



THE SOURCE

BUSINESS EDITION



Evaluating Light Industrial Buildings... Over the Phone

By John Odegard, CEO, Seattle Funding Group

Here we go, screening the next property type, in just ten minutes, over the phone. This product category is *distribution centers*; also known as light industrial, light manufacturing or sometimes **flex space**. We'll use the terms **light industrial** and **distribution centers**. Remember, our objective here is not to know every minute detail, but to cursory screen the loan request while capturing the borrower's attention, in just ten minutes, over the phone. The heavy underwriting will come after we've weeded the deal from the unrealistic, sent out and received back a letter of intent. We will be very general and somewhat stereotypical in this article, to save time. Your skill will develop through experience. Our discussions here will merely point the way. Let's get started.

Typically light industrial buildings are comprised of about 85% warehouse space and 15% administrative office or storefront. Think cabinet manufacturer, furniture sales and pick up, moving and storage companies, building supplies, U-Haul stores, etc. There may also be heavier uses such as engine manufacturing, parts manufacturing or commercial vehicle repair. Let's use the example building in this article: furniture storage, assemblage and distribution.

The list below separates major points of value from secondary points of value. Secondary issues give further value refinement after the primary concerns are addressed.

PRIMARY CONCERNS:

- Location near major freeway access
- Clean Environmental report
- Dock high loading doors
- Ceiling height
- Office / Warehouse ratio

SECONDARY CONCERNS:

- Roof condition (expensive to replace)
- Scrap yard (Outside)
- Power supply (Voltage capacity)
- Access and truck turn around capacity
- Temperature controlled warehouse

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For simplicity, we'll address just the primary issues.

LOCATION:

No surprise, location is important. Light industrial and distribution centers should be near major freeways with relatively easy access. Think distribution. If it takes 15-20 minutes to get to the freeway, that's not good, as it is in conflict with this product type's purpose. Many times these buildings are clustered together in industrial parks, near major transportation, but not always. Access to quick transportation, near major metropolitan areas is a must.

ENVIRONMENTAL REPORT:

Every building in this category must prove it is clean of environmental contamination. Without proof, the property has little marketability. Don't minimize this reality. The property must be proven clean. There are several great environmental assessment companies who will visit the site and provide a "level one" or a "level two" report, depending on what they see. Reports will cost between \$1,000 and \$5,000 depending on the property's use history, and whether there are any underground tanks. This report is generally a must and most industrial buildings have already had it done. Don't let someone convince you otherwise.

OFFICE/WAREHOUSE RATIO:

Ask how much of the property is office use and how much is warehouse use. (It is typically 80-85% warehouse and 15-20% office). Find out on your specific deal.



Dock High Loading Doors

Another typical small warehouse office setup, with roll-up doors

Although the office portion is typically valued greater than the warehouse portion, what's most important is an appropriate balance that meets the general market. Extra office space doesn't always translate to extra value, because most potential users won't need it.

LOADING DOORS:

Think pick up and delivery. Ask how many dock high doors they have for pick up and delivery trucks (see picture). There are typically one to four, depending on the size of the building. Just ask and take note.



CEILING HEIGHT:

For stacking and storage reasons, ceiling height is very important. Buildings with 24 – 30 ft ceiling height is optimal. Below 22 ft and we begin to see a value deduction. Ask and take note.

CASH FLOW (CAP RATE) ANALYSIS:

Like all commercial real estate, if there is a consistent income stream from rental income, it can be capitalized (Cap Rate) to find its income value. If leased, the lease is typically triple net making a cash flow value conclusion pretty easy. One just needs to find the prevailing cap rate for the subject's area and property type. You then divide this number into the annual

VACANT LIGHT INDUSTRIAL BUILDING VALUATION (PRICE PER FOOT)		
Subject Property		
Square Footage		Price per Foot
Warehouse	35,700 sq. ft. (89%)	\$2,142,000 (35,700 sq. ft. x \$60/sq. ft.)
Office	4,300 sq. ft. (11%)	\$ 430,000 (4,300 sq. ft. x \$100/sq. ft.)
Total	40,000 sq. ft.	\$2,572,000




QUESTIONS *you might ask and take note:*

- What is the location? (specific)
- Does the property have a recent environmental report?
- Is this a purchase? (get purchase and sale agreement)
- Building size (Office to warehouse breakdown)
- Is the warehouse temperature controlled? (heated and air conditioned)
- When was the property built?
- How old is the roof?
- What ceiling height does the warehouse have?
- Is there a secured scrap yard with the property?
- How large is the total site? (square feet)

net income. (See the last two issues of The Source for discussion on cash flow evaluations). Many times these properties are sold vacant, to an owner user. If the borrower is also the occupant, the building should be analyzed as if vacant. If the loan goes bad, that's how the lender will be selling the property.

