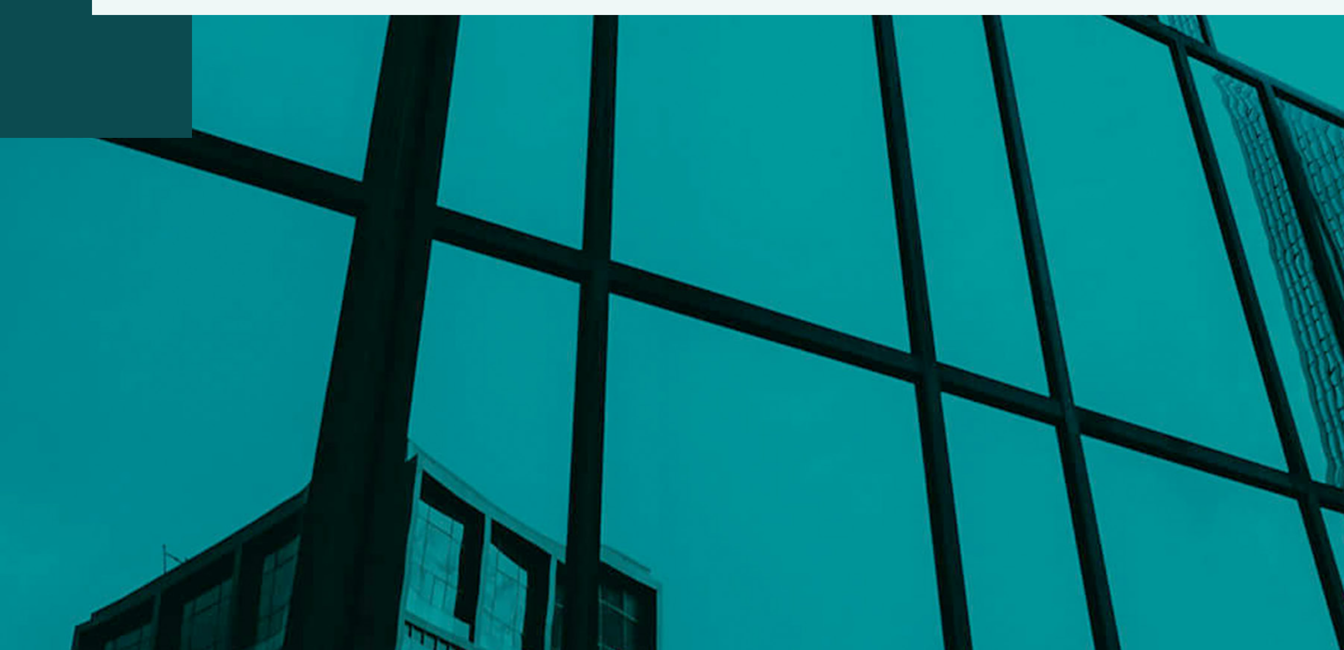
Why Online Marketplaces Are The Future Of CRE Lending & How They Work

