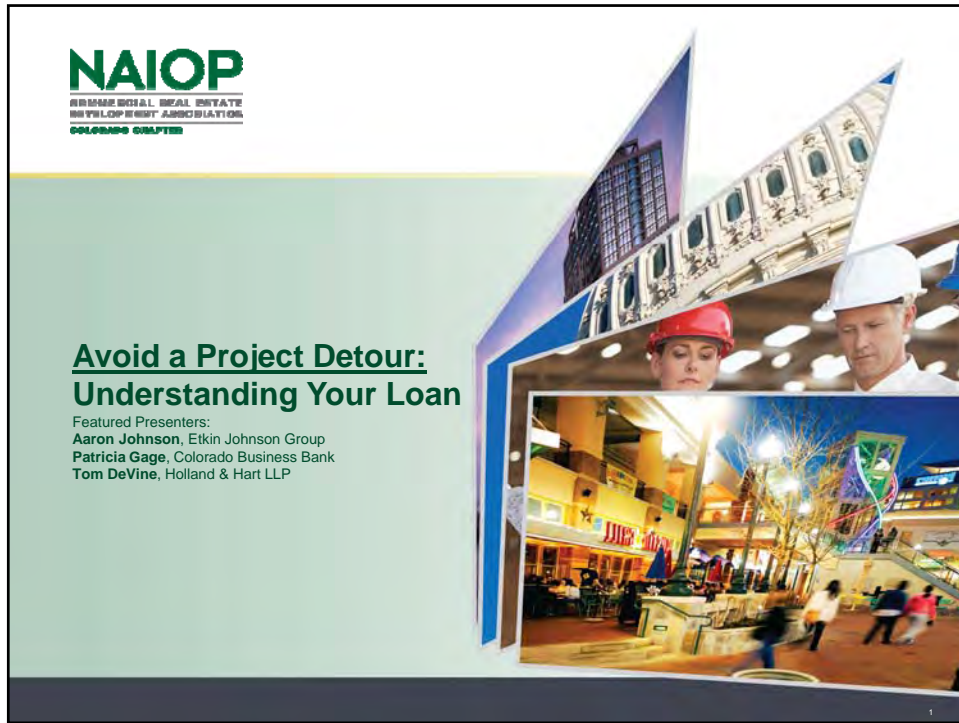


Slide #1



**NAIOP**  
NATIONAL REAL ESTATE  
INDEPENDENT ASSOCIATION  
COLORADO CHAPTER

**Avoid a Project Detour:  
Understanding Your Loan**

Featured Presenters:  
**Aaron Johnson**, Etkin Johnson Group  
**Patricia Gage**, Colorado Business Bank  
**Tom DeVine**, Holland & Hart LLP

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Slide #2

**UNDERSTANDING & NEGOTIATING YOUR LOAN**  
Aaron Johnson, VP of Investments – Etkin Johnson Group

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Slide #3



Slide #4

**ETKIN  
JOHNSON  
GROUP**

**Etkin Johnson Today**  
Etkin Johnson is actively engaged in the development, acquisition, ownership and management of income producing real estate and currently owns and manages over 5.3 million square feet across Colorado's Front Range.

Etkin Johnson is the largest owner of private real estate in the Denver Metro area.

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Slide #5

# CURRENT DEVELOPMENT PROJECTS

Over \$134 Million of Development In-Process



Slide #6

## Broomfield Business Center Apartments

### Retreat at The Flatirons

- **Project Cost:** \$66,000,000
- **Construction:** Garden style
- **Units:** 374
- **Buildings:** 20 Walk-up apartment buildings with clubhouse and pool
- **Delivery:** First buildings completed November 2013  
Final completion July 2014
- **Unlevered Return on Cost:** 7.15%



