Commercial Real Estate Loans Explained: How CRE Lenders Size, Price and Approve Property Financing

Commercial real estate loans cover purchases, refinances, cash-out deals, bridge financing and construction on business and investment property. Rainstar Capital Group sources them from a mix of commercial real estate lenders: private lenders, debt funds, CMBS and agency lenders, SBA lenders and banks. Its CRE platform handles requests from about $50,000 for a small investment property to $100 million or more for institutional construction and bridge deals.

The Grand Rapids, Michigan debt advisory firm counts over 250 registered lenders on its platform, more than 100 of them commercial real estate lenders. Rainstar works with business owners, developers and investors nationwide on self-storage, industrial, retail, hospitality, office, multifamily and special-purpose property.

Every loan described here is subject to lender approval, underwriting, appraisal, documentation and program terms. On each transaction, Rainstar Capital Group acts as a commercial financing intermediary, not the direct lender.

Commercial Property Loan Programs in Brief

Sample programs in Rainstar's lender network:

- **Small balance commercial loans:** stabilized investment property; $50,000 to $5 million, up to about 75% to 80% LTV.
- **SBA 504 and 7(a):** owner-occupied business property; one SBA lender finances up to 85%, and 7(a) loans for real estate run $200,000 to $5 million.
- **Conventional or senior debt:** stabilized assets held long term; 1- to 30-year mortgages, offered by non-bank lenders, credit unions and banks.
- **CMBS and agency:** larger commercial assets and stabilized multifamily, through conduit, FHA/HUD, Fannie Mae and Freddie Mac programs.
- **Lower-cost bridge:** repositioning, lease-up or value-add plans; $500,000 to $100 million-plus, with LTV up to about 75%.
- **Higher-cost bridge or hard money:** speed, story deals, or cash-flow and credit problems; $100,000 to $20 million, with some closing in 7 to 10 days.
- **Construction:** ground-up building or major renovation; typically $1 million and up, with one lender doing build-to-suit at up to 100% of project cost.

All of these are samples from current lender programs, not offers. Final terms depend on underwriting, the market, the sponsor and the property.

Main Kinds of CRE Loans

The Conventional Commercial Mortgage

Portfolio lenders, life companies, credit unions and banks make these long-term loans on stabilized, income-earning property, usually at the lowest rates and with the strictest requirements.

SBA 504 Loan and SBA 7(a) Real Estate Loan

These government-backed programs serve businesses buying or refinancing the property they occupy. An SBA 504 loan or SBA 7(a) real estate loan allows higher leverage and a longer term than most conventional loans, in return for heavier documentation.

How CMBS Loans Work

A CMBS loan has a fixed rate and is pooled with other loans, then sold in the form of commercial mortgage-backed securities. It suits stabilized assets, is often non-recourse and has structured prepayment terms.

Multifamily Loans Through Agency Programs

FHA/HUD, Fannie Mae and Freddie Mac cover apartments as well as senior and affordable housing, offering qualifying properties competitive pricing and long terms.

The Commercial Bridge Loan

This short-term debt usually runs one to three years and is often interest-only. It fits properties not yet stabilized and buyers on a tight closing timeline; once the business plan is carried out, the owner moves to permanent financing.

Loans from Commercial Hard Money Lenders

These private loans rest mostly on property value, not the borrower's cash flow or credit. They cost more but can close within days and fund deals banks turn away.

Commercial Construction Loans and Renovation Financing

Adaptive reuse, ground-up development and major renovations are typically funded through draws. Rainstar Development Capital, a sister company of Rainstar, makes housing construction loans directly, between $1 million and $80 million, with loan-to-cost of up to 90%.

Mezzanine Financing and Preferred Equity

This subordinate capital sits behind the senior loan but ahead of the owner's equity, raising total leverage. On the Rainstar platform, several lenders offer it selectively.

Second-Position Loans on Commercial Property

A loan in second position can free up equity while an attractive first mortgage stays in place. Private lenders on Rainstar's platform make first- and second-position loans, and even

third-position loans.

