



Trends in Commercial Real Estate Finance

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Overview

General Comments

Interest Rates

- Floating Rates
- Fixed Rate Indices
- Permanent Loan Rates

Property Types

GO Zone Update

Emerging Product Focus



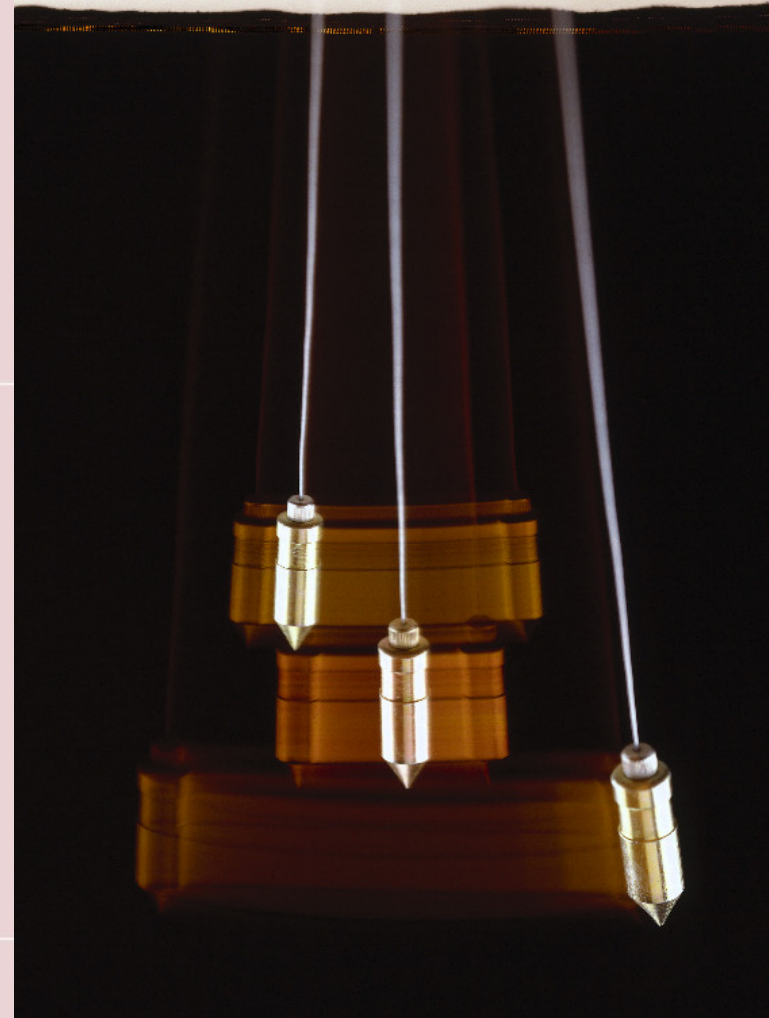
In General ...

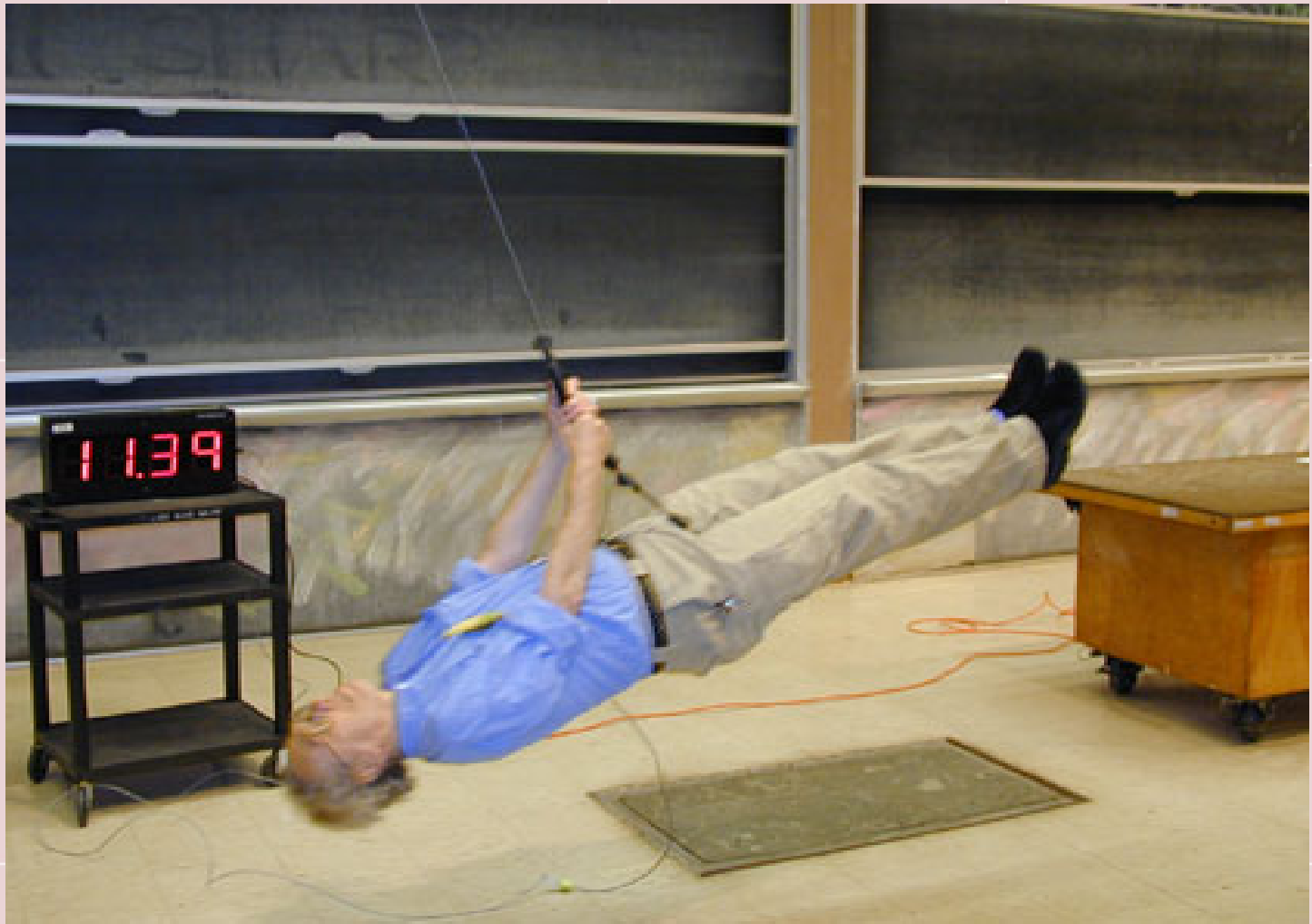
The Pendulum Has Swung ...