Slide #7


## Church Ranch Full Service Marriott




<span style="color: #002060;">■</span> <b>Project Cost:</b>	\$43,000,000	<b>Unlevered Return on Cost</b>	
<span style="color: #002060;">■</span> <b>Guest Rooms:</b>	215	(before city incentive):	<b>9.4%</b>
<span style="color: #002060;">■</span> <b>Meeting/Ballroom Space:</b>	12,770 SF	<b>Unlevered Return on Cost</b>	
<span style="color: #002060;">■</span> <b>Stories:</b>	6	(after city incentive):	<b>11.6%</b>
<span style="color: #002060;">■</span> <b>Delivery:</b>	April 2014		

Slide #8

## Colorado Technology Center SPEC DEVELOPMENT | 203,000 Square Feet



1900 Cherry



1900 Taylor

<ul style="list-style-type: none"> <li>• 66,350 square feet</li> <li>• Project Cost: \$8,500,000 (\$128/SF)</li> <li>• Unlevered Return on Cost: 7.9%</li> <li>• Delivery: April 2014</li> </ul>	<ul style="list-style-type: none"> <li>• 136,701 square feet</li> <li>• Project Cost: \$16,300,000 (\$119/SF)</li> <li>• Unlevered Return on Cost: 8.0%</li> <li>• Delivery: November 2014</li> </ul>
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Slide #9

## Colorado Technology Center SPEC DEVELOPMENT | 1900 Cherry

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Slide #10

**ETKIN JOHNSON**

**LAND FOR SALE OR BUILD-TO-SUIT**

- 1 6,201 Acres
- 2 4,320 Acres
- 3 7,997 Acres
- 4 11,248 Acres
- 5 3,253 Acres
- 6 2,706 Acres
- 10 2,694 Acres
- 11 2,382 Acres
- 12 4,840 Acres
- 13 4,036 Acres
- 14 2,490 Acres

2009 Etkin Johnson & Co. 303.443.3399

Slide #11

## Colorado Technology Center SPEC DEVELOPMENT | 1900 Cherry



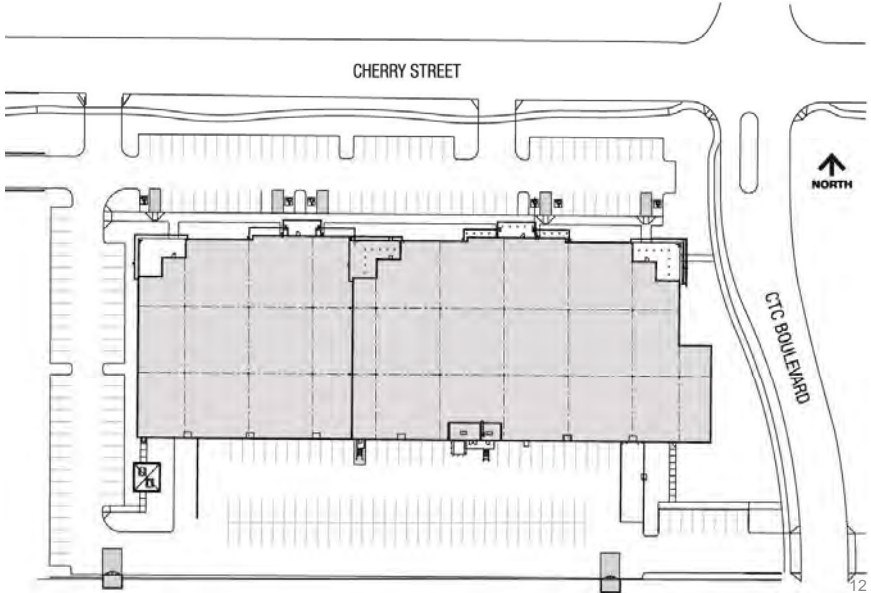
1900 Cherry

Property Identification	
Address	1900 Cherry Street Louisville, Colorado 80027
Site Size	4.84 Acres (210,830 square feet)
Zoning	I - Industrial
Net Rentable Area	66,350 square feet
Number of Stories	One
Year of Construction	2014
Parking Ratio	2.00 per 1,000 square feet (134 spaces)
	Expandable to 3.23 per 1,000 square feet (216 spaces)

