balance: (\$6,300,000)

Remaining: \$1,700,000

Less: Mezzanine debt payoff: (\$1,000,000)

Remaining: \$700,000

Preferred equity was owed: \$875,000

They only get: \$700,000

Loss: \$175,000 (20% of their investment)

Common equity: \$0 (completely wiped out)

This is why the capital stack matters - it determines who gets paid in what order, and who takes losses first.

Section 7: Debt Yield and Loan-to-Cost - Additional Metrics

Before we leave the topic of the capital stack, I need to introduce two more metrics that sophisticated lenders use:

Debt Yield:

Debt Yield = $\text{NOI} / \text{Loan Amount}$

This is different from DSCR. It tells the lender what their yield would be if they had to take the property back.

Example:

Property NOI: \$800,000

Loan amount: \$7,000,000

Debt Yield: $\$800,000 / \$7,000,000 = 11.4\%$

Most lenders want to see a debt yield of at least 9-10%. This ensures that even if they have to foreclose, they're getting a reasonable return on their money.

Loan-to-Cost (LTC):

This is used for acquisitions, developments, or value-add deals where the total project cost is more than just the purchase price.

$$\text{LTC} = \text{Loan Amount} / \text{Total Project Cost}$$

Example:

Purchase price: \$10,000,000

Renovation budget: \$2,000,000

Closing costs: \$300,000

Total project cost: \$12,300,000

Loan amount: \$9,000,000

$$\text{LTC} = \$9,000,000 / \$12,300,000 = 73\%$$

$$\text{LTV (based on purchase price)}: \$9,000,000 / \$10,000,000 = 90\%$$

Notice the LTC is lower than the LTV because it includes all the costs, not just the purchase price.

Section 8: Why the Capital Stack Matters to You as an Agent

You might be thinking: "Josh, I'm a real estate agent, not a lender or investor. Why do I need to know all this?"

Here's why:

1. Your sophisticated clients are structuring deals this way

If you're working with experienced investors or syndicators, they're using multiple layers of the capital stack. You need to understand what they're doing so you can:

- Have intelligent conversations with them
- Understand their constraints and motivations
- Help them structure offers that make sense for their capital stack

2. It affects deal structure and timing

A client using 70% senior debt can close in 45-60 days.

A client using 70% senior + 15% mezz might need 60-75 days (mezz lender needs to underwrite too).

A client using 70% senior + 10% mezz + 10% preferred equity might need 75-90 days.

You need to build appropriate timelines into your contracts.

3. It explains why different clients have different constraints

Client A can only pay \$9M for a property (their senior lender won't go higher).

Client B can pay \$10M for the same property (they're using mezz debt to increase leverage).

Understanding the capital stack explains why different buyers have different maximum purchase prices for the same asset.

4. It helps you identify serious buyers vs. tire kickers

If a client tells you they're going to buy a \$20M property with 95% leverage using seven different capital sources and a partridge in a pear tree, they're probably not serious (or they don't know what they're doing).

A client who says "I'm putting 25% down and getting 75% senior debt from my bank" is probably real.

5. It affects your client's exit strategy

Properties with simple capital stacks (just senior debt and equity) are easier to sell or refinance.

Properties with complex capital stacks (senior + mezz + preferred + common) might be harder to refinance because the new lender has to pay off multiple layers.

Example of How This Plays Out:

Your client is selling a \$15M property. They have three offers:

Offer A: \$15M all cash, 30-day close

Offer B: \$15.5M with 75% senior debt, 60-day close

Offer C: \$16M with 70% senior, 15% mezz, 15% equity, 90-day close

Which offer is best?

It depends on your client's capital stack!

If your client has simple senior debt, Offers A and B are probably better even though they're lower price - they're cleaner and faster.

If your client has a complex capital stack with mezz debt and preferred equity that has accrued returns, they might need the higher price of Offer C even though it's more complicated.

Understanding capital stacks helps you advise your client on which offer is actually best for their situation.

Section 9: Leverage and Return on Equity

One last concept before we finish this chapter: Why do investors use debt at all? Why not just pay cash?

Answer: Leverage increases return on equity (assuming the property performs well).

Let me show you with an example:

Scenario 1: All Cash Purchase

Purchase price: \$10M

Equity invested: \$10M

NOI: \$800,000/year

Cash-on-cash return: $\$800,000 / \$10M = 8\%$

After 5 years, sell for \$13M

Total return: $\$13M - \$10M = \$3M$ profit

Return on equity: 30% over 5 years

Scenario 2: 70% Leverage

Purchase price: \$10M
Senior debt: \$7M at 7% interest
Equity invested: \$3M
NOI: \$800,000/year
Less debt service: \$588,000/year
Cash flow to equity: \$212,000/year
Cash-on-cash return: $\$212,000 / \$3M = 7.1\%$

After 5 years, sell for \$13M
Less debt payoff: \$6.3M (paid down from \$7M)
Proceeds to equity: \$6.7M
Profit: $\$6.7M - \$3M = \$3.7M$
Return on equity: 123% over 5 years

Same property, same performance, but the leveraged investor made \$700,000 more profit and got a 123% return vs. 30%.

This is the power of leverage - it amplifies returns (when things go well).

The Danger of Leverage:

But leverage also amplifies losses when things go poorly.

If that same property had dropped to \$8M after 5 years:

All-cash investor: Lost \$2M (20% loss)
Leveraged investor:
Sale proceeds: \$8M
Less debt: \$6.3M
Remaining: \$1.7M
Loss: $\$3M - \$1.7M = \$1.3M$ (43% loss)

The leveraged investor lost a bigger percentage of their equity even though the property dropped the same amount.

This is why DSCR matters - lenders want to make sure there's a cushion so leverage doesn't become too dangerous.

Chapter 4:

Syndication Basics

Section 1: What Is Syndication and Why Does It Matter?

Here's a reality check: Most commercial real estate deals are too big for one person to buy alone.

A \$10M apartment building with 25% down requires \$2.5M in equity. How many of your clients have \$2.5M sitting around to invest in one property?

Not many.

This is where syndication comes in.

Syndication is the process of pooling money from multiple investors to buy a commercial property that would be too expensive for any single investor to purchase alone.

Think of it like this: Instead of one person buying a \$10M building with \$2.5M down, you have one person (the syndicator) who raises \$2.5M from 10 investors putting in \$250,000 each. Same deal, different structure.

Why This Matters to You as an Agent:

If you're working in commercial real estate, many of your investor clients are syndicators - they're not buying properties with their own money, they're raising money from other investors.

Understanding how syndication works helps you:

- Recognize when a client is syndicating a deal
- Understand their timeline constraints (they need time to raise capital)
- Know what they're looking for in a property (syndicated deals need strong fundamentals)
- Understand why they might walk away from a deal that seems good (it doesn't work for their investor base)
- Position yourself as a knowledgeable partner who understands their business

You're not going to become a syndicator from this chapter, but you'll understand enough to work effectively with clients who are.