FinanceLobby

The CRE Financing Marketplace



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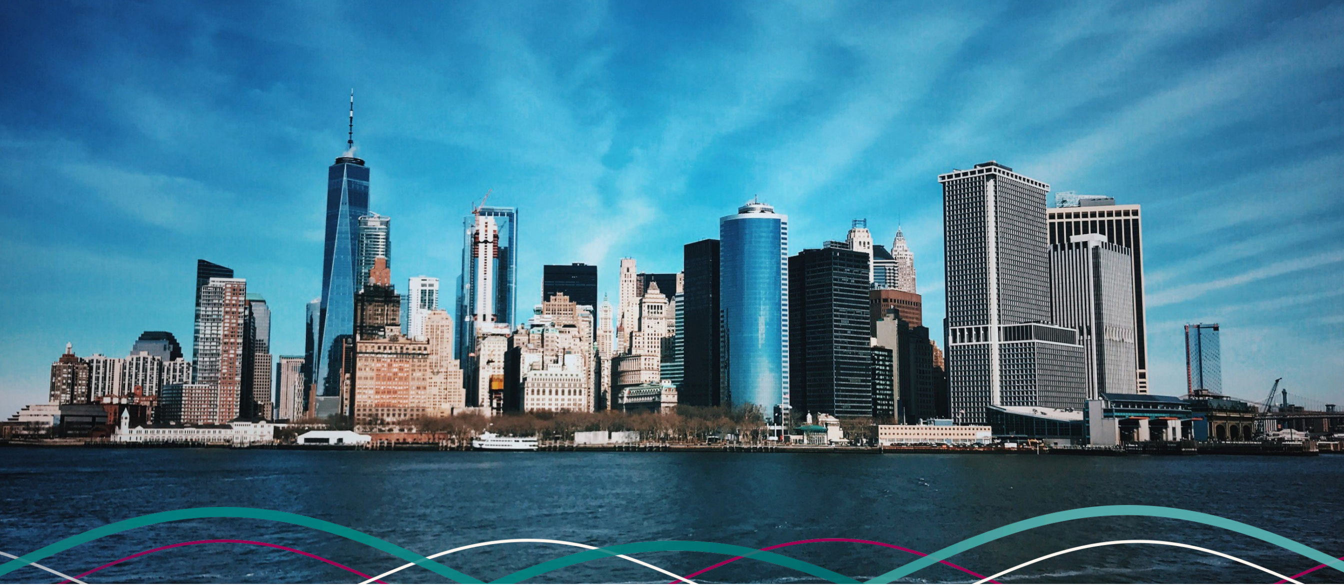


Introduction

Commercial real estate mortgage brokers play a vital role in the industry. They help connect CRE borrowers with potential lenders, and work to get the best deals for their clients.

However, the process of finding a loan that will meet specific needs has always been time-consuming and frustrating.

Until now.

An online marketplace changes the game by connecting brokers and lenders faster and more efficiently than ever before.

By posting your requirements on a robust and well-populated commercial real estate financing marketplace, you'll quickly receive proposals from lenders all over the country.

This not only saves you time, but it also gives you access to a wider variety of options that wouldn't have been available otherwise.

So if you're looking to close more commercial real estate deals, continue reading.

1 HOW ONLINE MARKETPLACES CREATE EFFICIENCY IN THE MARKET

What is an Online Marketplace?

The simple definition of an online marketplace is that it's an e-commerce site where buyers and sellers are able to trade on one platform.

People often think of an online marketplace as a place where products and goods are sold, the most obvious example of this being Amazon. However, nothing stops an online or e-marketplace from also selling services such as Airbnb, Uber, or TaskRabbit.

Examples of popular B2C marketplaces:

