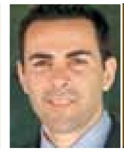

By Yanni Raz
CEO
HML

Avoid Stress in Funding Distress

Help clients with nonconventional capital sources and market knowledge

IN THE PAST FEW YEARS, THE RISING number of foreclosures has created a market for bargain hunters, many of whom need commercial mortgage brokers' guidance on how to arrange funding for their properties. The lack of conventional lenders' appetite to fund these deals has made it a must for brokers and borrowers alike to consider alternative financing routes.

In fact, there are several avenues that commercial mortgage brokers can pursue to arrange funding for distressed properties. To decide which one to take, it is critical to look at the status of the property that is part of the deal. Because many owners of now-foreclosed properties don't care about the state of the property when they vacate it, distressed properties are often in disrepair. This may seem like a significant issue, but it also can help lower the overall asking price by the mortgagee, which can add a level of built-in profit for your clients if they are willing to restore and flip the location.

To estimate the cost, get various appraisals of the necessary repairs before you advise your clients to proceed with a particular property. By doing so, you can develop a better idea of how much capital your clients will have to invest in addition to the asking price before turning the property for a profit.

Finding financing

Despite the fact that the recession is technically over, recovery hasn't taken hold in many areas of the economy and has been uneven in commercial real estate markets. The conventional lending environment is a good example of how tight capital continues to stifle commercial real estate deals.

Because lenders generally don't want to hang onto distressed properties, many of these properties are priced to move. Conversely, lenders are hesitant to put any money back into these properties. In some cases, lenders may be willing to offer financing on a property that they already own, provided that the new buyer can make the payments, which can be a good opportunity if your clients have all of the necessary documentation and are willing to endure a stringent evaluation process.

If your clients are not prepared for the lengthy, bumpy path of conventional lending, you should look for alternatives. For example, consider transactional funding, which has seen a boom in recent years because of the increase in foreclosed properties. In transactional funding, investment companies provide capital for a property's purchase, with a pre-contracted profit margin and sale date assigned at the time of issuance. This lending option works well for properties that are likely to be purchased and sold within a short period of time.

Although finding funding in today's tough economic times can be a challenge, commercial mortgage brokers who stay informed about market trends and available funding sources will be able to arrange the capital necessary for distressed acquisitions.

Risks

To help clients make sound decisions, commercial mortgage brokers must understand the issues involved in investing in distressed properties. The nature of the property's current standing often impacts every part of the process — from finding capital to assessing risk. Because it seems that the market will remain in flux for some time, brokers who develop good knowledge of their markets and maintain a record of successful transactions are set to attract a wider base of clients.

Knowing which distressed properties are worth the risk is paramount. Business remains sluggish in many industries, and it can be difficult to move a property once it's acquired. Many locations have been on the recovery path and can be profitable for distressed-property deals, however. Commercial mortgage brokers can determine the location's potential for their properties by looking at two major points:

1. **History:** Look at previous tenants, the lender's efforts in listing, etc.
2. **Market:** Get as much research and analytics information as possible regarding the specifics of the property's market.

Commercial mortgage brokers who develop the right skill set to capitalize on the potential of distressed properties will be able to move a property profitably. They have to be creative, however, in finding financing other than conventional lending. Private investors can play an important role in the acquisition process, provided that brokers have the right network in place, the necessary information to lure investors, and of course, a plan for the property once it's acquired.

continued ››

Yanni Raz is CEO of HML and has been a hard-money lender for more than 10 years. Raz was a real estate broker for five years before he partnered with a group of investors from California and began assisting real estate investors in financing commercial and residential projects. He writes about real estate financing for magazines, blogs and other online news outlets. Reach Raz at info@hardmoneyloans.org or (818) 308-4443. Visit hardmoneyloans.org and equitytrustmortgage.com.

Reprinted from *Scotsman Guide* Commercial Edition and scotsmanguide.com, June 2013

‹‹ continued

Mortgage brokers also have to work with potential buyers to ensure that they have all of their proverbial ducks in a row. Because financing can be troublesome in the current real estate lending climate, nothing can be more frustrating than having a deal lined up in every way, only to learn that a mundane detail brings the entire arrangement to a screeching halt.

To avoid this fate, successful commercial brokerages build and maintain connections with a wide variety of lenders. Because moving distressed properties can be tricky, mortgage brokers who have a direct line to investors or capital sources can close a greater number of deals.

• • •

The current state of the commercial real estate marketplace is creating a need for coordination on a variety of fronts. From brokers and investment houses to government agencies and large banks, almost everyone has a vested interest in helping the market recover. Regardless of the size of your deal, there often are several moving parts that can help you successfully broker the transaction while also helping potential buyers find the necessary funding and information.