Section 2: The Key Players in a Syndication

Every syndication has two main groups of people:

General Partners (GPs) - The Syndicators:

The General Partners are the people who:

- Find the deal
- Negotiate the purchase
- Arrange financing
- Raise equity from investors
- Manage the property (or hire management)
- Execute the business plan
- Eventually sell the property

The GP is the "active" investor - they're doing all the work. They typically invest some of their own money (usually 5-20% of the total equity), but most of the capital comes from Limited Partners.

The GP gets paid in multiple ways (we'll get to that).

Limited Partners (LPs) - The Investors:

The Limited Partners are passive investors who:

- Provide capital (money)
- Receive returns on their investment
- Have no decision-making authority
- Have no management responsibilities

- Have limited liability (can't lose more than they invested)

LPs are typically:

- High-net-worth individuals
- Family offices
- Other real estate investors who want passive exposure
- Self-directed IRA investors
- Anyone with capital who wants real estate returns without doing the work

LPs provide most of the equity (usually 80-95%) but have no control over how the property is managed or when it's sold.

The Legal Structure:

Most syndications are structured as Limited Liability Companies (LLCs) with the GP as the managing member and the LPs as non-managing members.

The GP has all the decision-making authority. The LPs are along for the ride - they can't vote on management decisions, can't force a sale, can't hire or fire property management.

This is why LPs need to trust the GP before investing. Once they're in, they have very little control.

Section 3: How Syndications Are Structured - The Split

The most important question in any syndication: How are profits split between the GP and the LPs?

There's no single "standard" structure, but here are the most common models:

The 70/30 Split:

LPs get 70% of all profits and cash flow
GP gets 30% of all profits and cash flow

This is simple and straightforward. If the property generates \$100,000 in cash flow, LPs get \$70,000 (divided proportionally based on their ownership) and the GP gets \$30,000.

The 80/20 Split:

LPs get 80% of all profits and cash flow

GP gets 20% of all profits and cash flow

This is common when the GP is also investing significant capital alongside the LPs.

The Preferred Return Structure (Most Common):

This is where it gets more interesting. Instead of a straight split, the LPs get a "preferred return" first, then profits are split differently after that hurdle is met.

Here's how it works:

LPs get a preferred return (typically 7-10% annually) on their invested capital

Once that preferred return is met, remaining cash flow is split (often 70/30 or 60/40)

Example:

Total equity raised: \$2,500,000

LP investment: \$2,250,000 (90%)

GP investment: \$250,000 (10%)

Structure: 8% preferred return to all investors, then 70/30 split

Year 1 Cash Flow: \$200,000

First, calculate 8% preferred return on all equity:

$$\$2,500,000 \times 8\% = \$200,000$$

All \$200,000 goes to investors (LPs and GP) proportionally:

LPs get: $\$200,000 \times 90\% = \$180,000$ (8% return on their \$2.25M)

GP gets: $\$200,000 \times 10\% = \$20,000$ (8% return on their \$250K)

No profit split kicks in because all cash flow was needed to pay the 8% preferred return.

Year 3 Cash Flow: \$300,000

First, 8% preferred return: \$200,000

LPs get: \$180,000

GP gets: \$20,000

Remaining cash flow: \$100,000

Now the 70/30 split kicks in on the remaining \$100,000:

LPs get: $\$100,000 \times 70\% = \$70,000$

GP gets: $\$100,000 \times 30\% = \$30,000$

Total distributions:

LPs: $\$180,000 + \$70,000 = \$250,000$

GP: $\$20,000 + \$30,000 = \$50,000$

The Waterfall Structure:

Some sophisticated syndications have multiple tiers:

Tier 1: 8% preferred return to LPs

Tier 2: Next returns split 80/20 until LPs get 12% IRR

Tier 3: Remaining profits split 70/30

This aligns interests - the GP only gets their larger share if LPs are getting great returns.

Section 4: How the GP Gets Paid

General Partners make money in multiple ways:

1. Acquisition Fee (Upfront):

The GP charges a fee for finding and closing the deal, typically 1-3% of the purchase price.

On a \$10M deal: \$100,000 - \$300,000 acquisition fee

This compensates the GP for their time and effort in sourcing, analyzing, negotiating, and closing the deal.

2. Asset Management Fee (Annual):

The GP charges an annual fee for managing the investment, typically 1-2% of equity raised or 1-2% of revenue.

On a \$2.5M equity raise: \$25,000 - \$50,000 per year

This compensates the GP for ongoing oversight, investor relations, and strategic management.

3. Property Management Fee (If Applicable):

If the GP or their affiliated company manages the property, they earn standard property management fees (typically 3-8% of gross revenue depending on property type).

Not all GPs self-manage. Many hire third-party management and don't receive this fee.

4. Profit Split / Promote:

The GP gets their share of cash flow and profits based on the structure we discussed above (20-30% typically after preferred returns are met).

This is called the "promote" and it's where GPs make most of their money on successful deals.

5. Disposition Fee (At Sale):

Some GPs charge a fee when the property is sold, typically 1-2% of the sale price.

On a \$13M sale: \$130,000 - \$260,000

Not all syndications include this fee - it's negotiable.

Example of Total GP Compensation:

\$10M property acquisition
\$2.5M equity raised
GP invests \$250,000 (10%)
LPs invest \$2.25M (90%)

Structure: 8% pref return, then 70/30 split

Year 1 Income:

- Acquisition fee (2%): \$200,000
- Asset management fee (2% of equity): \$50,000
- GP share of cash flow: \$20,000 (8% on their \$250K investment)
- Total Year 1: \$270,000

Years 2-5 Income (Annual Average):

- Asset management fee: \$50,000
- Property performs well, cash flow exceeds pref return
- GP share of distributions: \$80,000 average
- Total per year: \$130,000

Sale After 5 Years:

- Sale price: \$13M
- Disposition fee (1%): \$130,000
- GP profit from sale after all returns: \$800,000
- Total from sale: \$930,000

Total GP Compensation Over 5 Years:

- Year 1: \$270,000
- Years 2-5: \$520,000 (4 × \$130,000)
- Sale: \$930,000
- Total: \$1,720,000

On a \$250,000 investment, the GP made \$1,720,000 over five years. That's a 7x return on their capital, plus all the fees.

This is why people syndicate deals - the GP makes money from fees AND from their equity participation.

Section 5: What LPs Are Looking For

If your client is a syndicator, they need to raise money from LPs. Understanding what LPs want helps you identify properties that will be attractive to a syndicator's investor base.

LPs typically want:

1. Strong, Stable Cash Flow:

LPs want regular distributions - quarterly or annually. They don't want to invest \$250,000 and hear nothing for five years.

This means syndicators look for stabilized properties with good occupancy and reliable tenants.