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Slide #12

## Colorado Technology Center SPEC DEVELOPMENT | 1900 Cherry



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Slide #13



Slide #14

<b>Colorado Technology Center</b> SPEC DEVELOPMENT   1900 Cherry		
Development Cost Summary		
Development Budget Detail	Cost per Building	Cost per SF
Land	\$ 632,034	\$ 9.52
Core & Shell	\$3,627,930	\$54.68
Misc. Hard Costs	\$ 436,593	\$ 6.58
Tenant Improvements	\$1,658,750	\$25.00
Leasing Commissions	\$ 669,353	\$10.09
Soft Costs (excl. commissions)	\$1,193,670	\$17.99
Financing & Carry Costs	\$ 267,409	\$ 4.03
<b>TOTALS:</b>	<b>\$8,485,739</b>	<b>\$127.89</b>

Slide #15

<b>Colorado Technology Center</b>	
<b>SPEC DEVELOPMENT   1900 Cherry</b>	
<b>Financing Request</b>	
<b>Construction Loan Amount</b>	\$5,940,017 (\$89.53 / square foot)
<b>Loan-to-Cost</b>	70%
<b>Interest Rate</b>	Best Available Rate
<b>Term</b>	Five years
<b>Payments</b>	Interest Only
<b>Recourse</b>	Completion Guaranty with reduction upon completion & leasing. 50% upon completion and 25% upon leasing and DSCR compliance.

Slide #16

<b>Colorado Technology Center</b>	
<b>SPEC DEVELOPMENT   1900 Cherry</b>	
<b>Permanent Financing Assumption</b>	
<b>Permanent Loan Amount</b>	\$6,285,000 (\$94.72 / square foot)
<b>Loan-to-Value</b>	70%
<b>Interest Rate</b>	5.50%
<b>Term</b>	Ten years
<b>Payments</b>	Principal and interest with 25 year amortization
<b>Recourse</b>	Non-recourse



Slide #17

<b>Colorado Technology Center</b> SPEC DEVELOPMENT   1900 Cherry	
<b>Investment Summary</b>	
Investor Equity Required	\$2,546,000
Investment Date	November 1, 2013
Preferred Return	8%, compounded annually on any unpaid balance
Promote Structure	50/50 After Preferred Return

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Slide #18

<b>Colorado Technology Center</b> SPEC DEVELOPMENT   1900 Cherry	
<b>Investment Summary Continued</b>	
Projected Payment of Preferred Returns upon Refinance (1/1/2015)	\$237,600
Projected Return of Equity upon Refinance (1/1/2015)	\$0
Projected Remaining Investor Equity upon Refinance	\$2,546,000
Projected Investor Cash Flow Prior to Sale in Year 5 (including preferred returns and equity return)	\$1,159,381
Projected Investor Proceeds at Sale in Year 5	\$3,351,926
Projected Investor IRR at Sale in Year 5	13.40%
Projected Investor Total Cash Return over 5 Years	\$4,511,307 (1.77x)

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Slide #19



Slide #20

UNDERSTANDING & NEGOTIATING YOUR LOAN

Patricia Gage, Executive Vice President – Colorado Business Bank

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Slide #21

## Construction Lending Fundamentals

- Exit strategy – how does the bank get repaid?
- Project costs – how certain is the budget?
- Market feasibility – appraisal, preleasing
- Capital structure – equity amount and source? Mezz debt? Public finance?
- Sponsorship risk – know your borrower.....

