Sphynx Financial
"Simply the Best"

How a Lender Sees Your Commercial Building

Elements of Comparison
Typically, commercial lenders which use real estate as collateral look at comparable sales, and adjust their findings with so called elements of comparison and an assessment of the property's marketability. Just like any buyer, the lender will look at sales of comparable properties in the surrounding area. Then the question becomes, does the would-be borrower's property seem to be worth more or less?

You've heard the old real estate saw: Location, Location, Location. A central business district location is better than one in a remote area. A corner location is often more desirable because it generally gets twice the traffic than a locale adjacent to two other buildings. A building on a one way street will see less traffic than one that is not. At the same time, a building that has no street frontage would be viewed by a real estate lender as less valuable than one that did.

Another important element of comparison is the overall size of the building. Again, this is a relative comparison to the property type. If your building houses your auto repair shop with three bays, while most other independent repair shops have between four and six bays, your property would be considered small, which would have an impact on it's value in the eyes of the lender. By the same token, buildings that are large by comparison pose challenges too. A building used for dry cleaning that is three times the size of a typical dry cleaner would be viewed by a lender as less desirable than one that was typically-sized.

Marketability
The elements of comparison hold little essential value. Their real meaning comes from how they influence the marketability of a property.

Remember, if a lender ends up as the owner of a building, it's not by choice, but literally by default. This means the lender will seek to sell the building in a reasonable period of time. While many lenders want to avoid the losses that can come with a very quick sale, they do not want to own a building over a prolonged period of time, where taxes, maintenance, and unforeseen events can have a material impact on their ability to recover the principal balance of the loan. Generally speaking the maximum time period which a lender will want to own a building is between six and 12 months.

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