Uber

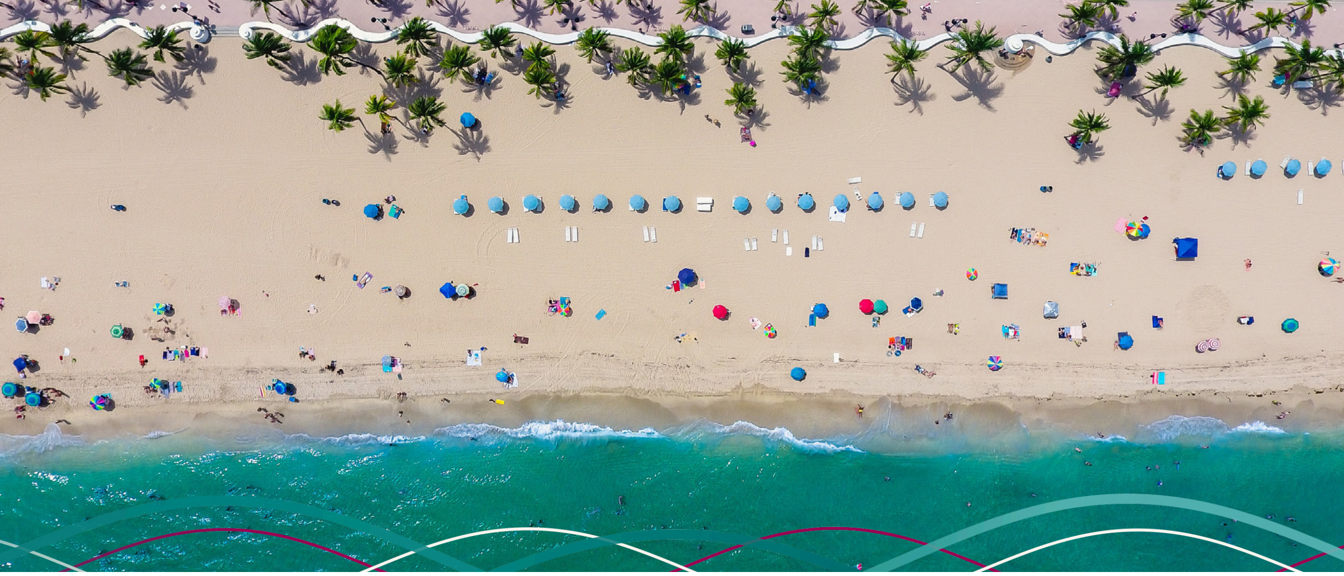
Vrbo

airbnb

POSHMARK

Let’s look at a quick example that’ll be familiar to most: ***renting a vacation home.***

You want to take the family to Florida for vacation and your essential requirement is that it be a 4 bedroom home. Your additional wants, or preferences, are sea views to enjoy, a pool for the kids for when you don’t feel like schlepping to the beach and an outdoor kitchen to whip up meals in the sun.



What was the process for finding that just 10 short years ago?

Finding a four bedroom on the water was of course the easier part but what about the time commitment to match those preferences and really make it a perfect vacation? How many calls to travel agents or vacation rental specialists did that require? How many days or weeks of back and forth were there before you could finalize?

The answers are cringe-inducing when you consider the ease with which you can find exactly what you're looking for on Vrbo or Airbnb – in minutes; a home that meets your specific preferences to the letter and serves to vastly improve your family holiday.

It’s the power to aggregate supply and make it searchable that makes online marketplaces so attractive and it’s a mutually beneficial exchange for buyers and sellers alike. The buyer gets what they want and the seller, the homeowner in this case, is able to rent out their place when it’s not in use which helps cover their mortgage or bills.

It’s plain to see why B2C online marketplaces have become the default way to buy goods or services and that convenience is finally making its way to the B2B world.

The reason is simple; they’re an elegant solution to the natural market fragmentation that defines the offline business environment. Online marketplaces connect more prospective buyers to more sellers, making prices more competitive while dramatically increasing the likelihood of each party getting exactly what they’re looking for. In fact, Amazon itself now has a dedicated B2B marketplace separate from the B2C one that’s become an integral part of our lives.