2. Preferred Returns in the 7-10% Range:

Most LP investors expect a 7-10% preferred return. If a syndicator can't project that return, they'll have trouble raising money.

3. Target IRRs of 15-20%:

LPs want to make 15-20% IRR (Internal Rate of Return) over the life of the investment when you factor in annual distributions plus profits from the sale.

Lower than 15% and they'd rather invest in something else. Higher than 25% and they get suspicious (too good to be true).

4. Reasonable Hold Periods:

Most LPs want a 3-7 year hold period. Long enough to execute a value-add business plan, short enough to get their money back within a reasonable timeframe.

10+ year holds are hard to syndicate unless it's a very unique opportunity.

5. Professional, Experienced GPs:

LPs want to see that the GP has successfully done similar deals before. First-time syndicators have a much harder time raising capital.

6. Alignment of Interests:

LPs want to see the GP investing their own money alongside them (skin in the game). If the GP is raising \$2M but only investing \$10,000 personally, that's a red flag.

Most LPs want the GP to invest at least 5-10% of the total equity.

7. Conservative Underwriting:

LPs don't want pie-in-the-sky projections. They want conservative assumptions that are likely to be met or exceeded.

If your syndicator client is projecting 10% annual rent growth in a market that's been growing at 3%, their LPs will be skeptical.

Section 6: The Types of Syndicated Deals

Syndicators typically focus on specific strategies:

Core Deals:

- Stabilized, high-quality properties with strong cash flow
- Low risk, lower returns (8-12% IRR typical)
- Minimal value-add work needed
- Focus on cash flow distributions

Example: Class A apartment building, 95% occupied, strong market

Core-Plus Deals:

- Good properties that need some light improvements
- Moderate risk, moderate returns (12-16% IRR typical)
- Some value-add work (cosmetic upgrades, rent increases, minor repositioning)

Example: Class B apartments, 85% occupied, needs unit renovations to increase rents

Value-Add Deals:

- Properties with problems that can be fixed
- Higher risk, higher returns (16-22% IRR typical)
- Significant repositioning required
- Returns come more from appreciation than cash flow initially

Example: Apartment building with 60% occupancy, deferred maintenance, below-market rents, opportunity to renovate and stabilize

Opportunistic Deals:

- Highest risk, highest potential returns (20%+ IRR target)
- Major repositioning, development, or conversion
- May have little to no cash flow for several years
- Returns come almost entirely from sale proceeds

Example: Converting an old office building to apartments, ground-up development

What This Means for You as an Agent:

If your syndicator client focuses on value-add deals, don't show them pristine Class A properties - they're looking for problems to solve.

If they focus on core deals, don't show them distressed properties - they want stable, boring assets.

Match the property to the syndicator's strategy.

Section 7: The Syndication Timeline and Process

Understanding the syndication process helps you set realistic expectations for timing.

Typical Syndication Timeline:

Phase 1: Find the Deal (Ongoing)

The syndicator is constantly looking at properties, analyzing deals, making offers.

Phase 2: Get Under Contract (1-2 weeks)

Once they find a good deal, they negotiate and get it under contract with a financing contingency period (typically 30-60 days).

Phase 3: Initial Due Diligence (1-2 weeks)

The syndicator does their preliminary analysis:

- Verify financials
- Inspect the property

- Confirm the numbers work
- Develop the business plan

Phase 4: Create the Investment Package (1 week)

The syndicator creates materials for potential investors:

- Investment summary
- Property overview
- Financial projections
- Business plan
- Legal documents (PPM - Private Placement Memorandum)

Phase 5: Capital Raise (2-4 weeks)

The syndicator reaches out to their investor network:

- Send investment summary to potential LPs
- Host webinars or conference calls
- Answer investor questions
- Collect capital commitments

Phase 6: Finalize Financing (2-4 weeks, often overlapping with capital raise)

While raising equity, the syndicator is also finalizing debt:

- Submit loan application
- Provide lender documentation
- Get loan approval

Phase 7: Close (1 week)

Once equity is raised and financing is approved:

- Transfer investor funds into escrow
- Close on the property
- Transfer ownership

Total Timeline: 6-10 weeks from contract to close

This is why syndicators often need 60-90 day financing contingencies - they need time to raise capital and secure financing.

What Can Go Wrong:

The syndicator can't raise enough capital. They thought they could raise \$2M but only got \$1.5M committed. Deal dies.

Key investors back out. The syndicator was counting on a \$500K investment from one LP who gets cold feet. Now they're scrambling.

The lender changes terms. The bank initially indicated 75% LTV but comes back at 70%, increasing the equity needed.

Due diligence reveals problems. Inspection finds major deferred maintenance that changes the economics.

Your Role:

Build enough time into the contract for your syndicator client to raise capital and secure financing.

Stay in communication during the contingency period. If your client is having trouble raising capital, you need to know ASAP.

Be prepared with backup buyers. Syndicated deals have a higher fallout rate than all-cash or traditional financed deals.

Section 8: Red Flags in Syndications

Not all syndications are created equal. Some are well-structured and managed by experienced professionals. Others are disasters waiting to happen.

If you're working with a syndicator client (or if you're considering investing as an LP yourself), watch out for these red flags:

Red Flag 1: The GP Has No Track Record

First-time syndicators fail at a much higher rate than experienced ones. If your client has never syndicated a deal before, they're going to have a hard time raising capital, and the deal is higher risk.

Red Flag 2: The GP Isn't Investing Their Own Money

If the GP is raising \$2M but only investing \$25,000 (about 1%), they don't have enough skin in the game. Most experienced LPs won't invest with a GP who isn't putting in at least 5-10%.

Red Flag 3: Unrealistic Projections

Projecting 8% annual rent growth in a market that's been growing at 2-3%? Projecting 95% occupancy on a property that's currently 60% occupied with no clear plan to get there? Projecting a sale at a 5 cap when the market is trading at 7 caps?

Unrealistic projections are either naive or dishonest. Either way, red flag.

Red Flag 4: Excessive Fees

3% acquisition fee + 3% asset management fee + 3% property management fee + 3% disposition fee + 50% of profits after an 8% pref return?

That's excessive. The GP is extracting too much value in fees and not leaving enough for investors.

Reasonable total fees are typically 5-8% of the deal over its lifetime, not 15-20%.

Red Flag 5: No Independent Property Management

The GP is self-managing the property, keeping all the management fees for themselves, and has no independent oversight of operations.

This creates conflicts of interest. Better to have third-party management with clear reporting.

Red Flag 6: Vague Business Plan

"We're going to buy this property, make it better, and sell it for a profit."

That's not a business plan. A good business plan specifies exactly:

- What improvements will be made
- How much they'll cost
- What impact they'll have on rents/occupancy
- What the timeline is
- What the exit strategy is

Red Flag 7: Commingled Funds

Investor money is going into the GP's personal or operating account instead of a dedicated account for this specific property.

