# Some Thumbnail Comments from the Experts
# Regarding Commercial/Alternative Funding in a Troubled Real Estate Market

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Construction/Development Loans: Make sure there is enough profit in the deal or you won't get funding. Remember that, in the midst of the current real estate crisis, lenders are worried about further drops in value. Based on fears of some experts, "the other shoe" hasn't dropped when it comes to commercial real estate. So, if you cannot show a potential profit of at least 20% (30-35 would be better!), don't expect a commercial lender to be very receptive to your funding request.

Net Worth Requirements in Hard Times: Residential mortgages generally require borrowers to prove that they have the funds to pay the agreed-to down payment and borrower closing costs. Sometimes, the borrower must show liquid assets equal to 2-6 PITI (principal, interest, RE taxes & insurance) payments. But, that is the extent of it. Traditional/conventional commercial lenders require more borrower assets. In good times, you can assume that a lender will want to see assets equal to the loan request. Borrowers with assets less than 3/4 of the loan amount will have a hard time with conventional funding sources regardless of the equity built into the property. The referenced assets need not be all liquid, but some reasonable portion should be liquid, and all will be scrutinized to verify that the asset values are not inflated. In hard times, such as now, the asset requirement increase. They could be 1.5 times the desired loan amount or even more. Hence, the rise of alternative funding. The problem is that there is a misconception about the number of alternative funding sources that have no asset requirements beyond the subject property. They are more rare than a lot of real estate "gurus" would have you believe.

The Mezzanine is not the Bridge: Both Mezzanine and Bridge loans are short-term loans. Sometimes as short as a few months, they could be as long as 2-3 years, but the shorter terms are more common. Why? Because the rates and fees are high and they are usually only used when it is fairly certain that they can be "taken out" by more favorable, permanent funding within the planned time. The difference between the two loans is primarily that the bridge loan is secured by the real estate, while mezzanine loans are secured by company-owned stock of the company doing the borrowing. Mezzanine loans are all custom affairs, may involve combinations of debt and equity funding aspects and every one is different. What is the same in all mezzanine funding is the high effective interest rate. But, when everything works as planned, both the lender and the borrower can demonstrate their benefits. Both of these types of short-term loans are flourishing in the present boom and bust atmosphere. Whether they are beneficial, in the long haul, remains to be seen.

Lock the Door Behind You: With the increasing number of office and retail vacancies, it is getting harder to fund these properties. Hence, the worry as almost 2 trillion dollars in commercial loan come due for balloon payments, and refinancing, within the next three years. The good news is that multi-family apartment projects are tending to have decreasing vacancies (because more owners are becoming renters?) and can be financed fairly easily, if the net income is adequate and the borrower has a reasonable amount of "skin in the game".