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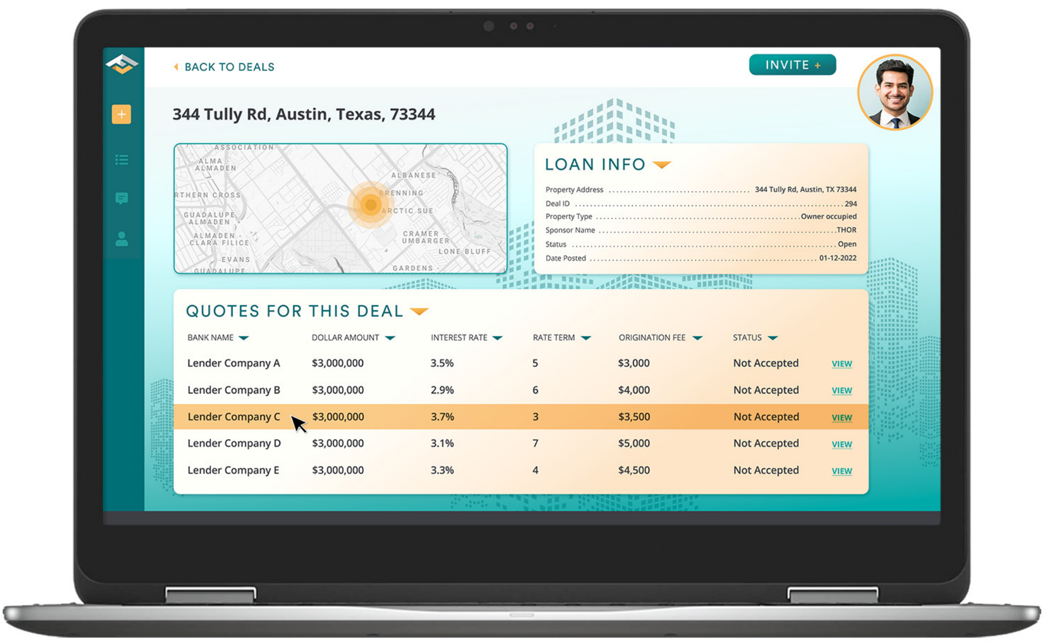
2 HOW DO ONLINE MARKETPLACES DRIVE EFFICIENCY?

Compare getting in your car, driving to a shopping mall, finding parking, and walking around the stores until you've found what you were looking for (or coming back empty-handed upon discovering it was out of stock) to just browsing online and buying with a click of a button ***without ever leaving your home.***

We'll look at some other drivers here:

- **Customers are more likely to purchase from an online marketplace with a wide range of options:** There's tremendous value in combining as many suppliers as possible and connecting them directly to a large pool of buyers. Simply put, greater variety and range of inventory means a higher likelihood to buy because it's easier to find what you're looking for.



- **Cuts marketing costs:** It's far cheaper to market online than it is to place ads in newspapers, on billboards, or television. By using social media to target buyers, smaller brands are competing with larger brands in a way that they never would have been able to before.

- **Allows companies to internationalize business:** The internet is global and companies therefore attract international buyers in a way never previously possible.

- **Allows customers to compare prices:** One of the greatest advantages of shopping online is to compare prices side by side on the same screen. Often, in the case of travel marketplaces and real estate sites (Expedia, Kayak, Realtor.com, Zillow) the comparisons are done for you.

