

# COMMERCIAL REAL ESTATE LAND FINANCIER

## LAND FINANCING OPTIONS AND INVESTMENT CHARACTERISTICS

### SELLER CARRY BACK

It is very common for the seller to finance a portion of the sale. The seller may finance the majority of the land, by requiring a 10-20% down payment, or may take a second trust loan, subordinate to the first trust loan. Key points are:

- Interest rate.
- Amortization.
- Term (should be co-terminus with the first trust loan).
- Personal recourse.

### LOT OPTION CONTRACT

Farmer Option:

A small down payment with a long lead time to close, with closing based on time or achieving an objective. (i.e. re-zoning).

### INSTALLMENT SALE

**Paying for the land over time.** The deed is transferred to the buyer, subject to monthly, quarterly, or annual payments to retire the debt.

**This is a form of selling financing.** The payment is an installment sale which will amortize the balance to zero.

### TRADITIONAL BANK DEBT

During strong economic times, most local, smaller and regional community banks will make recourse, low-leveraged land to qualified borrowers on approved / entitled land.

### MEZZANINE LOANS

Depending on the development and economic climate, some opportunistic lenders will provide mezzanine loans on land.

They will typically go up to 80% of the capital structure.

### PREFERRED EQUITY

Private investors may make a preferred equity investment on land. They will typically go up to 90% of costs.

### EQUITY

There are few land players in equity. They will take a large percentage of the deal and will typically go up to 95% of costs.

### SELLER JOINT VENTURE

In many cases, the seller of the land may partner with the developer and will "contribute the land" to deal as an equity investment. In these cases, the partners need to:



Establish a Value For The Land Being Contributed

This can be done through an appraisal or through the residual analysis method.

Establish a Profit Participation Structure

The seller (equity investor) and the sponsor **must develop a profit sharing structure based on the land contribution and the developer's contribution.**

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