What CRE Financing Is Used For

- **Purchase:** acquisition loans, from small balance up to institutional bridge.
- **Refinance:** a lower rate, a longer term or a replacement for a maturing loan.
- **Cash-out refinance on commercial property:** equity pulled out for improvements, new acquisitions or business needs.
- **Recapitalization:** partner buyouts or a restructured capital stack.
- **Note purchases and discounted payoffs:** special situations that lenders on Rainstar's platform finance, discounted payoffs included.

Facing a Maturing Commercial Mortgage

Many owners hold loans that come due into tighter bank standards and higher rates. When a bank declines to renew, or offers less in proceeds than the owner needs, the alternatives include a CMBS loan, a loan from another bank or credit union, a bridge loan that buys lease-up time, or a second-position loan that covers the gap. The work should start six months or more before maturity.

Commercial Real Estate Lenders by Category

- **Banks and credit unions:** relationship lending at the lowest rates, but tight experience, credit and DSCR rules, and recourse is often required.
- **Life insurance companies:** low rates and long fixed terms, with a preference for top-quality assets at low leverage.
- **CMBS conduits:** non-recourse loans and larger proceeds against stabilized assets, offset by rigid servicing and prepayment penalties.
- **Agency lenders:** the best multifamily terms, limited to multifamily and senior housing.
- **Debt funds and bridge lenders:** higher leverage, speed and transitional assets, at the price of short terms and higher rates and fees.
- **Private commercial real estate lenders and hard money lenders:** fast closings and flexibility on cash flow and credit, at the highest cost.

Lenders are also often split into cash-flow lenders, focused on the income a property produces now, and equity lenders, focused on its potential and value. The better fit depends on where the property sits in its life cycle.

Properties Financed Through Rainstar's Lender Network

- Multifamily and apartments, plus senior and student housing
- Office and medical office
- Retail, strip centers and single-tenant net lease
- Industrial, warehouse and self-storage
- Hotels and hospitality, mixed-use and mobile home parks
- Convenience stores and gas stations, car washes, and body shops and auto repair

- Day care centers, churches and marinas
- Farms, ranches and land, along with greenhouses and nurseries

Special-purpose properties like gas stations, car washes and churches are harder to finance, and the platform has specialist lenders for them.

Commercial Real Estate Loan Requirements: Sizing and Approval Tests

Most lenders size commercial property loans with two tests, loan-to-value (LTV) and debt service coverage (DSCR), then offer the smaller result. Construction and bridge lenders add a loan-to-cost test.

Debt Service Coverage (DSCR) Explained

DSCR divides a property's net operating income by its yearly debt payments. Many lenders look for 1.25x or more, where income exceeds the mortgage payments by 25%. One SBA lender on Rainstar's platform sets its bar at 1.25x.

Loan-to-Value Compared with Loan-to-Cost

LTV sets the loan against appraised value, and most stabilized programs on the platform cap it at about 65% to 80%. Bridge and construction lenders also weigh loan-to-cost, meaning the loan as a share of the total project budget.

Debt Yield, Credit and Sponsor Track Record

Larger lenders also calculate debt yield, which expresses net operating income as a share of the loan amount. Every lender weighs the sponsor's credit, experience, liquidity and net worth. Minimum credit scores on Rainstar's platform go from about 620 to 700 for conventional programs down to none for some private lenders.

Hypothetical sizing example:

- NOI (net operating income): $300,000
- Annual debt service allowed under a 1.25x DSCR: $240,000
- Loan those payments support, assuming 25-year amortization and an illustrative 7% rate: about $2.83 million
- Appraised value: $4,000,000
- 75% LTV loan: $3,000,000
- Loan offered (the lower figure): about $2.83 million

This is an illustration only, not a Rainstar or lender offer.



