

FIRST QUARTER 2014 | ISSUE 2

## Financing Multifamily Housing Projects

Thinking of building, renovating or financing an apartment complex? Here are some tips from Nevada State Bank on how the financing process works and what factors we use to make lending decisions.

Nevada State Bank has financed a variety of new and existing apartment projects, not only in southern Nevada, but throughout the West. In 2013 Nevada State Bank funded a number of apartment complexes with loans in excess of \$30 million each.

### The People

Ray Lancaster, senior VP and Real Estate Team Leader for Nevada State Bank, explained that the first step in underwriting a construction loan for a multifamily project is to analyze the developer/guarantor. The bank considers the developer/guarantor's expertise, previous experience, and reputation, in addition to liquidity, net worth and global cash flow. These factors provide added assurance that the project will be completed.

### The Property

The second step is to analyze the prospective property's cash flow for its ability to service mortgage debt payments once the project is completed, plus provide a cushion for market conditions. In addition, for a new construction or rehab loan, the bank needs the detail of all construction costs -- both hard and soft costs. From this information the bank determines the project's loan-to-cost ratio, loan-to value ratio and projected debt service coverage.

### The Market

The third step is to evaluate the market and submarket for the product type being financed. According to Lancaster, for each project, the bank analyzes:

- **The location and submarket**
- **Competition within the submarket**
- **Upcoming supply in the submarket**
- **Overall trends for rental rates and occupancy**
- **Job growth, household formations and income trends**

"For example," he said, "There are 3,000 units now under construction in southern Nevada that are expected to come online in 2014, which will impact how we underwrite new construction projects in that submarket."

### The Contractor

The fourth step is to examine the general contractor's qualifications, including his experience in this market, experience with specific product types, and his reputation in the community.



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**What kinds of loans**

Among the types of loans the bank can provide are construction loans, loans for redevelopment or rehabbing, and term loans. Term loans are long-term loans on projects that are already completed and stabilized. Lenders like CMBS (collateralized mortgage backed securities), life insurance companies, and agencies like Fannie Mae and Freddy Mac have stringent requirements on term loans. "Borrowers looking to refinance or sell their development in the next few years appreciate Nevada State Bank's ability to offer a variety of flexible terms and options," said Lancaster.

**First Steps**

Jeff Jenkins, executive VP and Statewide Real Estate Lending Manager for the bank, said each loan is considered on its own merits, and meeting with one of the bank's loan officers is the best place to start the process of getting financing. Being a local bank with 54 years of history in the local market, Nevada State Bank is in a unique position to make loans to developers planning multifamily projects. "For larger projects, we can participate with another Zion's Bancorporation affiliate to give us more lending ability," explained Jenkins. "However, we still retain local decision-making power, which is important for developers looking for a face-to-face relationship with their banker."



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