HARBORWEST COMMERCIAL LENDING

# COMMERCIAL RATES

## ☑ WHAT ARE COMMERCIAL INTEREST RATES IN GENERAL TODAY?

The below guideline is the average range by property type today as surveyed by us to almost 300 active commercial lenders in the marketplace. This assumes a permanent, long-term program and are based on averages. Every loan request should be evaluated case-by-case for accurate quotes.

**Multifamily:** 3.85%-4.85% (4.15% AVG)
**NNN Lease:** 3.90%-4.90% (4.25% AVG)
**Office:** 4.00%-5.00**%** (4.45% AVG)
**Industrial:** 3.90%-4.90% (4.30% AVG)
**Retail:** 4.00%-5.00% (4.45% AVG)

**Owner-User:** 3.75%-4.75% (4.25% AVG)
**Self-Storage:** 3.75%-4.75% (4.25% AVG)
**Mixed-Use:** 4.10%-5.10% (4.55% AVG)
**Hospitality:** 4.35%-5.35% (4.80% AVG)
**Special Use:** 4.40%-5.40% (4.85% AVG)

Properties that are not “stabilized” such as commercial deals that require bridge/rehab financing, private money financing, or construction loans – would be different and have higher averages.

## ☑ HOW ARE COMMERCIAL INTEREST RATES DETERMINED?

Fixed interest rates for commercial real estate mortgage loans are determined case-by-case by lenders. They are more difficult to quote compared to residential loans, as commercial loans are priced based on risk since they are investment properties. While there are some rules of thumb, its important to provide full due diligence to lenders in order to receive accurate loan terms.

Commercial rates are usually a factor of three elements: the market index the lender has selected, the lender’s margin/spread over that index, and client selected program features.

The **market index** can be usually one of a few public indexes. The market index serves as a benchmark which the lender does not have control or influence over, that will fluxuate daily with the markets. Some of the most common indexes used include:

| | | |
|---|---|---|
| TREASURY | SOFR | LIBOR |
| SWAP | CMT | PRIME |

The lender **margin or spread** is the add-on to the selected index that yields your final “all-in rate”. Spreads are determined by the lender ultimately by their risk assessment of the deal. The riskier the deal is for them, the larger the spread will be in order to compensate for that risk. This is where mortgage broker negotiations occur, and where lenders can get competitive. Below are some of the most commonly reviewed risk or qualification factors that can affect your rate (+/-).

| | | |
|---|---|---|
| DSCR Ratio | Debt Yield Ratio | Loan-to-Value (LTV) |
| Tenancy Risk | Tenant Quality | Operating History |
| Quality & Condition | Property Type/Location | Borrower Credit |
| Borrower Experience | Borrower Net Worth | Income & Liquidity |
| Personal Guaranty | Lien Position | Property Stabilization |

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## ☑ HOW CAN A CLIENT GET INTEREST RATE DISCOUNTS?

The final determinant of “all-in” interest rate is **client selection**. Borrowers cannot control the index or the spread, but there are program factors you can control that affect your interest rate. Below are the most common ways to improve your interest rate.

| | | |
|---|---|---|
| Shorter Fixed Rate Period | Giving Personal Guaranty | Stricter Prepay Penalty |
| Shorter Amortization Period | Higher Loan Amounts | Lower LTV / More Equity |
| Bank Relationship / Deposits | Cross-Collateralization | Paid Points Upfront |
| Accepting Added Conditions | Mortgage Broker Selection | SWAP Loan Structure |

## ☑ WHAT ELSE SHOULD I KNOW ABOUT COMMERCIAL RATES?

There are a few common questions we are asked by clients that can be explained by understanding a few key concepts. Please contact HARBORWEST to discuss any of these topics further.

### BEYOND INDEXES

Commercial rates are not only impacted by changes in index rates such as the benchmark 10-year US treasury rate. While index rate flux does drive much of any changes, lenders are still going to have floor rate minimums where it would not make sense to do business if they had to go below. Lenders also have internal costs of funds to consider and demand for certain property types or locations. So, changes in index rate may not directly parallel changes in commercial mortgage rates.

### ONLINE AVAILABILITY

Commercial interest rates seen online are only estimates. As you now know, finalized interest rates are based on risk and qualification, which can only be accurately determined after full due diligence. We can do our best to provide averages and high-volume surveys to manage client expectations, but at the end of the day anything online is going to be an estimate.

### ADJUSTABLE PERIODS

Commercial mortgage rates are most commonly “hybrid loans”. They are rarely fixed for 30 years like in residential. Commercial program defaults are fixed rates for 5, 7 & 10 years. Once the fixed period is over, the loan is due or goes to an adjustable rate. The terms of that adjustable period (floor, ceiling, frequency, adjustment spread, etc.) are just as important as your initial fixed rate.

### OVERALL PAYMENT

We find most clients when asking about commercial mortgage rates are actually more concerned about their overall payment and their monthly cash flow. So, while actual interest rate is important – your amortization period, interest-only period options, and impound or reserve requirements actually have a larger impact on your overall payments. Make sure to discuss with your mortgage advisor.

### RATE PREDICTIONS

Interest rates as of today are on the rise and predicted to stay on that course, as we come out of COVID and fight inflation. The Federal Reserve has already indicated they plan to raise interest rates through 2023. We recommend all clients execute forward rate locks on new mortgages to try capturing today’s lower rates.