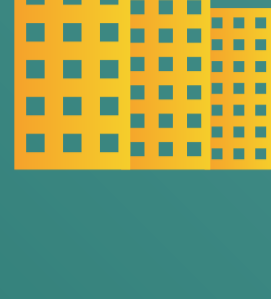


## Overview of the Various Types of Commercial Real Estate Loans

If you consider investing in commercial real estate, you will likely need to secure a loan. Loans for personal property are generally straightforward, but with commercial real estate, you will need to be familiar with several different types of loans.

### Who Purchases Commercial Real Estate?



Small business seeking to expand its facilities from offices to warehousing



Individual or institutional investors simply as an investment or seasoned property owners who purchase the property to rent and collect income

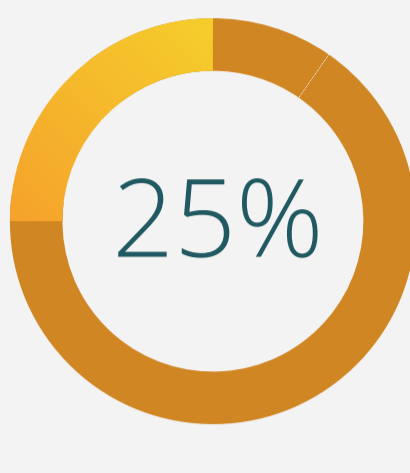
### What Types of Commercial Real Estate Loans Are Available?

#### Traditional Loans

Most common loan types for commercial property are traditional models



Often has a shorter terms & variable rate



Down on the purchase price of the property, may be required



Loans last on **Average 5-15 years**



Bank will **appraise the property.**  
And ask to see financial forecasts

### Commercial Bridge Loans



Source of short-term capital



Higher interest rate



Used for debt service until an owner improves, refinances, or otherwise completes a property transaction



Used to cover a balloon payment



Short-term in duration



Use these loans for renovations on an existing property

### Commercial Hard Money Loans



Hard money loans are secured using commercial property as collateral



Alternative lenders, such as individuals or non-bank companies

Loans are issued faster than traditional loans. A traditional loan may take **30 - 60 days to process**, while a hard money loan is often completed within a week



Typically one of the most expensive sources of financing for commercial real estate

#### SBA 7(a) Loans

- **\$5 million** borrowing limit
- Require good credit & a down payment = **10% of the purchase price**
- Business must've been in existence for at least **three years**
- Loan terms up to **25 years**
- Interest rates are generally **5% - 8.75%**



#### SBA 504 Loans

- **No limit** to the borrowing amount
- Require good credit & down payment = **10% of the purchase price**
- Loan terms are typically **20 years**
- Business owner must occupy **51% of the property**
- Interest rates vary between **3.5% - 5%**

### Commercial Mezzanine Loan

A second type of financing made on a property. Secured by the owner's equity. Structured in various ways:

#### Junior Debt



Second source of capital, repaid after the senior loan is paid in full

Use it for acquisitions or further development of the property

#### Preferred Equity



Property owners receive a fixed, preferential return paid ahead of distributions

Most commonly used in joint venture. Provides higher ROR for investors

#### Convertible Debt



Convert this type of debt into equity with specific terms

#### Participating Debt



Investors receive interest payment, if it exceeds a certain amount

Share of the rental revenue generated on a property.

Used to finance properties with reliable tenants

Due to increased risk, the cost of mezzanine capital tends to be much higher than for a traditional loan.

### Commercial Construction Loans

- Finances the costs associated with **construction or renovation**
- Set **project milestone**
- Specific amounts received as milestones are met
- Borrower **pays interest** on the amounts received
- Once building is completed & the loan disbursed, **payment is due**



### Take-Out Loan



- Used to replace an older loan
- Lower interest rates & smaller payments
- May require borrower share part of the rents earned from the property or a percentage of the gain acquired if the property is sold