

This Overlooked Step Can Delay (or Kill) Your Commercial Property Deal

According to Cristin Madden, a commercial lender at Charlotte State Bank & Trust, the one item many commercial real estate professionals neglect to check when helping a buyer qualify for a mortgage is prerequisite insurance coverage.

“Credit, cash flow, and collateral are the main important elements of getting a commercial real estate mortgage, but insurance coverage of the collateral is also very important, and is a regulatory requirement,” said Madden.

Historically, proof of insurance coverage was seen as necessary only during the final closing process. But that’s not the case anymore today. “I’ve seen deals on commercial condominiums fall through because the association made the business decision to ‘go bare’ (not carry any insurance) or coverage is severely underinsured.”

In most cases, the problem often lies with the property owner or association. “If you have a multi-condo unit building and all the unit owners are ‘self insuring’ because they don’t hold a mortgage, it is problematic for a potential buyer wanting to finance the purchase of one of those units. This one item can prevent a buyer who is interested in the remaining unit from getting approved for a mortgage.”

Madden recommends commercial real estate professionals add this step to their due diligence process. “The last thing you want after months of negotiating a deal is to find out from the lending institution that the buyer doesn’t qualify for financing because the unit is in a commercial condominium that doesn’t have insurance or enough exterior insurance.”

On another note, despite business restrictions set forth by the state to control the spread of coronavirus, commercial sales are still happening in Southwest Florida. “We approach every transaction on a case-by-case basis. Some new transactions lately are businesses going from renter to owner occupied or those who want to take advantage of the low interest rates and qualify for refinancing. In most of the new cases though, it involves an income producing project or a sponsor that is prequalified.”

Recently, Madden has also been busy processing Small Business Administration (SBA) Paycheck Protection Program loans. “As a community banker, I’m thankful that we were in a position to be of service to small business owners with this government program.”

In conclusion, Madden reminds us that checking into the level of insurance on commercial condos is an important part of the due diligence.