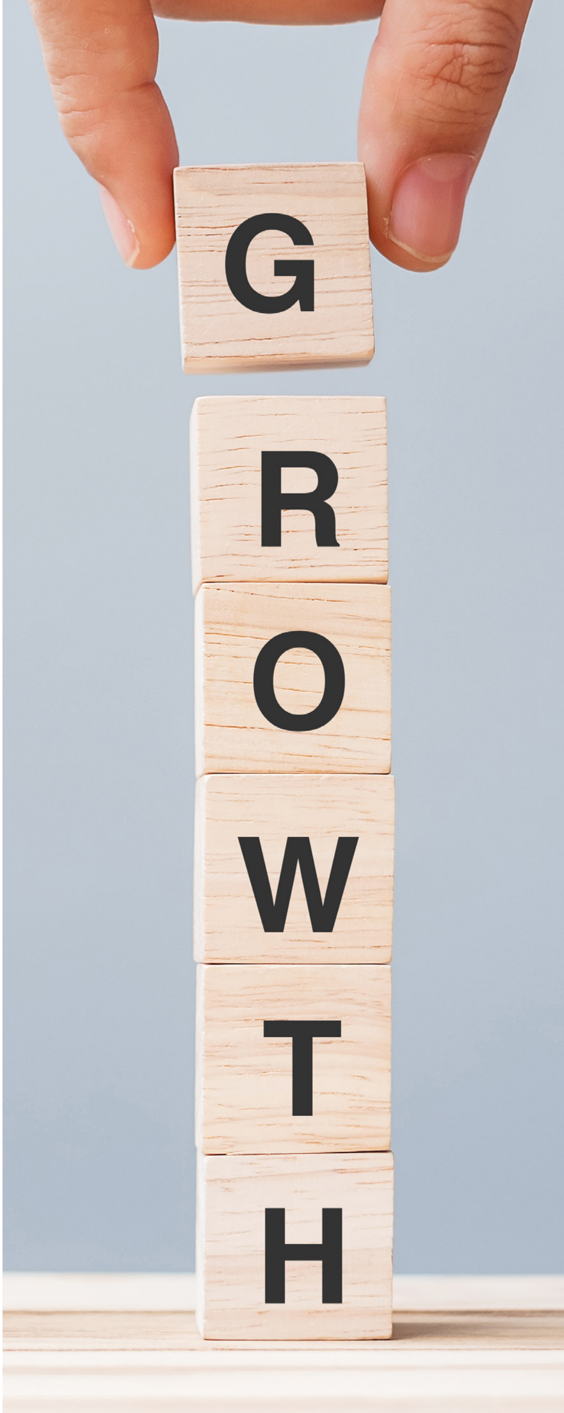
- **Creates transparency in availability, stock levels, and prices:** We've all been online and seen a sign telling us how many items are left in stock. Because online marketplaces ship directly from the warehouse, inventory and pricing is relayed in real-time, creating greater transparency.

An online marketplace means you can stay competitive around the clock.

- **Allows companies to function 24/7:** Online marketplaces close the gap between time zones, consider that when the east coast closes for the night, the west coast is still open for business. The internet never sleeps though and participating in an online marketplace means you can stay competitive around the clock.

- **Generates trust between your brand and customers:** A big plus about online shopping is the ability to create transparency and brand recognition. This is most often achieved with buyer testimonials and reviews as well as insights into a company and the thinking behind their products or services.

- **An additional source of revenue:** Not being limited by square footage means online vendors are able to sell a wider variety of goods, opening up new income streams. Additionally, having less physical space and no storefront means sellers are also able to save on overhead like rent, utilities and employee wages.



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3 EXAMPLES OF ONLINE MARKETPLACES THAT HAVE DISRUPED THEIR INDUSTRY

While some online marketplaces help facilitate and organize transactions, ***a few have been truly disruptive***, creating new business models, new transactions, and attracting new buyers.

These companies have succeeded because they have, according to the Harvard Business Review, excelled in providing consumers with affordability, accessibility, and convenience. In doing so they have created a new supply or a new demand or both.

Here are a couple of very well-known B2C marketplaces and one B2B example.

Uber

Most people have, at one time or another, said of ride-sharing juggernaut Uber, “Why didn’t I think of that?”. Maybe you did think of an idea like Uber (and competitor Lyft), where drivers turn their cars into taxis and earn a living from doing so, but never knew how to implement it. Since the car was invented, people have been earning a side hustle by driving people around, without registering with any official taxi service. Uber took the danger away from unlicensed taxis. No physical money exchanges hands and the location of Uber rides are monitored constantly through the app. In a gig economy, Uber has proven the perfect way for anyone with a car to make a little — or a lot — of extra money, especially in an urban setting. Ridesharing all the way up to executive car solo rides allow the business to cover all price points. An offshoot, Uber Eats has expanded the brand into a take-out food delivery business.

It has majorly disrupted the taxi industry, most notably New York’s famous yellow cabs. Uber has been particularly successful because it’s instantly scalable. It doesn’t need large offices or inventory, just an army of global drivers willing to put their cars to use.