This is a recipe for fraud. Each syndication should have its own dedicated bank account.

Red Flag 8: No Legal Documentation

Professional syndications have proper legal documentation:

- Private Placement Memorandum (PPM)
- Operating Agreement
- Subscription Agreement
- Proper securities filings

If someone is raising money from investors without proper legal documents, they're violating securities laws and putting everyone at risk.

Section 9: Regulation and Compliance

Here's something important: Syndications are regulated by the Securities and Exchange Commission (SEC) because they're selling securities (ownership interests in an investment).

GPs need to comply with securities laws. There are two main ways they do this:

Regulation D, Rule 506(b):

- Can raise unlimited capital
- Can only accept accredited investors (with some exceptions)
- Cannot publicly advertise the offering
- Must have pre-existing relationships with investors

Regulation D, Rule 506(c):

- Can raise unlimited capital
- Can ONLY accept accredited investors (must verify their status)
- CAN publicly advertise the offering

Accredited Investor Definition:

- Individual with \$200K+ annual income (\$300K+ joint) for past 2 years, or
- Individual with \$1M+ net worth (excluding primary residence), or

- Certain entities with \$5M+ in assets

Why This Matters to You:

If your syndicator client is publicly advertising their deal or talking about it openly, they're probably doing a 506(c) offering, which means they can only accept accredited investors.

If they're not advertising and reaching out to people they already know, they're probably doing a 506(b) offering.

Either way, they need proper legal documentation. If your client is "informally" raising money from friends and family without legal docs, they're asking for trouble.

Your Responsibility:

You're not responsible for your client's securities compliance, but you should know enough to ask: "Do you have your PPM and legal documents in order?"

If they don't, encourage them to hire a securities attorney before they start raising money.

Section 10: Why Agents Need to Understand Syndication

Let me tie this all together with why this matters to your real estate practice:

1. Many of Your Serious Buyers Are Syndicators

The investors buying \$5M+ properties are often syndicators. Understanding how they operate helps you serve them better.

2. Syndicators Have Different Constraints Than Individual Buyers

They need time to raise capital. They need deals that will attract LPs. They need conservative financing. They can't be as flexible on price because their investors are expecting certain returns.

Understanding these constraints helps you negotiate better and set realistic expectations with sellers.

3. Syndicators Can Close Bigger Deals

An individual investor might max out at \$3M. A syndicator can raise \$10M in equity and buy a \$40M property.

If you want to work on larger deals, you need to work with syndicators.

4. You Can Identify Properties That Will Syndicate Well

Not every property works for syndication. Properties that syndicate well:

- Have strong, verifiable financials (no creative accounting)
- Are in good locations with clear growth stories
- Have a clear value-add opportunity with quantifiable returns
- Are large enough to justify the syndication costs (typically \$2M+ equity raise)
- Have professional management in place or available

If you can identify these properties and bring them to syndicators, you become invaluable.

5. You Can Spot Deals That Won't Syndicate

Single-tenant net lease properties are hard to syndicate (too passive, not enough upside).

Small deals (under \$2M purchase price) are hard to syndicate (equity raise too small to justify costs).

Properties in tertiary markets with no clear growth story are hard to syndicate (LPs want growth markets).

Knowing what won't work saves everyone time.

Section 11: How Syndications Differ From REITs

Your clients might ask: "Why would I invest in a syndication instead of a REIT?"

Here's the difference:

Syndications:

- Invest in one specific property
- Know exactly what you're buying

- Typically 3-7 year hold period
- Less liquid (can't easily sell your shares)
- Higher minimum investment (\$25K-\$100K typical)
- Potentially higher returns (15-20% IRR targets)
- Direct communication with GP
- Tax benefits (depreciation) flow through to investors

REITs (Real Estate Investment Trusts):

- Invest in a portfolio of properties
- Don't know specific properties you're buying
- Indefinite hold period
- Highly liquid (can sell shares anytime if publicly traded)
- Low minimum investment (can buy one share)
- Lower returns typically (8-12% historical average)
- No direct communication with management
- Different tax treatment (dividends taxed as ordinary income)

Different Tools for Different Goals:

REITs are good for:

- Investors who want liquidity
- Investors with smaller amounts to invest
- Investors who want diversification across many properties
- Investors who don't want to lock up capital for years

Syndications are good for:

- Investors who want higher potential returns
- Investors who want to know exactly what they're buying
- Investors who want tax benefits (depreciation)
- Investors who can commit capital for 3-7 years
- Investors who want a specific investment thesis (e.g., "I want to invest in apartment buildings in Austin")

Section 12: Working with Syndicator Clients

Here's how to be most valuable to syndicator clients:

Understand Their Strategy:

- What type of deals do they focus on? (Core, value-add, opportunistic)

- What property types?
- What markets?
- What size deals?

Don't waste their time showing them properties outside their focus.

Know Their Timeline:

- How long does their typical capital raise take?
- What financing contingency period do they need?
- When do their current investors expect to deploy capital?

Provide Strong Financial Documentation:

- Syndicators need T-12s, rent rolls, actual expenses
- They can't rely on seller pro formas
- Get them the real numbers upfront

Understand Their Return Requirements:

- Most syndicators need to project 15-20% IRR to attract LPs
- If the deal doesn't hit those numbers, they can't raise money
- Help them see the path to those returns (or acknowledge when it's not there)

Be Patient with Their Process:

- Syndications take longer than traditional purchases
- They need to create investor materials
- They need to communicate with potential LPs
- They might need to adjust their offer if they can't raise enough capital

Protect Your Seller:

- Make sure the syndicator has a track record of closing deals
- Build in appropriate contingency periods
- Consider requiring proof of funds or investor commitments
- Don't let sellers take their property off the market for 90 days for a buyer who can't execute

Build Relationships:

- Syndicators who close one deal with you successfully will come back
- They're constantly deploying capital
- They can refer other syndicators
- They're valuable long-term clients

Chapter 5:

Deal Structuring & The Acquisition Process

Section 1: Reading a Sources and Uses Statement

Every commercial real estate acquisition has a "Sources and Uses" statement. This is one of the most important documents in any deal, and you need to know how to read it.

The Sources and Uses statement shows:

- USES: Where all the money is going (what are we spending money on?)
- SOURCES: Where all the money is coming from (how are we paying for it?)

The total sources must equal the total uses. That's the whole point - we need to account for every dollar.

