Mixed-Use Deals Can Pay Dividends

Lining up financing for such properties requires planning and market savvy

By Tyler Stone

Do a Google search for "mortgage for mixed use" or "getting financing for mixed-use real estate." Guess what? Multiple items pop up on the first page, featuring lenders that will fund these types of loans.

So, lining up financing for a mixed-use property must be a piece of cake. You're halfway to the closing table already. If only it were that simple, however. How easy or realistic it is to get these loans funded is the big issue.

As an originator, how should you be setting borrowers' expectations for the process of getting from point A (loan application) to point B (borrower bliss) when it comes to mixed-use project financing? To answer that question, we need to take a deeper look at this lending niche, and its benefits and difficulties. With that knowledge, commercial mortgage brokers can better understand whether it may be a potential opportunity to pursue and drive more revenue.

Define the niche

First, we need to define what a mixed-use property is, so we are all on the same page. A mixed-use property or development involves more than one type of tenant use in a building or set of buildings that are part of a commercial complex or campus.

A mixed-use property often entails some sort of retail or office tenants, with residential apartments either behind or above the commercial space. In addition, mixed use also may involve a warehouse with office use, or really any combination of tenant uses across the commercial property spectrum.

Buildings with at least 50 percent residential use may sometimes qualify under multifamily-specific financing programs. So, it pays to ask your client upfront about tenant-use ratios to determine if a mainstream multifamily loan might come into play. A multifamily loan program is still commercial financing, of course, but it is likely to involve a more straightforward process than a mixed-use financing program.

Lower the risk

One of the reasons mixed-use projects can be hard to finance is that this type of commercial development is sometimes seen as riskier by many banks and lending institutions. This is primarily because financial success depends on the various property uses all being in high demand at the same time, in the same area, and in many cases, in the same building.

Loan-file submissions for mixed-use financing are most often turned down by banks because of unpredictable economic returns. A widely held opinion that this is true is when local and state government support or subsidies are uncertain, or the process to obtain such backing is seen as too arduous.

Mixed-use projects are often supported by state and local governments, however, because they lower the dependency on commuting and are often located near public-transit areas or are incorporated into municipal planning. Mixed-use zones also are often put in place by governments to address increasing urban density and to foster local employment growth.

As a result, another way to strengthen a submission for a mixed-use loan is to get a copy of the local urban-growth plan. This may be called a "zoning plan" in some markets. Further, even though the process of applying for government subsidies may be arduous, more often than not it is worth the effort for the borrower and may result in better leverage or better loan terms.

Prepare with data

A good strategy for mortgage brokers to use when submitting a loan application for a mixed-use property is to find some supporting economic research and data for the area to include with the file. The lender may have its own proprietary data, but adding some support data to the file is always beneficial.

Over the course of real estate market recovery, especially in 2016, the financing opportunities for mixed-use property types started to open up a little bit. Some of the best resources for this lending niche are community banks with local knowledge and relationships in the area. This does not mean every community bank will love every deal presented to them, however.

Local community banks might favor one geographic area of the market for mixed-use projects over another. Scottsdale, Arizona, for example, has the more affluent reputation when compared to the neighboring city of Phoenix, and one would think it would be easier to get a loan in Scottsdale.

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Tyler Stone is the founder and president of Capstone Financial, which specializes in privately funded loans for commercial and fix-and-flip investment properties. A national direct lender launched in 2010, Capstone has simplified underwriting processes for first-lien position investment and bridge financing. Programs range from streamlined fix-and-flip rehab loans to one-off funding for "makes sense" deals. Reach Stone at (480) 336-2828, ext. 107, or tstone@capstonefi.com.

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Some lenders in the greater Phoenix metro area, however, may see Scottsdale as oversaturated compared with other pockets of the market when it comes to mixed-use properties. As a mortgage originator working with many different clients, sources and markets, do not be caught off guard by a lender declining what appears to be a strong loan application based on their own proprietary economic data related to real estate and lease-absorption rates.

Know the market

One of the things that makes mixed-use financing a niche product worth understanding is that it affords a broker the opportunity to educate a client about the steps required in the process. As a result, the broker has the opportunity to establish a consultative relationship with the borrower, and maintain value in the relationship and loan process over time.

Although the financial details on a mixed-use property look somewhat similar to a standard apartment building or office complex, the former involves a mix of gross and net leases, and different tenant types. All of this requires that brokers do their homework to ensure they can provide any additional information to the underwriter that is required for the loan to be approved and close.

Mixed-use loan programs also will range in term, rate and structure. Some lenders are strictly bridge-loan providers for six to 12 months, while some will do 20- or 30-year amortizations. Some lenders can even occasionally close a mixed-use loan in as little as 10 days, with limited underwriting, to save a deal. Limited underwriting, for example, might entail only bank statements and no tax returns for financial documentation. So, it pays for brokers to not only understand the mixed-use loan process, but also the lending landscape in their communities.

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On the business-development front, many originators set annual goals at the beginning of 2018. Now that we are a several months down the road, it is a good time to review how the first-quarter sales funnels are shaping up — and possibly readdress how plans are progressing in terms of marketing or operational goals. Adding a mixed-use component to those plans might make some sense.

An important concept here is that business development does not exclusively entail sales and marketing. It also means making sure an office and its staff can handle the expected volume increase any sales and marketing efforts may produce. Mortgage originators would be well-served to invest some time and effort into further research and possible pursuit of mixed-use financing deals, but they also should ensure operational development is well-planned to accommodate any surge in business that may result. ■