Airbnb

Another one of those, “why didn’t I think of that?” businesses. If you own (or in some cases rent) your home, Airbnb lets you make extra cash by renting it out to short-term guests. The short-term rental business (which includes Vrbo and booking.com amongst others) is another business that requires comparatively small start-up costs, for the online tech service provider and the homeowner to put their spare room to use. From a homeowner’s or renter’s perspective it requires the need to provide a hygienic and pleasant hospitality experience, which includes freshly laundered bedding and meticulously clean rooms. Because of low overhead (no regional offices or inventory for Airbnb, just a great easy-to-use app), the business has been instantly scalable. By its very nature, it’s a global business, offering travelers an affordable way to see the world.

The industry it has severely disrupted is the hotel business and many travelers prefer the often cheaper, less regimented guest experience of staying in a home rather than a hotel.

Amazon Business

Amazon is of course one of the most well established and used B2C digital marketplaces out there, that's a given. You don't need any explanation of how that one works or the wide range of industries it has disrupted; sprouting a warehouse real estate revolution, making logistics a burgeoning employment sector and transforming the field of web services to name a few. But did you know Amazon also has a B2B platform?

Why would the world's largest consumer e-comm marketplace dive into the world of B2B? Because B2B commerce is a fractured, disparate marketplace with players everywhere but no connection point. It's untapped and chock full of inefficiencies. In 2020, Amazon Business generated $19 billion in the U.S. and are forecasted to hit $59 billion by 2025.

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Chances are you have Airbnb or Uber on your phone already, you may even be in one while reading this.
But why do you have them?

Convenience, pricing and efficiency. It's just easy, and when you combine ease of use with tangible savings, you've found yourself a potent tool to make decision making more efficient. That's the power of the online marketplace and it's why more and more business buyers are connecting with business sellers on digital marketplaces.

B2B online marketplaces are the next avenue of disruption.

4 AREAS WHERE COMMERCIAL REAL ESTATE LENDING IS INEFFICIENT

Understanding a borrower's needs:

Unlike many residential loans, CRE loans are not a one size fits all proposition. With the pandemic, for example, many commercial businesses such as restaurants, retail, and offices have suffered tremendously with their finances. Cash-out refinancing commercial loans enabled these businesses to stay afloat by allowing for the purchase of inventory, but they require not only an in-depth understanding of economic conditions, a business' cash flow and the ever-changing business landscape, but also the availability of highly specialized loan options that many large commercial lenders might not offer.

Many office buildings are still vacant in big cities as workers have pivoted to remote working and it's inevitable that a restructuring of these spaces will happen as owners lose tenants. Pricey San Francisco saw a 12% decline in office space prices.

However, an increase in the demand for apartment housing has seen increased investment in residential real estate; commercial lenders need to be quick on their feet to offer loans to accommodate the shift in CRE. Lending innovators who can swiftly adapt to ever-changing markets and adopt new ways of fulfilling borrower requirements and preferences will have the upper hand in crafting more competitive loan offers – and closing on them more frequently.

Extreme market conditions forced CRE stakeholders to find new growth opportunities.

Are you ready for the next CRE market shift?

Having loan options to suit different scenarios:

Standard commercial real estate loans consist of a 30% down payment, usually a personal credit score over 680, preferably 700, and cap rates or yields over 5%. Although a higher cap rate doesn't necessarily mean a more profitable property as location and the security of investment property also plays a part. Banks will also have many of their own metrics such as IRR (Internal Rate of Return), DSCR (Debt Service Coverage Ratio).

Many of the formerly tried and true loan types for commercial borrowers, however, are getting pushed aside in favor of the many private lenders and smaller specialty banks that brokers now have access to who may look at monthly revenue over credit scores. These lenders might be willing to take on more risk but their loans could come with higher interest rates. They may also be able to offer a combination of hard money and bridge loans that eventually turn into more conventional loans.

The problem for many borrowers is knowing where to find these non-standardized commercial loan products and how to compare them, as there are hundreds of different lenders covering the full spectrum of CRE loans.