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Slide #22

## Sample Income Property Term Sheet

	Grocery Anchored Retail	Unanchored Retail	Office	Class A Office	Credit Tenant	Class A Apartment	Industrial Class A&B	Hospitality
10 year Treasury	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Spread	2.25%	2.75%	2.50%	2.35%	2.25%	2.20%	2.45%	2.75%
Current Permanent Rate	4.75%	5.25%	5.00%	4.85%	4.75%	4.70%	4.95%	5.25%
CBB Risk Spread	1.25%	1.50%	1.50%	1.25%	1.25%	1.25%	1.50%	1.75%
Phantom Rate	6.00%	6.75%	6.50%	6.10%	6.00%	5.95%	6.45%	7.00%
Amortization	25	25	25	25	30	30	25	20
Permanent DSCR	1.25	1.35	1.25	1.25	1.25	1.20	1.25	1.40
Debt Yield (aka Underwriting Constant)	9.66%	11.19%	10.13%	9.76%	8.99%	8.59%	10.08%	13.03%
Minimum Cap Rate	6.50%	8.50%	8.00%	7.00%	6.75%	5.50%	7.50%	9.00%
LTV	75%	70%	70%	75%	75%	75%	70%	60%
LTC	80%	75%	75%	80%	80%	80%	75%	65%
Preleasing	Anchors	75% or break even DSCR	to break even on phantom rate (i/o)	to break even on phantom rate (i/o)	100%	n/a	to break even on phantom rate (i/o)	n/a

Notes:

1. Phantom Rate is not the interest rate to be charged to the customer. The Phantom Rate is for underwriting purposes based on an expectation of future permanent mortgage rates.
2. Debt Yield allows the underwriter to calculate the maximum loan amount on a property. Divide the property's stabilized NOI by the Debt Yield. For example, a Class A Apartment with \$1,000,000 in NOI could support a loan of \$11,668,000 ( $1,000,000 / .0857 = 11,668,611$ )
3. The maximum loan amount should be the lesser of the debt yield, LTV, and LTC tests.
4. The minimum cap rate should be applied to the proforma or actual stabilized NOI for the LTV test.

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Slide #23

### Sample Income Property Underwriting Criteria

	Grocery Anchored Retail	Class A Office	Class "A" Apartment	Industrial Class A&B	Hospitality
NOI	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Cap Rate	8.00%	8.00%	5.50%	7.50%	10.50%
Value	\$12,500,000	\$12,500,000	\$18,181,818	\$13,333,333	\$9,523,810
Max LTV	75%	75%	75%	70%	60%
Loan amount (LTV)	\$9,375,000	\$9,375,000	\$13,636,364	\$9,333,333	\$5,714,286
Debt Yield	9.21%	9.21%	7.82%	10.08%	12.43%
Loan amount (debt yield)	\$10,856,216	\$10,856,216	\$12,790,215	\$9,920,635	\$8,047,047

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Slide #24

### 1900 Cherry

	RSF	\$ / SF	
NNN Rent	66,350	\$11.00	\$729,850
Vacancy			7.5% (\$54,739)
NOI			\$675,111
Cap Rate			7.5%
Value			\$9,001,483
Value/RSF			\$136
Loan @LTV	70%		\$6,301,038
Loan @ debt yield	10.08%		\$6,697,532
Cost from Budget Sheet			\$8,485,739
LTC -	75%		\$6,364,304
<b>Equity Required</b>			<b>\$2,184,701</b>

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Slide #25

## Loan Package

- Project description/map
- Proforma
- Budget
- Copies of any leases
- Plans/specs
- Org documents
- Borrower/guarantor financials and tax returns
- GC AIA qualification statement
- Title commitment
- Rent roll
- Purchase contract
- Loan request