Commercial Real Estate Loan Rates, Terms and Down Payments

Lenders typically price commercial loans at a spread above a benchmark such as SOFR or Treasury yields, depending on the property type, program, sponsor and leverage. Permanent loans commonly have terms of 5 to 10 years and amortize over 20 to 30 years; bridge loans last 1 to 3 years and are often interest-only. Down payments for most buyers run 10% to 35%, with SBA programs at the low end and special-purpose or transitional properties at the high end.

Recourse and Non-Recourse Loans

Recourse adds the borrower's personal guarantee. Non-recourse structures, common with CMBS and agency debt and with some life company loans, restrict the lender's claim to the property, apart from fraud and other "bad-boy" carve-outs.

How Prepayment Penalties Work

A commercial loan may carry yield maintenance, defeasance or a step-down penalty such as 5-4-3-2-1%. Some private and bridge lenders on the Rainstar platform charge no prepayment penalty. The penalty structure should suit the expected hold period.

Owner-Occupied Buildings and Investment Property

For owner-occupied commercial real estate loans, where a business buys property it occupies, SBA 504 or 7(a) programs can often be used, with higher leverage. Investment property is underwritten on its rental income and usually needs a bigger equity stake.

Choosing Among Commercial Real Estate Lenders

1. **Match the lender to the asset's stage.** Construction, transitional and stabilized

properties call for different lenders.
2. **Weigh total cost, not only the rate.** Count fees, points, prepayment terms and reserves.
3. **Check recourse and leverage.** Proceeds need to fit the plan, and guarantee terms need to be acceptable.
4. **Value closing certainty.** Closing on schedule can justify a slightly higher rate.
5. **Think one loan ahead.** Choose a structure that allows a refinance or sale on the owner's timeline.

Why CRE Loans Get Turned Down and How Rainstar Responds

Each common decline reason is paired with Rainstar's approach:

- **Cash flow below the lender's DSCR:** value-based lenders, bridge lenders or interest-only structures.
- **Down payment too small:** SBA, higher-leverage programs, or second-position and mezzanine financing.
- **Significant repairs needed:** renovation and bridge lenders that fund the rehab.
- **Too little equity in the property:** extra collateral or restructured proceeds.
- **Rate expectations out of line with the credit profile:** realistic choices across lender types.
- **Credit score under the lender's minimum:** underwriting by private lenders that focus on the property rather than the score.
- **Tertiary-market property:** lenders active in rural and smaller markets.

Commercial Real Estate Loan Closing Timelines

On Rainstar's platform, private and hard money lenders can close within 7 to 10 days, and some bridge lenders within 2 to 3 weeks. One SBA lender aims for approval within 2 to 4 days and a closing inside 30 days. Agency, CMBS and conventional loans usually take longer because of appraisals, legal work and environmental reports. The most common causes of delay are tenant estoppels, missing rent rolls, title issues and appraisals.

Commercial Real Estate Loan Documents

The checklist includes a signed application; a borrower authorization; a purchase agreement when buying or a tax assessment when refinancing; two years of personal and business tax returns; business bank statements for six months; asset statements; a personal financial statement; and current financial statements. For income property, lenders also need operating statements and rent rolls.

Recent Commercial Real Estate Financing Examples

- Kansas City new-construction multifamily: $41 million, split into a $31 million senior loan and a $10 million PACE loan
- 140-townhome development: $33 million construction facility

- Greenhouse and nursery: $15 million commercial real estate loan through a USDA program
- Multifamily property: $8 million bridge loan
- Forest products manufacturer: $5.5 million commercial real estate loan through USDA
- Texas commercial real estate company: $5 million bridge loan
- Research and engineering firm and dental practice: SBA loans of $4 million and $3.5 million

Cases Where Rainstar May Not Be the Right Fit

- **A home the borrower lives in.** Rainstar finances investment and business-purpose property, not owner-occupied homes.
- **Equity raises.** Rainstar's advisory platform arranges debt; it does not raise equity for real estate or businesses.
- **Flips and one- to four-unit rentals.** Investor rental loans usually serve these better.