Let me show you what this looks like:

Example - \$10M Apartment Building Acquisition

USES (What We're Spending Money On):

Purchase Price: \$10,000,000

Closing Costs:

- Lender fees (1% of loan): \$70,000
- Title and escrow: \$35,000
- Legal fees: \$25,000
- Appraisal: \$5,000

- Environmental report: \$8,000
- Property inspection: \$4,000
- Survey: \$3,000

Total Closing Costs: \$150,000

Immediate Capital Improvements:

- Deferred maintenance repairs: \$200,000
- Unit turns (5 vacant units): \$50,000

Total Immediate CapEx: \$250,000

Reserves:

- Operating reserves (6 months): \$150,000
- Capital reserves: \$100,000

Total Reserves: \$250,000

TOTAL USES: \$10,650,000

SOURCES (Where the Money Is Coming From):

Senior Debt:

- First mortgage: \$7,000,000
- LTV: 70% of purchase price
- Rate: 7.0%
- Term: 10 years
- Amortization: 25 years

Mezzanine Debt:

- Mezz loan: \$1,000,000
- Rate: 12%
- Term: 10 years
- Interest-only

Common Equity:

- Sponsor equity (GP): \$365,000 (10% of total equity)
- LP equity: \$3,285,000 (90% of total equity)

Total Equity: \$3,650,000

TOTAL SOURCES: \$11,000,000

Wait - the sources are \$11M but the uses are only \$10.65M. What gives?

The extra \$350,000 stays in the deal as additional working capital and reserves. This is common and smart - you want a cushion.

What This Statement Tells You:

1. The buyer needs \$3,650,000 in equity to close this deal (not just the \$3M down payment - they also need money for closing costs, immediate repairs, and reserves).
2. The senior lender is providing 70% LTV on the purchase price, but only 66% of the total capital needed (because uses exceed purchase price).
3. The deal is leveraged at 75% debt (\$8M debt / \$10.65M total uses).
4. The sponsor (GP) is putting in 10% of the equity personally (\$365K) and raising the other 90% from LPs.

Why You Need to Understand This:

When a buyer says, "I can go to \$10M," they might mean:
- "I can pay a \$10M purchase price but I need to keep my total project cost under \$11M including closing and repairs"

This affects negotiations. If the seller wants the buyer to pay for repairs or credits, that increases total uses and might require more equity or reduce what the buyer can pay for the property.

Section 2: Common Deal Structures You'll Encounter

Let me show you the most common capital structures you'll see in commercial deals:

Structure 1: Simple Bank Financing (Most Common for Smaller Deals)

\$3M Property Purchase

Uses:

- Purchase price: \$3,000,000
- Closing costs: \$75,000

- Immediate repairs: \$125,000

Total: \$3,200,000

Sources:

- Bank loan (75% LTV): \$2,250,000

- Buyer equity: \$950,000

Total: \$3,200,000

This is straightforward. One lender, one borrower, simple structure.

Structure 2: Syndication with Senior Debt (Common for \$5M-\$20M)

\$12M Property Purchase

Uses:

- Purchase price: \$12,000,000

- Closing costs: \$250,000

- Immediate repairs: \$500,000

- Reserves: \$400,000

Total: \$13,150,000

Sources:

- Senior debt (70% of purchase): \$8,400,000

- GP equity (10%): \$475,000

- LP equity (90%): \$4,275,000

Total equity: \$4,750,000

Total: \$13,150,000

This is a syndicated deal. The GP is raising \$4.75M from themselves and LPs to cover equity, closing costs, repairs, and reserves.

Structure 3: Complex Stack (Common for \$20M+)

\$25M Property Purchase

Uses:

- Purchase price: \$25,000,000

- Closing costs: \$500,000

- Renovation budget: \$2,500,000

- Reserves: \$750,000

Total: \$28,750,000

Sources:

- Senior debt (65% of purchase): \$16,250,000

- Mezzanine debt (15% of total): \$4,313,000

- Preferred equity (8% of total): \$2,300,000

- Common equity: \$5,887,000

Total: \$28,750,000

This is a complex value-add deal with multiple layers of capital. The senior lender is conservative (only 65% LTV), so the sponsor filled the gap with mezz debt and preferred equity to reduce the common equity required.

Structure 4: Bridge-to-Permanent (Value-Add Deals)

\$8M Property Purchase (Current Value)

\$11M Stabilized Value (After Improvements)

Phase 1 - Acquisition (Bridge Financing):

Uses:

- Purchase price: \$8,000,000

- Closing costs: \$150,000

- Renovation budget: \$1,500,000

- Reserves: \$350,000

Total: \$10,000,000

Sources:

- Bridge loan (70% of stabilized value): \$7,700,000

- Equity: \$2,300,000

Total: \$10,000,000

Phase 2 - Refinance (18-24 Months Later):

After renovations, property is worth \$11M and generates higher NOI.

Permanent Refinance:

- New senior loan (75% LTV on \$11M): \$8,250,000

- Pay off bridge loan: \$7,700,000
- Return equity to investors: \$550,000
- Remaining equity in deal: \$1,750,000

The investors got \$550K back from the refinance, reducing their basis from \$2.3M to \$1.75M while still owning the property.

This is common in value-add deals - use short-term bridge financing to acquire and improve, then refinance into permanent debt.

Section 3: What Lenders Actually Need - The Document Checklist

When your client is applying for a commercial loan, here's what lenders are going to ask for. Getting this together early speeds up the process.

Property Financial Documents:

Trailing 12 Months (T-12):

- Month-by-month income and expense statements for the past year
- Shows actual property performance
- Lenders will underwrite based on this, not on pro formas

Rent Roll:

- Current list of all tenants
- Lease start and end dates
- Current rent amounts
- Security deposits
- Vacancy status
- Month-to-month vs. lease terms

Year-to-Date Financials:

- Income and expenses from January 1 to current date
- Shows recent trends

Prior Year Tax Returns (Property):

- Last 2 years of property tax returns (if property is held in an entity)
- Verifies historical income

Property Condition Documents:

Physical Inspection Report:

- Professional property inspection
- Identifies deferred maintenance
- Estimates cost of needed repairs
- Lenders want to know about major issues upfront

Environmental Site Assessment (Phase I ESA):

- Required for all commercial financing
- Identifies potential environmental contamination
- Costs \$2,000-\$5,000
- If Phase I finds issues, may need Phase II (much more expensive)

Property Condition Assessment (PCA):

- Detailed inspection by engineer
- Estimates immediate repairs needed
- Estimates capital needs over next 5-10 years
- Required for larger deals (\$5M+)

Appraisal:

- Lender will order this (you can't provide your own)
- Costs \$3,000-\$10,000 depending on property size
- Takes 2-4 weeks typically
- Determines maximum loan amount

Survey:

- Shows property boundaries
- Identifies encroachments
- Shows easements
- Costs \$2,000-\$5,000

Title Report:

- Shows ownership history
- Identifies liens or claims
- Shows easements and restrictions

Borrower Financial Documents:

Personal Financial Statement:

- Assets and liabilities
- Net worth calculation
- Required for recourse loans

Personal Tax Returns:

- Last 2-3 years
- Verifies income
- Required for smaller deals where borrower's income matters

Business Tax Returns (if applicable):

- Last 2-3 years
- If borrower is a company/entity

Credit Report:

- Lender will pull this
- Need 680+ typically for most loans

Bank Statements:

- Last 2-3 months
- Proves liquidity and reserves
- Lenders want to see borrower has cash reserves

Schedule of Real Estate Owned:

- List of all other properties owned
- Current values, mortgages, cash flow
- Shows borrower's overall real estate portfolio

Business Plan Documents (For Value-Add Deals):

Renovation Budget:

- Line-item costs for all improvements
- Contractor bids
- Timeline

Contractor Information:

- Contractor license
- Insurance
- Track record

Proforma Financials:

- Projected income and expenses after improvements
- Justification for rent increases
- Market comparables supporting projections

Market Study:

- Market rent comparables
- Occupancy trends
- Submarket analysis

How Long Does This Take?

