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Exclusive

# Why Good Business Plans Are Essential For Securing Real Estate Loans

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DALLAS—When evaluating a loan request-underwriting, should you evaluate the borrower and the borrower's project separately? In part one of this **EXCLUSIVE** two-part Q&A, Revere Capital's Brian O'Flanagan weighs in on the topic.

Brian O'Flanagan, director at Revere Capital

*Part 1 of 2*

DALLAS—While the speculation, uncertainty and continued media coverage of what the Trump administration will ultimately mean regarding the economy and commercial real estate in particular for this audience, one thing is clear: good business plans are essential for securing real estate loans for the origination of debt to finance real estate investments and development projects, regardless of shifting economic conditions.

That's the gist of a Q&A with **Brian O'Flanagan**, who serves as director at **Revere Capital** with responsibility for loan underwriting and execution. Dallas-based Revere Capital is a private lender specializing in short-term (less than 18 months) and intermediate-term debt (two-to-five years) serving all categories of commercial real estate except land investments. O'Flanagan operates from the firm's Darien, CT office.

***GlobeSt.com: When evaluating a loan request-underwriting, do you separate the borrower from the borrower's project, or evaluate them separately? Or is it impossible to separate the two?***

***Brian O'Flanagan***: Yes, the evaluation of the real estate is typically independent of the borrower, but of course the borrower's experience and resources can have a substantial impact on the future of the project.

***GlobeSt.com: The phrase "business plan" is often used to describe the borrower's intent toward its project and how the loaned funds would be deployed. What do you look for in a good business plan?***

***O'Flanagan***: A "good" business plan from the lender's perspective is one that has a high probability of success with minimal risk. For example, say the business plan for a 70% occupied property that has suffered from deferred maintenance or mismanagement in a strong submarket is to invest capital and management time to modernize and lease the property would be viewed as likely to succeed with minimal risk. Alternatively, a business plan to zone a rural land parcel for high density development is both unlikely to succeed and too risky for a lender. That said, such zoning could create great value making it a good business plan from the borrower's perspective, but they will have a challenging time getting the project funded.

***GlobeSt.com: What might be some red flags in a business plan that you have identified in the past?***

***O'Flanagan***: Unrealistic expectations or binary outcomes. For example, expecting $60/sf rents in a $30/sf market, significant changes in zoning, projecting substantial price appreciation after a short hold, unproven demand or no alternative uses and/or little residual value should the business plan fail. ***GlobeSt.com: Sometimes would-be borrowers make disingenuous claims regarding the projects they are proposing to pursue – it could be over-inflated land, sale or lease comps, or other elements used to justify qualifying for a loan. How do you navigate your due diligence findings with some of these claims when the facts seem to be at odds?***

***O'Flanagan***: We rely primarily on verified quantitative information in evaluating market conditions and value. As explained very well in Kahneman's "Thinking, Fast and Slow"casual thinking is subject to many errors and biases that are best corrected with quantitative reasoning. While every borrower believes his project is special and worth more and can provide a long list of qualitative factors to support it, deviating from the conclusions drawn from hard data is dangerous.

***Check back in a few days for the second part of O'Flanagan's point-of-view on real estate underwriting trends in 2017.***


## Natalie Dolce ›

Natalie Dolce, national executive editor of GlobeSt.com, is responsible for working with editorial staff, freelancers and senior management to help plan the overarching vision that encompasses GlobeSt.com, including short-term and long-term goals for the website, how content integrates through the company's other product lines and the overall quality of content. Previously she served as editor of the West Coast region for GlobeSt.com and Real Estate Forum, and was responsible for coverage of news and information pertaining to that vital real estate region. Prior to moving out to the Southern California office, Natalie was Northeast bureau chief, covering New York City for GlobeSt. Dolce's background includes a stint at InStyle Magazine, and as managing editor with New York Press, an alternative weekly New York City paper. In her career, she has also covered a variety of beats for M magazine, Arthur Frommer's Budget Travel, FashionLedge.com, Co-Ed magazine and the Daily Orange newspaper. Dolce has also freelanced for a number of publications, including MSNBC.com and Museums New York magazine.