Direct Lenders and Rainstar Capital Group

A direct lender funds loans itself. Rainstar, by contrast, is a commercial financing intermediary that packages each deal, brings it to suitable CRE lenders, helps compare term sheets and coordinates the closing and third-party reports. The advisory fee is set out in a written agreement before any application.

What Rainstar Capital Group Brings to a CRE Deal

Rainstar's role on commercial real estate loans covers four areas:

- **Lender match:** construction, private, bridge, agency, CMBS, SBA or bank lenders.
- **Difficult files:** special-purpose properties, tertiary markets and cash-flow or credit issues.
- **Whole capital stack:** second-position, mezzanine and senior debt.
- **Experience:** managing directors across the U.S. whose backgrounds are in CRE and commercial banking.

Commercial Real Estate Loans: Questions and Answers

Which commercial real estate lenders suit small investors best?

The answer turns on the property and the plan. Rainstar's platform includes small-balance lenders that fund stabilized properties in the range of about $50,000 to $5 million, plus private and bridge lenders for value-add work and fast closings. Looking at several lender types usually beats approaching a single bank.

What down payment do commercial property buyers need?

Usually between 10% and 35% of the price. SBA loans for owner-occupied property sit at the

low end; transitional, special-purpose and credit-challenged deals sit at the high end. Second-position or mezzanine financing can lower the cash needed.

Which credit score do CRE lenders look for?

Conventional programs on the platform commonly look for roughly 620 to 700. Some bridge and private lenders set no minimum, since their lending rests mostly on property value. Sponsor liquidity and experience carry as much weight as the score.

What debt service coverage ratio is required?

Many lenders require about 1.25x, which means net operating income exceeds the annual mortgage payments by 25%. A bridge lender may accept weaker coverage today if the business plan lays out a path to stabilization.

How does a commercial mortgage differ from a commercial bridge loan?

A commercial mortgage provides long-term debt for a stabilized property. A commercial bridge loan usually lasts 1 to 3 years and is often interest-only; it serves properties in renovation or lease-up, or purchases on a tight timeline, and gets refinanced afterward.

Can borrowers with bad credit or no income verification qualify?

Yes, through hard money and private lenders that base underwriting on the property instead of tax returns or personal credit. Rates run higher and leverage lower than with bank loans.

What is a typical closing timeline?

Private lenders can close within 7 to 10 days and bridge lenders within a few weeks. One SBA lender on the platform targets closing inside 30 days. Agency, CMBS and conventional loans generally take more time.

Can a vacant or partly leased building be financed?

Yes. A bridge lender can fund a transitional property against its value and leasing plan, with permanent debt replacing the bridge loan after lease-up.

Can a business finance the building it occupies?

Yes. Conventional owner-user loans are one option, as are SBA 504 and 7(a) loans. SBA programs generally call for the business to occupy 51% or more of an existing building.

Is financing available in secondary and tertiary markets?

Yes. Some lenders stay in major metros; others on Rainstar's platform actively lend in rural and

smaller markets, including through USDA-backed programs.

Which properties are the hardest to finance?

Special-purpose assets such as marinas, hotels, gas stations, car washes and churches, along with land and vacant buildings. Rainstar's platform has specialist lenders for each one.

Do lenders work with foreign nationals?

Some lenders on the platform restrict lending to permanent residents and U.S. citizens, while others work with foreign nationals who put down more. Borrowers should raise this at the outset.

Is Rainstar Capital Group a lender or a commercial loan broker?

Rainstar Capital Group works as a debt advisory firm. It compares CRE lenders on its platform and coordinates closing, while the lender funds the loan. Rainstar Development Capital, a sister company, makes direct loans for housing construction. The advisory fee is set out in a written agreement.

Related Commercial Financing

- DSCR rental and fix-and-rent loans for 1 to 4 unit properties
- Construction loans from Rainstar Development Capital
- Asset-based lending for owner-operated companies
- Hard asset loans and luxury asset financing