LESSON THREE: THE DIFFERENT TYPES OF REAL ESTATE PROPERTIES: THE ASSETS

1.1 STABILIZED PROPERTIES

Permanent financing is for stabilized properties. Stabilized properties are fully leased with rents at market rate and current cash flow within the properties. With these properties, there is no more work to be done on the property to “grow or groom” the NOI. Finally, in regards to risk, the lenders are betting that nothing “bad” will happen to the project cash flows in the future.

1.2 UNSTABILIZED OR VALUE ADDED PROPERTIES

Typically shorter term or floating rate financing is more appropriate for value added properties. These properties are not fully leased, and/or rents are not at market. In addition, there is usually substantial work to be done before the property becomes stabilized. Finally, in terms of risk, something “good” needs to happen to the property cash flow in order to stabilize the property and achieve the business plan objectives.

1.3 OPPORTUNISTIC PROPERTIES

These properties typically require “specialized” financing. With these properties, there are several exit strategies to consider:

- The exit strategies for these properties require one of the following:
    - Residential sale exits: Typically relates back to the strength of the consumer (i.e. residential land and condominiums).
    - Commercial sale exits: Typically relates to commercial land that has an exit strategy of sales to commercial developers.
    - Development/construction: The property needs to be built and leased (which creates construction risk and lease-up risk).
    - Extensive renovation or change of use: The property has no cash flow in the beginning and any need to go through a change of use (i.e. office to apartments).
- The risk: Numerous good things need to happen.