If the borrower is organized and has everything ready: 2-3 weeks to compile and submit.

If the borrower is disorganized and has to scramble for documents: 6-8 weeks.

This is why financing contingencies are typically 45-60 days - it takes time to get all this together, submit to the lender, and get through underwriting.

Your Role as an Agent:

Give your buyer client this list IMMEDIATELY after they go under contract. The sooner they start gathering documents, the smoother the process.

For sophisticated buyers, they have all this ready before making offers. For less experienced buyers, you're helping them understand what's coming.

Section 4: Understanding Realistic Timelines

One of the biggest mistakes agents make is not building enough time into the contract for financing. Here's what realistic timelines look like:

Traditional Bank Loan Timeline:

Week 1-2: Document collection and initial submission

- Borrower gathers financial documents
- Property documents collected from seller
- Submit loan application

Week 3-4: Initial underwriting

- Lender reviews documents
- Orders appraisal and environmental
- Provides initial feedback or requests more information

Week 5-6: Appraisal and reports

- Appraisal completed
- Environmental Phase I completed
- Property inspection completed

Week 7-8: Final underwriting and approval

- Lender reviews all reports
- Loan committee approval
- Commitment letter issued

Week 9-10: Closing preparation

- Loan documents drafted
- Final conditions satisfied
- Closing scheduled

Total: 60-70 days from contract to close

CMBS Loan Timeline:

Add 2-3 weeks to the above timeline. CMBS lenders have more extensive documentation requirements and additional layers of approval.

Total: 75-90 days typical

Life Insurance Company Timeline:

Very thorough underwriting process. They're not in a rush.

Total: 90-120 days typical

SBA Loan Timeline:

Extensive paperwork and government bureaucracy.

Total: 90-120 days minimum, often longer

Bridge Loan Timeline:

Much faster because bridge lenders focus on the asset, not extensive borrower vetting.

Week 1: Application and property review

Week 2-3: Appraisal and basic due diligence

Week 3-4: Approval and documentation

Week 4: Close

Total: 30-45 days, sometimes as fast as 2-3 weeks for urgent situations

All-Cash Timeline:

Week 1-2: Due diligence

Week 2-3: Closing preparation

Total: 14-30 days

What This Means for Contract Negotiations:

If your buyer is getting traditional bank financing, asking for a 30-day close is unrealistic. You need 60 days minimum.

If the seller wants a fast close, your buyer options are:

- All cash buyer (14-30 days)
- Bridge loan buyer (30-45 days)
- Buyer with financing already pre-approved (45-60 days)

Setting realistic timelines prevents deals from falling apart due to financing delays.

Section 5: Common Deal Killers and Red Flags

Let me save you from wasting time by showing you what kills deals. If you spot these early, you can either fix them or walk away before investing too much time and money.

Deal Killer 1: The Numbers Don't Work

Seller is asking \$10M based on a 6.5 cap rate. But they're using inflated income and understated expenses.

Actual NOI is \$500,000, not the \$650,000 they're claiming. At \$500K NOI and a realistic 7.5 cap rate, the property is worth \$6.67M, not \$10M.

If the seller won't negotiate to realistic pricing, walk away. Don't waste time on a deal that's overpriced by 50%.

Deal Killer 2: Environmental Issues

Phase I environmental comes back with concerns. Now you need a Phase II, which costs \$20,000-\$50,000 and takes weeks.

Phase II finds contamination. Remediation costs could be \$200,000+. Most lenders won't touch the property. Deal dies.

This is why buyers do environmental due diligence early in the contingency period.

Deal Killer 3: Major Deferred Maintenance

Property inspection reveals the roof needs replacement (\$150,000), HVAC systems are past their useful life (\$200,000), and there's foundation cracking (\$100,000+).

The buyer's renovation budget was \$150,000 total. They don't have \$450,000 for unexpected repairs. Deal dies.

Experienced buyers do thorough inspections early. If major issues are found, they either renegotiate price or walk.

Deal Killer 4: Title Issues

Title report comes back showing:

- Unresolved liens from previous contractor work
- Easements that prevent planned improvements
- Boundary disputes with neighboring property
- Clouded title from an estate issue

Some title issues can be resolved, but others can't. If the seller can't deliver clear title, the deal dies.

Deal Killer 5: The Property Won't Appraise

Buyer is paying \$10M. They're getting a 75% LTV loan, so they need the property to appraise at \$10M minimum.

Appraisal comes back at \$9M.

Now the lender will only lend 75% of \$9M = \$6.75M. The buyer was counting on \$7.5M in financing.

The buyer needs to come up with an extra \$750,000 in equity, or renegotiate the price down to \$9M, or walk away.

Deal Killer 6: Can't Raise Enough Capital

Syndicator is buying a \$15M property. They need to raise \$4M in equity.

They get commitments for \$2.5M from their LPs but can't get the other \$1.5M. They've exhausted their investor network.

Deal dies unless they can find more investors, bring in a new capital partner, or renegotiate the deal structure.

Deal Killer 7: Tenant Issues Discovered in Due Diligence

Buyer is buying a retail center with a 10-year lease from a national tenant as the anchor.

During due diligence, they discover:

- The lease has a kick-out clause allowing the tenant to terminate with 6 month's notice
- The tenant is closing underperforming locations nationally
- The tenant's sales at this location are down 30% year-over-year

The "stable" anchor tenant might leave in six months. That changes everything. Deal dies or price gets renegotiated significantly.

Deal Killer 8: The Lender Changes Terms

Lender initially indicated 75% LTV at 7% interest. Buyer underwrote the deal based on that.

At loan committee, the lender comes back with 70% LTV at 7.5% interest.

The reduced LTV means the buyer needs \$500,000 more equity than planned. The higher rate increases debt service, reducing cash flow and returns.

The deal no longer meets the buyer's return requirements. Deal dies or gets renegotiated.

Deal Killer 9: Seller Can't Provide Documentation

Lender needs T-12 financial statements, rent roll, and property tax returns.

Seller has been managing the property themselves with terrible record-keeping. They don't have detailed financials. The rent roll is incomplete. They "lost" some paperwork.