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Slide #26

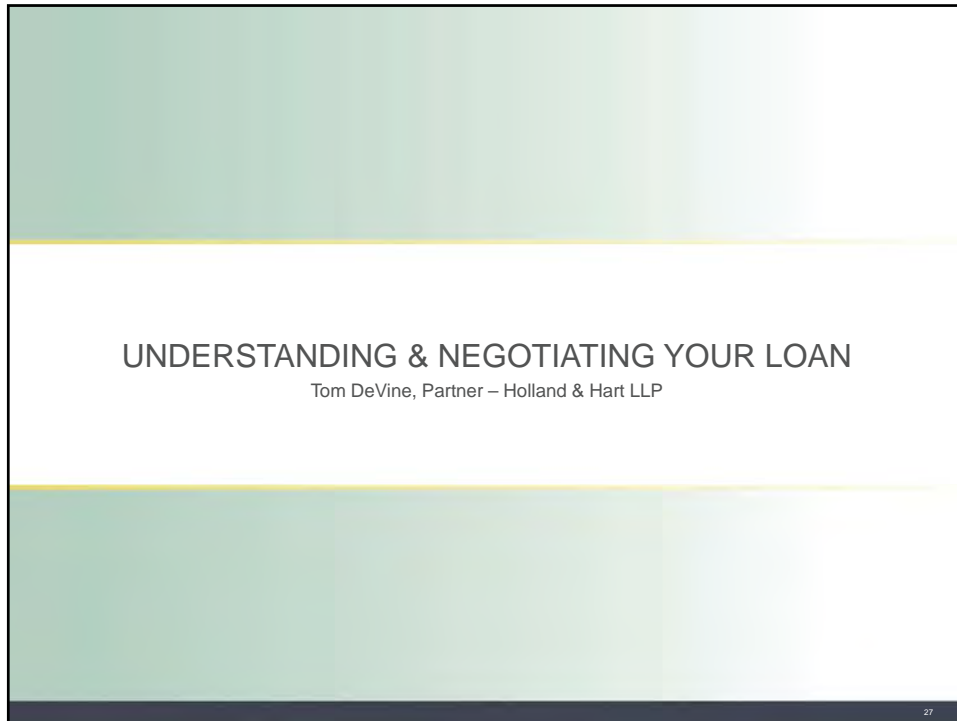
## Loan Sequence

- Receive package – day one
- Term sheet to customer – week 2
- Negotiate term sheet and order 3<sup>rd</sup> party reports – week 3
- Gather underwriting due diligence / go for loan approval – week 4 or 5
- Loan documents – week 4 to 8
- Receive 3<sup>rd</sup> party reports – week 7 or 8
- Closing – week 9 or 10

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Slide #27



UNDERSTANDING & NEGOTIATING YOUR LOAN

Tom DeVine, Partner – Holland & Hart LLP

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Slide #28



**FREQUENTLY NEGOTIATED LOAN TERMS & PROVISIONS**

HOLLAND & HART 

Loan Commitment

- Critical initial step, particularly for borrowers.
- Regardless how zealous and persistent the borrower and its counsel are, the loan documents will favor the lender.
- The loan commitment is an opportunity for the borrower to negotiate key loan provisions before signing the commitment.
- The commitment is seldom a firm commitment by the lender to lend the money as it will contain conditions precedent to the lender's obligation to fund the loan.
- The commitment often times obligates the borrower to borrow the money and will contain financial penalties for a borrower who fails to close on the loan transaction.

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## Slide #29

**FREQUENTLY NEGOTIATED LOAN TERMS & PROVISIONS** 

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Financial Terms


- Interest rate and how calculated
- Borrower equity in first
- Interest only vs. amortizing
- Extension of maturity date
- Mini-perm availability

Financial Covenants

- Loan to Value Ratio
- Debt Service Coverage Ratio
- Lease-up Percentage or Loan Coverage Ratio
- Tangible Net Worth of Guarantor
- Liquidity of Guarantor
- Loan Balancing

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## Slide #30

**FREQUENTLY NEGOTIATED LOAN TERMS & PROVISIONS** 

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Guarantees

- Limited vs. Unlimited
- Completion vs. Repayment

Prepayment Terms

- Yield Maintenance

Reserves for Interest, Taxes and Insurance

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Slide #31

**FREQUENTLY NEGOTIATED LOAN TERMS & PROVISIONS**

HOLLAND & HART 

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[Change in Control and Restrictions on Transfer](#)

[Other Indebtedness](#)

- Subordinate secured financing
- Mezzanine Debt

[Representations and Warranties](#)

[Opinions of Counsel](#)


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Slide #32

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COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION  
COLORADO CHAPTER

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