Having a digitized user-friendly platform:

While residential loans have been quick to adapt to a more intuitive digitized way of doing business online, commercial loans have been sluggish to adapt. Many commercial loans still have to have paper closings with wet signatures, great stacks of paper and handwritten checks Fed-Ex-ed back and forth between attorney's offices as per the bank's fraud-wary protocols. The effects of Covid-19 have brought about a forced re-examination of the old underwriting and closing methods.

Covid-19 left lasting effects on the underwriting and closing processes forcing re-examination.

Is it time for disruption? In a word; yes.

CRE lending is an industry that's been notoriously averse to technological change. Given the ubiquity of tech in our daily lives though and the avid use of marketplaces like Amazon, the fear clearly isn't related to the tech itself.

Everyone wants efficiency in their workflow. All brokers and lenders are trying to deliver better and more competitive results and we all want a more satisfying customer experience.

It was simply the lack of a compelling choice – until now. The old way was the way because B2B innovation hadn't reached our sector. Finance Lobby changes that by bringing marketplace ethos to lending.

5 FINANCE LOBBY

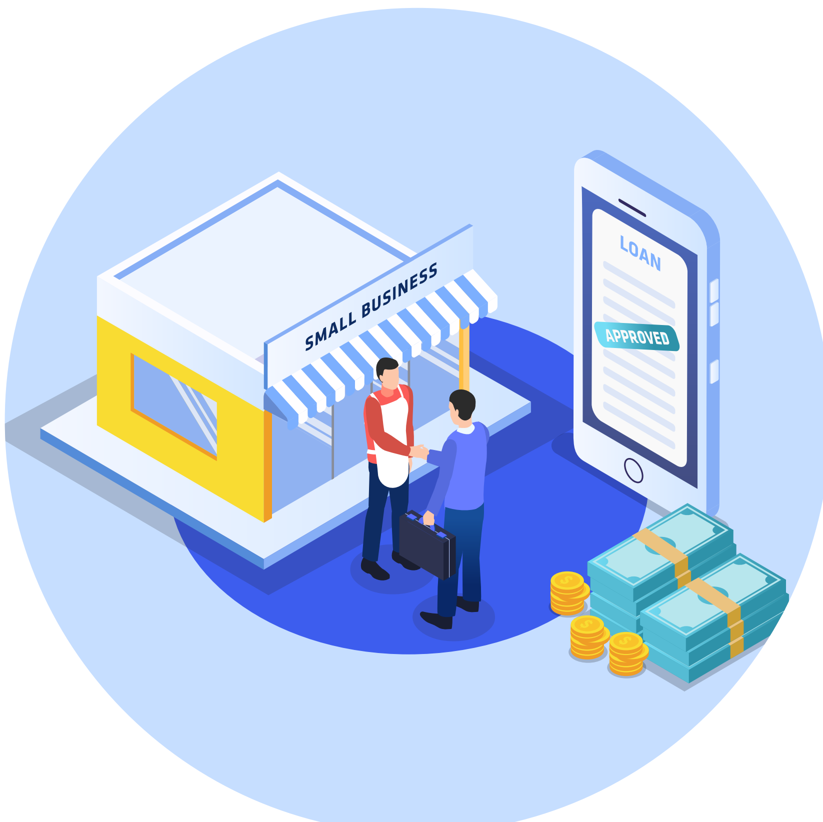
Residential mortgage statistics point to a shift towards non-bank lenders. According to the Wall Street Journal, ***in 2020, 68.1% of all mortgages originated from non-traditional banks.***

It's natural to assume that commercial borrowers would follow the same pattern if they were able to compare loan options as easily as residential borrowers do.

The pandemic signaled a massive shift towards people preferring to do business from behind their computer screens, from the comfort of their home, but until recently there was no online marketplace for borrowers to shop for the huge amount of commercial mortgages available. As it stands, CRE brokers still have to pay for leads, marketing, attend multiple CRE meet-up groups, and network non-stop.