Without proper documentation, the lender won't approve the loan. Deal dies.

This is why buyers ask for financials upfront before making offers.

Deal Killer 10: Unrealistic Seller Expectations on Contingencies

Buyer: "We need 60 days for financing."

Seller: "I'll give you 20 days and you waive the inspection contingency."

Buyer can't close in 20 days and isn't waiving contingencies. Seller won't budge. Deal dies before it starts.

How to Avoid These Deal Killers:

1. Get financials upfront and verify them before writing an offer
2. Do property inspection early in the due diligence period
3. Order environmental Phase I immediately
4. Review rent roll carefully for concerning lease terms
5. Get a good faith estimate from your lender before going under contract
6. Build adequate time into contingency periods
7. Have honest conversations with sellers about documentation requirements
8. Know your buyer's financing capacity and capital availability
9. Don't chase deals that are obviously overpriced
10. Walk away when red flags appear - don't fall victim to sunk cost fallacy

Section 6: How to Position Deals to Lenders

Your buyer client found a great property, and now they need financing. How do you help them present the deal to lenders in the best possible light?

Know the Story:

Every property has a story. Lenders want to understand:

- Why is this a good investment?
- What's the business plan?
- How will the borrower create value?
- What's the exit strategy?

Example Good Story:

"This is a 40-unit apartment building built in 1995, well-maintained, in a strong neighborhood. Current occupancy is 88%, below the submarket average of 94% due to the previous owner's poor management. We're going to bring in professional management, do light unit upgrades (\$3,000/unit), and increase rents from \$1,200 to \$1,350 over 18 months based on comparable properties in the area. This will increase NOI from \$350,000 to \$475,000, which will support a refinance or sale at a significant profit."

That's a clear, credible story that lenders understand.

Example Bad Story:

"We're going to buy this property and raise rents a lot and make money."

That's vague and unconvincing. No lender will be excited about that.

Prepare a Deal Summary:

Create a 2-3 page summary with:

Page 1: Executive Summary

- Property address and description
- Purchase price and financing request
- Key financial metrics (NOI, cap rate, DSCR)
- Business plan in 3-4 bullet points
- Borrower experience and track record

Page 2: Financial Summary

- Current and projected T-12 financials
- Rent roll summary
- Market rent comparables
- Sources and uses
- Return projections

Page 3: Market Overview

- Submarket occupancy and rent trends
- Supply and demand
- Economic drivers
- Comparable sales and rental comps

This makes the lender's job easier and shows you're a professional.

Emphasize Conservative Assumptions:

Lenders don't like aggressive projections. Show them you're being conservative:

- Using realistic rent growth (based on actual market data, not wishful thinking)
- Including adequate vacancy assumptions
- Not understating expenses

- Accounting for capital reserves
- Building in contingency budget for unexpected costs

If you project 10% annual rent growth in a market growing at 3%, the lender will discount your projections. Be realistic.

Highlight Borrower Strengths:

- Previous successful deals
- Experience with this property type
- Strong liquidity and reserves
- Good credit
- Expertise in the market
- Quality property management lined up

Lenders lend to people they trust. Emphasize why your client is a good, reliable borrower.

Be Responsive:

When the lender asks for documents or additional information, provide it quickly. Lenders have multiple loans in their pipeline. The borrowers who respond quickly get priority.

Slow responses signal that the borrower isn't serious or is disorganized. That makes lenders nervous.

Section 7: Negotiating Financing Terms

Not all loan terms are set in stone. Here's what you can typically negotiate and what you can't:

Usually Negotiable:

Interest Rate:

- If you have multiple lenders competing, you can negotiate rate
- If you have a strong relationship with the lender, sometimes they'll sharpen their pencil
- Rate buydowns (pay points upfront for lower rate)

Prepayment Terms:

- Can sometimes negotiate step-down penalties instead of yield maintenance
- Can sometimes negotiate when prepayment is allowed
- Can negotiate lockout periods

Reserves Required:

- Lenders typically require 6-12 months of debt service in reserves
- You can sometimes negotiate the amount
- You can negotiate whether reserves are held by lender or borrower

Extension Options:

- For bridge loans, can often negotiate extension options
- Typically 6-12 month extensions for a fee

Recourse vs. Non-Recourse:

- Sometimes negotiable, especially for experienced borrowers
- May pay higher rate for non-recourse

Usually NOT Negotiable:

LTV:

- This is driven by lender policy and underwriting
- If they say 75% LTV max, that's not moving
- You might get them to 76-77%, but not to 85%

DSCR Minimums:

- Lenders have minimum DSCR requirements (typically 1.20-1.25)
- These are driven by their credit policies
- Not negotiable

Appraisal Requirements:

- Lender gets to choose the appraiser
- You can't use your own appraisal
- This protects the lender from inflated values

Environmental Requirements:

- Phase I is always required
- If Phase I finds issues, Phase II is required
- Non-negotiable

Property Insurance Requirements:

- Lenders require specific coverage amounts
- They require to be named as loss payee
- Non-negotiable

What's Worth Negotiating:

Focus your negotiation energy on the terms that matter most to your client's business plan:

If your client plans to sell in 3 years, negotiate prepayment terms (this matters a lot).

If your client plans to hold for 10 years, prepayment terms don't matter as much but locking in a good interest rate for the full-term matters.

If your client has limited cash, negotiate lower reserve requirements or allow reserves to be held by borrower instead of lender.

Section 8: The Closing Process

You're in the final stretch. Financing is approved, due diligence is complete, and you're heading to closing. Here's what happens:

2-3 Weeks Before Closing:

Title Company Issues Title Commitment:

- Shows current state of title
- Lists requirements to clear title
- Lists exceptions to coverage

Lender Issues Loan Documents:

- Promissory note
- Mortgage/deed of trust
- Loan agreement
- Guarantees (if recourse)
- Assignment of rents
- Environmental indemnity

Buyer Reviews Loan Documents:

- Buyer's attorney reviews all documents
- Negotiates any concerning terms
- Requests clarifications

1 Week Before Closing:

Final Walk-Through:

- Buyer inspects property one last time
- Verifies condition hasn't changed
- Confirms agreed-upon repairs were completed

Final Closing Statement:

- Title company prepares settlement statement
- Shows all money flowing in and out
- Buyer and seller review and approve

Transfer Documents Prepared:

- Deed
- Bill of sale (for personal property)
- Assignment of leases
- Tenant notice letters

3 Days Before Closing:

Wire Instructions Issued:

- Title company provides wire instructions
- Buyer arranges to wire funds
- Lender arranges to wire loan proceeds

Final Conditions Satisfied:

- Insurance binders provided
- Final lender conditions cleared
- All parties sign off on closing documents

Closing Day:

Morning:

- Final verification that all funds are in place
- Final title search (to ensure no last-minute liens)
- Seller signs deed and transfer documents
- Buyer signs loan documents and receives keys

Afternoon:

- Documents recorded at county recorder
- Title company confirms recording
- Ownership officially transfers
- Seller receives proceeds
- Buyer takes possession

What Can Go Wrong at Closing:

Last-Minute Title Issues:

- New lien appears on title
- Judgment filed against seller
- Closing delayed until resolved

Funding Issues:

- Buyer's wire doesn't arrive
- Lender's funds don't arrive
- Closing delayed until funds clear

Final Walk-Through Problems:

- Property damaged since contract signing
- Seller removed fixtures they weren't supposed to
- Agreed repairs weren't completed

This is why you do the final walk-through and why you don't let your client waive contingencies until everything is solid.