VACANT VALUE ANALYSIS (PRICE PER FOOT):

The most important issue is to carry on an intelligent and enjoyable conversation while screening the deal's merit. Feel free to call us and discuss the possibilities. You can always call the borrower back with more questions, if necessary. We want to work with you to not only help capture the deal, but to give you and the borrower a level of service that builds long term relationships. Working together, deals will go smoother and prosperity will be greater for all involved.

Cheers to our next closing together! 

Notes from the Underwriter: 10 Ways to Accelerate the Process

By Charles Salas, Senior Underwriter, Seattle Funding Group of CA

The hard money loan business has been around a long time, and while underwriters have a variety of comparatively new tools at their disposal, the basics remain largely unchanged. Master the fundamentals, come armed with the facts and the initial review process is much faster and smoother for all involved.

So without a great deal more preamble, let's summarize the basics of a process that need not feel or operate like rocket science.

- 1 Executive Loan Summary** Just the basics in summary form. Simply explain the request as you view it so the underwriter can examine the data and assess the fit.
- 2 1003** A comprehensive credit application is always helpful in providing a current snapshot of the borrower or sponsor. Who are we dealing with?
- 3 Credit Report** What do we know about the client's credit history. Having current information can often save all concerned a great deal of time and effort.
- 4 Title Information** Do you have a current preliminary report or a starter of some type? If so, please include it.
- 5 Appraisal or Complete Property Description** If you have an appraisal, even an older one, it'll help paint a detailed picture of the property. At the very least, please provide an accurate description of the subject (parcel size, square footage, bedroom count, view, etc.).


- 6 Current Photos** Digital photos are always helpful. Take them in a manner that shows both the best and the worst...we're going to see the subject property before the transaction closes, so let's identify and discuss any weak spots early in the process.
- 7 Purchase and Sale Agreement** Escrow Instructions, Amendments, Preliminary Settlement Statement, etc.
- 8 Approved Improvement Plans, Spec and Materials List and Construction Cost Breakdown** The more detail, the better.
- 9 Profit and Loss Statements** Current and Historical P&L and NOI along with the rosy proformas, please.
- 10 Leases or Rental Agreement** Please include a Tenant Roster with summarized detail when applicable.

While this may appear to be a great deal of information, remember that this summary list covers a variety of loan types. Each loan does not require all 10 items. For example:

- a** Items #7 through #10 may not be necessary in most cases. It depends upon the loan type.
- b** If the loan request is a construction loan, then SFG will need plans, specs and construction cost breakdowns. If it is acquisition or refinance of existing improved property, these construction related forms are not required.

- c** If it's NOT an income property, SFG won't need #9–Profit and Loss Statements or #10–Leases or Rental Agreements.
- d** And if it's not an acquisition loan request or a loan secured by a very recent purchase, we won't require a Purchase and Sale Agreement.
- e** Items #1 through #6, on the other hand, are the basics required for each loan, regardless of the type, amount or location. They provide essential information on both applicant and property.
- f** Even then (in the case of title or appraisals, for example) if you don't have it, get us what you DO have and we'll secure the remainder as part of our process.

Quickly evaluating loan requests is one of the significant strengths possessed by the professionals at SFG. Key to that process is timely access to the basic information. And while the end result may not always be the fast YES you seek, a fast NO can prove helpful and informative as you seek to service your client's needs.

When you have quick questions concerning your loan request, or the process, in advance of compilation of the basic information, feel free to call a SFG Underwriter. Allow SFG's professionalism and responsiveness to assist you and your client with your next closing! 

THANK YOU

We would like to thank some of our key third party associates who have contributed to the success we have had, especially the last few years. Whether it be selling an REO asset out of our portfolio or helping us evaluate the collateral for new loan activity, these are some of the best in the business. Thank you for your contribution to our success.

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Because our thank you list is extensive, more names will be printed in next quarter's issue.



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