



CELEBRATING
55 YEARS

nareb

Zaxia AVM for CRE helps lenders make the right loan - by Vaughan Hennum

May 10, 2019 - Financial Digest

An earlier article discussed how the Zaxia AVM for CRE helps a commercial loan officer excel in today's more complex regulated environment. This article will discuss in greater detail how easily the Zaxia AVM Technology for CRE actually works to help the lender make the right loan. Imagine this oft repeated scenario. The CRE investor has negotiated with the broker and seller to achieve a price for a commercial property, contingent on receiving a loan for 15 years. The investor brings the sales/purchase agreement to the commercial lender for the property which has a loan value of less than \$500k so an appraisal is not required, and an evaluation (a short format appraisal) is sufficient for regulatory requirements.

The question for the lender is, "Is the negotiated price for \$520k a good one? Does a market analysis support that price?" If the lender makes an 80% loan for \$416k on the property, is there sufficient residual value in the CRE to support that loan and the associated costs in foreclosure? Tough call. The lender needs a reliable way to assure the value of the collateral. But the borrower may balk at the cost and the time frame for completion of a standard, full length appraisal.

There is an alternative approach...Zaxia AVM Technology. In a consultative fashion, the lender could sit with the buyer and in 10 or 15 minutes complete the simple Zaxia AVM Technology online survey questions about the property. These survey questions cover the type of property, i.e. office or mixed use or apartment and the property's address. Then, the survey questions go into greater detail about the building's quality: the offices, facilities, lavatories, area and neighborhood.

Finally, there are some financial questions regarding rents and key building expenses, i.e. utilities, management, administration costs. The market value estimate is available nearly instantaneously. If the market value estimate is greater than the negotiated price, the lender can have more assurance about making the commercial loan. But, if the market value estimate is less than the price, the lender and the prospective buyer may want to dig deeper requesting a Zaxia Market Report with 3 comparable sales and the detail of the income analysis.

In fact, the lender may want that report, which costs about \$200 for frequent users, to document the rationale for the loan approval. The report is not an Evaluation, but could easily be the basis for one. Evaluations for commercial properties are now requested 4 times as often as appraisals according to a July, 2017 study by the Appraisal Institute. For the prospective buyer, if the market price is less

than the agreed price, the buyer may want the Zaxia AVM Technology report to renegotiate the purchase price with the broker / seller because the lender can't support an 80% loan on the current purchase price.

A win for the lender (and the buyer)! The lender wins on many fronts by:

- Establishing a consultative relationship with the prospective purchaser versus a traditional “yes / no” lending authority figure.
- Gaining assurance that the CRE sales price supports an 80% loan based on the Zaxia AVM Technology market analysis.
- The cliché says, “Time is money.” With the Zaxia AVM Technology, the analysis can be completed and the report produced in less than 30 minutes. Of course, the report must be read and analyzed but agreement could be achieved same day...a vast improvement over a CRE Appraisal that takes weeks and costs typically more than \$1,500.
- The rigor of the Zaxia AVM Technology Income Analysis and the 3 truly comparable CRE sales will be a quality step up from Evaluations which can be done by almost anyone resulting in an inferior work product, and typically requiring much more time than one day.
- With the likelihood that the limit for CRE appraisals will rise to \$1m loan value, lenders now have a solid, analytically based CRE AVM alternative to Evaluations of questionable quality, namely: Zaxia AVM Technology

ZAXIA AVM Technology for CRE is Available Now - Zaxia is open for business in Greater Boston. Through May 31st, use the code “NEREJ” for a complimentary Report.

Vaughan Hennum is market analyst at Zaxia, Boston.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540