Section 9: Post-Closing Considerations

The deal closed. Congratulations! But your client's work is just beginning.

Immediate Post-Closing Tasks:

Transfer Utilities:

- Electric, gas, water, sewer
- Trash collection
- Cable/internet

Notify Tenants:

- Send formal notice of ownership change
- Provide new address for rent payments
- Introduce new property management

Update Insurance:

- Transfer/update property insurance
- Update liability insurance
- Ensure continuous coverage

Transfer Security Deposits:

- Seller transfers all security deposits to buyer
- Buyer must account for these
- Failure to transfer properly causes legal issues

Update Property Management:

- If buyer is using new management, transition the property
- Transfer all tenant files
- Transfer vendor contracts

Set Up Bank Accounts:

- Operating account for the property
- Security deposit account (separate, required in most states)
- Reserve account

First 30 Days:

Meet with Tenants:

- Introduce new ownership
- Address any concerns
- Build relationships

Property Inspection:

- Detailed inspection now that you own it
- Create punch list of needed repairs
- Prioritize based on urgency and budget

Vendor Contracts Review:

- Review all existing contracts (landscaping, pest control, HVAC maintenance, etc.)
- Decide which to keep vs. replace
- Negotiate better terms where possible

First 90 Days:

Execute Business Plan:

- Begin planned improvements
- Start repositioning strategy
- Implement rent increases (if planned)

Financial Reporting:

- Set up accounting system
- Create financial reporting for investors (if syndicated)
- Track actual vs. projected performance

Lender Reporting:

- Many loans require quarterly or annual financial reporting
- Set up systems to track and report

Why This Matters to You as an Agent:

Stay in touch with your clients post-closing. Check in at 30, 60, 90 days. Ask how the property is performing. Offer help if issues arise.

Your best future clients are your past clients. If you close a deal and disappear, you're just a transaction. If you close a deal and stay engaged, you're a trusted advisor who gets their next deal too.

Section 10: Putting It All Together - Your Action Plan

Let me summarize what you need to do as an agent to master deal structuring and the acquisition process:

Before Showing Properties:

1. Understand your buyer's financing capacity
 - How much equity do they have available?
 - What type of financing will they use?
 - What are their return requirements?
2. Pre-screen properties based on their criteria
 - Don't show value-add deals to core investors
 - Don't show stabilized deals to value-add operators
 - Match property to buyer strategy

When Writing Offers:

1. Build in appropriate contingency periods
 - 60 days minimum for traditional financing
 - 90 days for CMBS or life company loans
 - 30-45 days for bridge financing
2. Request comprehensive financial documentation
 - T-12 financials
 - Rent roll
 - Property tax returns
 - Service contracts
3. Include standard contingencies
 - Financing contingency
 - Inspection contingency
 - Environmental contingency
 - Title contingency

During Due Diligence:

1. Help your client stay organized
 - Create timeline with key milestones
 - Track document requests and responses
 - Monitor lender progress
2. Order critical reports early
 - Property inspection (week 1)
 - Environmental Phase I (week 1)
 - Appraisal (as soon as lender approves)
3. Review all reports carefully
 - Flag issues immediately
 - Renegotiate if major problems are discovered
 - Know when to walk away

During Financing:

1. Stay in communication with the lender
 - Check on progress weekly
 - Respond quickly to document requests
 - Address concerns proactively
2. Keep your seller informed
 - Update them on financing progress
 - Communicate any delays early
 - Manage expectations

Before Closing:

1. Coordinate with all parties
 - Buyer, seller, lender, title company, attorneys
 - Create closing checklist
 - Confirm everyone has what they need
2. Final walk-through
 - Verify property condition

- Confirm repairs completed
- Check that nothing was removed

3. Wire instructions and funding

- Verify wire instructions directly with title company
- Never trust wire instructions sent via email without verification
- Confirm funds arrived before closing

After Closing:

1. Follow up with your client

- Check in at 30, 60, 90 days
- Ask about property performance
- Offer continued support

2. Request referrals and testimonials

- Ask satisfied clients for Google reviews
- Request introductions to other investors
- Build your reputation

3. Stay top of mind

- Send market updates quarterly
- Share relevant articles or opportunities
- Maintain the relationship for future deals

The Bottom Line:

Commercial real estate acquisitions are complex, multi-layered transactions. Understanding sources and uses, realistic timelines, common deal killers, lender requirements, and the closing process makes you invaluable to your clients.

You don't need to be an expert on every aspect - that's what lenders, attorneys, and inspectors are for. But you need to know enough to guide your clients through the process, anticipate problems before they derail deals, and close transactions smoothly.

Master these fundamentals, and you'll close more deals, work with better clients, and build a reputation as an agent who actually knows how commercial real estate works.

Conclusion

Let's bring all this together. Over the past four hours, you've learned how commercial real estate deals actually get financed and structured - knowledge that separates professional agents from amateurs. You now understand that lenders focus on the property's ability to pay (DSCR and NOI), not just the borrower's personal finances. You know the landscape of lenders from traditional banks to CMBS to bridge lenders, and when to use each one. You understand how the capital stack works - senior debt at the bottom providing stability and low returns, mezzanine debt and preferred equity in the middle balancing risk and return, and common equity at the top taking the highest risk for the highest potential returns. You've learned how syndication works, why most commercial deals over \$5M involve multiple investors, and what GPs and LPs are each looking for. And you now know how to read a **Sources and Uses** statement, spot deal killers before they waste everyone's time, and guide your clients through the acquisition process with realistic timelines and proper documentation. This knowledge doesn't make you a lender, a syndicator, or a financial advisor - but it makes you a competent, credible commercial real estate agent who can work effectively with serious investors, have intelligent conversations with lenders, pre-qualify deals before wasting time on offers that won't work, and close transactions that other agents would fumble. Use this knowledge starting Monday morning. **Run the numbers on every property before you show it.** Build appropriate timelines into your contracts. Connect your clients with the right lenders for their deal type. Understand their capital stack and constraints. **The agents who master these fundamentals are the ones who build sustainable, profitable commercial practices and become trusted advisors to sophisticated investors - and now you're one of them.**