

## Explanation of Fees

Some of the standard fees common to most commercial mortgage transactions are explained below:

### Appraisal

\$2,000-\$7,000

The actual cost depends on a number of factors including: size of the property, location of the property, and type of property, as well as the lender's individual requirements.

Commercial appraiser qualifications are much greater than their residential counterparts, therefore, they command a much greater fee. Most lenders require that the appraiser be a Member of the Appraisal Institute (M.A.I designation). This designation requires several years of courses and field work.

The appraisal itself can be 60-100+ pages and requires significant out-of-office work beyond pulling comps and filling out the standard form associated with a residential appraisal which also adds to the cost.

It can take 3-6 weeks for the appraisal to be completed and this is typically the longest part of the process.

Appraisers use three primary methods to determine the value of commercial real estate:

**Cost Approach-**Estimated value of the land is added to the cost to replace the improvements.

**Market Value or Sales Comparison Approach-** This method is most similar to how a residential appraisal is done. The subject property is compared to similar properties that have sold recently. This method is much less effective for commercial real estate because it is very difficult to find similar properties and there is no central database similar to a residential Multiple Listing System.

**Income Approach-**The property value is determined by analyzing the property's Net Operating Income (NOI) and capitalizing it to a present lump sum value. The appraiser comes up with the capitalization rate by comparing NOI from recent property sales applicable for subject property's market. The subject property's NOI is then compared to market area rents and expenses. The NOI derived from this process is capitalized at the market capitalization rate to come up with the value (NOI/Cap Rate =Value). This is usually the most heavily weighted method by lenders and appraisers when valuing commercial real estate.

### Environmental Due Diligence

Lenders will perform environmental due diligence by utilizing one of following methods:

#### Environmental Insurance- \$500-\$900

This method reduces the risk for the lender and is sometimes used with small balance commercial loans depending on the type of property and associated risk. An insurance policy is issued with a one-time upfront premium that protects the lender from past environmental risks.

#### Phase I environmental site assessment- \$1,000-\$2,000

An environmental specialist will identify potential or existing environmental contamination liabilities. The analysis typically addresses both the underlying land as well as physical improvements to the property along with surrounding properties; however, it does not include actual collection of physical samples or chemical analyses of any kind.

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### **Phase II environmental site assessment-\$2,000 and up**

An environmental specialist collects original samples of soil, groundwater or building materials to analyze for quantitative values of various contaminants. This investigation is normally undertaken when a Phase I ESA determines a likelihood of site contamination or the property/land has a very high likelihood of contamination.

### **Lender Processing**

\$1,000-\$5,000 depending on lender, loan type, loan size and complexity.

Many lenders will require a processing fee to be paid upfront along with the third party reports (appraisal, environmental, etc.). This will cover lender's time and expenses such as site visits and other parties they must consult with during the due diligence process.

### **Attorney Closing Fee/ Bank Counsel Fee**

\$500-\$5,000

Depending on the type of loan and lender, there may be an Attorney Closing Fee or Bank Counsel Fee that is paid at closing. Many banks and private lenders do not have in-house counsel so they use outside counsel to review or create their loan documents. This fee varies based on each particular lender, complexity of the loan, and how much time the borrower or borrower's attorney spends discussing loan documents with the bank/lender's counsel.

### **Broker Retainer**

\$500-\$2,000

This fee covers the time and expense spent preparing a professional loan package to be presented to multiple lending sources. This fee may be credited towards the processing fee/brokerage commission at the loan's closing.

### **Brokerage Commission**

This fee is the income we earn for successfully closing and funding the loan transaction. The fee is typically expressed as a percentage of the loan amount and it varies based on the size and type of loan.