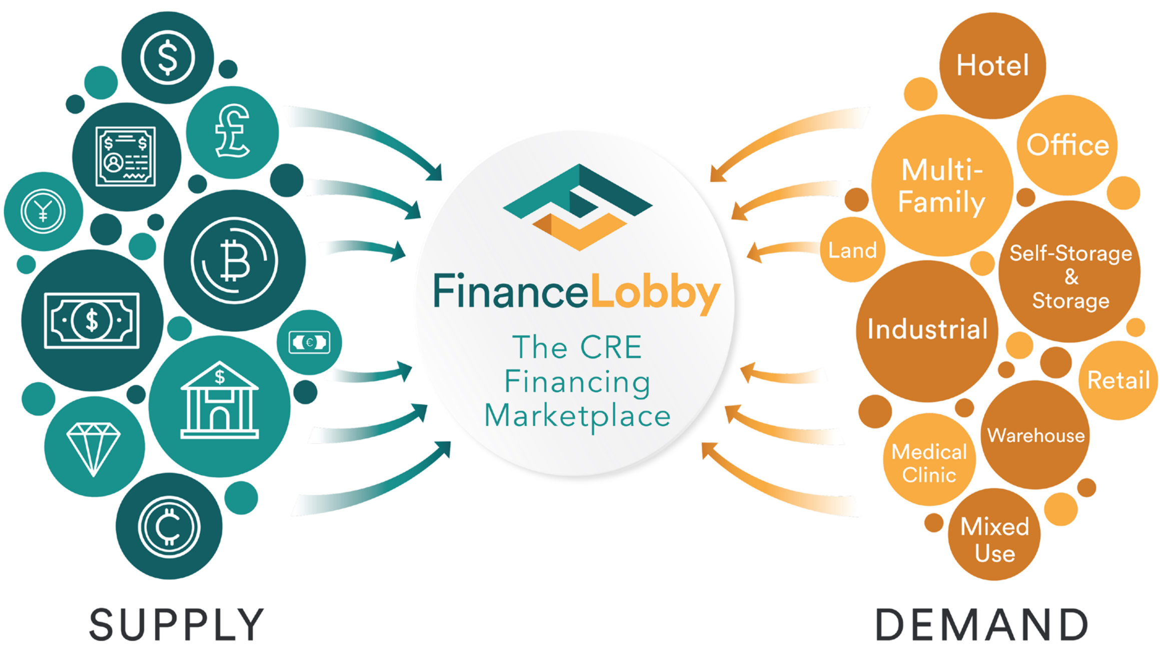
Think back to the beginning of this eBook and the Vrbo example. You can pop onto their site, quickly punch in your destination, dates and number of guests and then take it a step further by adding all your preferences like bedrooms, internet connection, kitchen, hot tub, dishwasher and dozens of others that would make your vacation perfect.

Finance Lobby gives borrowers, brokers, and lenders the exact same opportunity to fine-tune their commercial loan criteria and preferences with direct access to local market deals and non-conventional loan choices.



What does Finance Lobby do?

- Uses proprietary algorithms that match brokers and lenders – only when the criteria are met.
- Delivers all the details needed to decide on a loan including qualifying loan criteria.
- Provides an intuitive, user-friendly digital platform that eliminates time spent going back and forth between multiple sites and Google searches.
- Allows you to examine the subtleties of a loan and borrower preferences that make or break a deal.
- Offers a wide range of loan options by bringing together all lenders, from traditional lender to private lenders to specialist banks and beyond, across all commercial asset types.



Conclusion

The goal for both lenders and brokers is to make better deals and make them faster. Better deals can only be made when high volume lead generation is coupled with detailed borrower preferences and the lending criteria that both parties need to make deals; the speed follows.

That's what Finance Lobby's CRE financing marketplace is all about.

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The CRE Financing Marketplace

www.financelobby.com