We are no longer in a
“Borrower’s Market”

Lenders have returned
to basic fundamentals
and tightened credit.

The days of “easy
money” are gone.





What Happened?

- Lenders, pressured to grow earnings in an overheated market, used inappropriate products to gain business.
- Financial Institutions changed focus from making good loans to making loans that could be sold to investors.
- Borrowers didn't ask questions when presented with a deal that appeared too good to be true.
- Mortgage Brokers jumped in and stirred the pot, though they didn't create the problem.
- The market infrastructure was not ready to handle the volume and safety systems failed.
- Regulators changed focus from being proactive and hoped the market would self regulate.

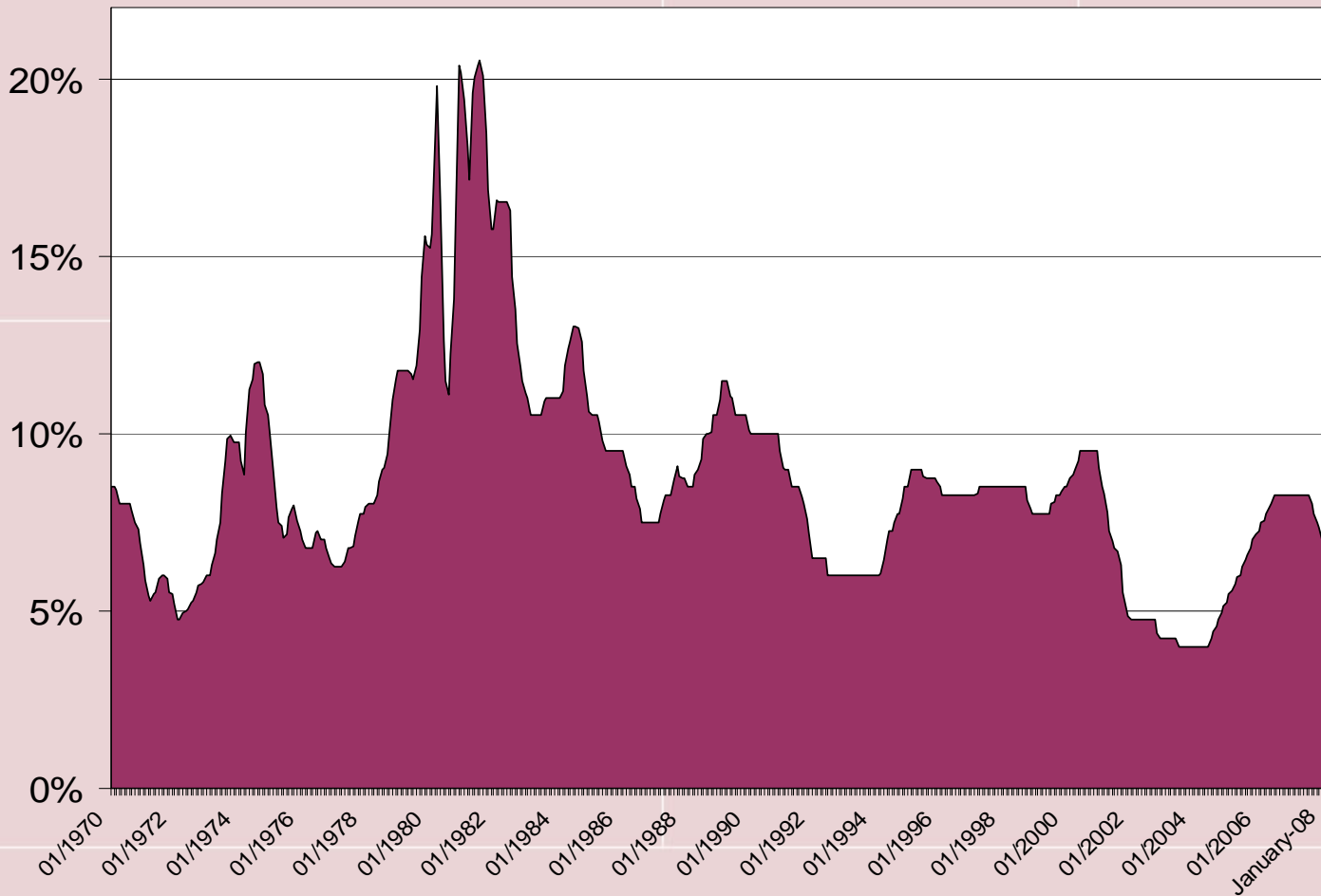


Interest Rates – “Whatever Comes Our Way”

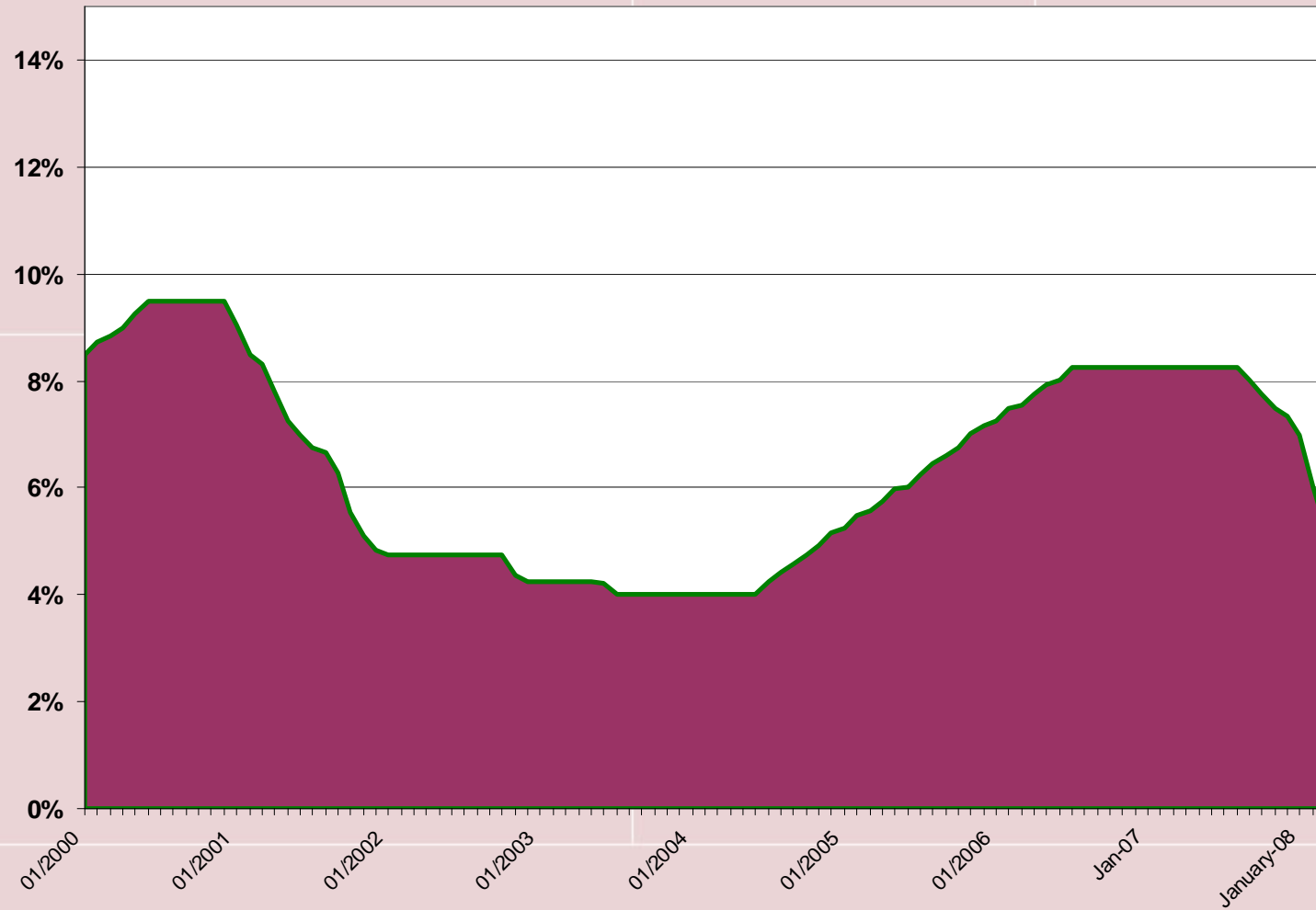
- Where are interest rates?
- Will interest rates continue to move?
- So What?



Prime Rate : January 1970 through March 2008



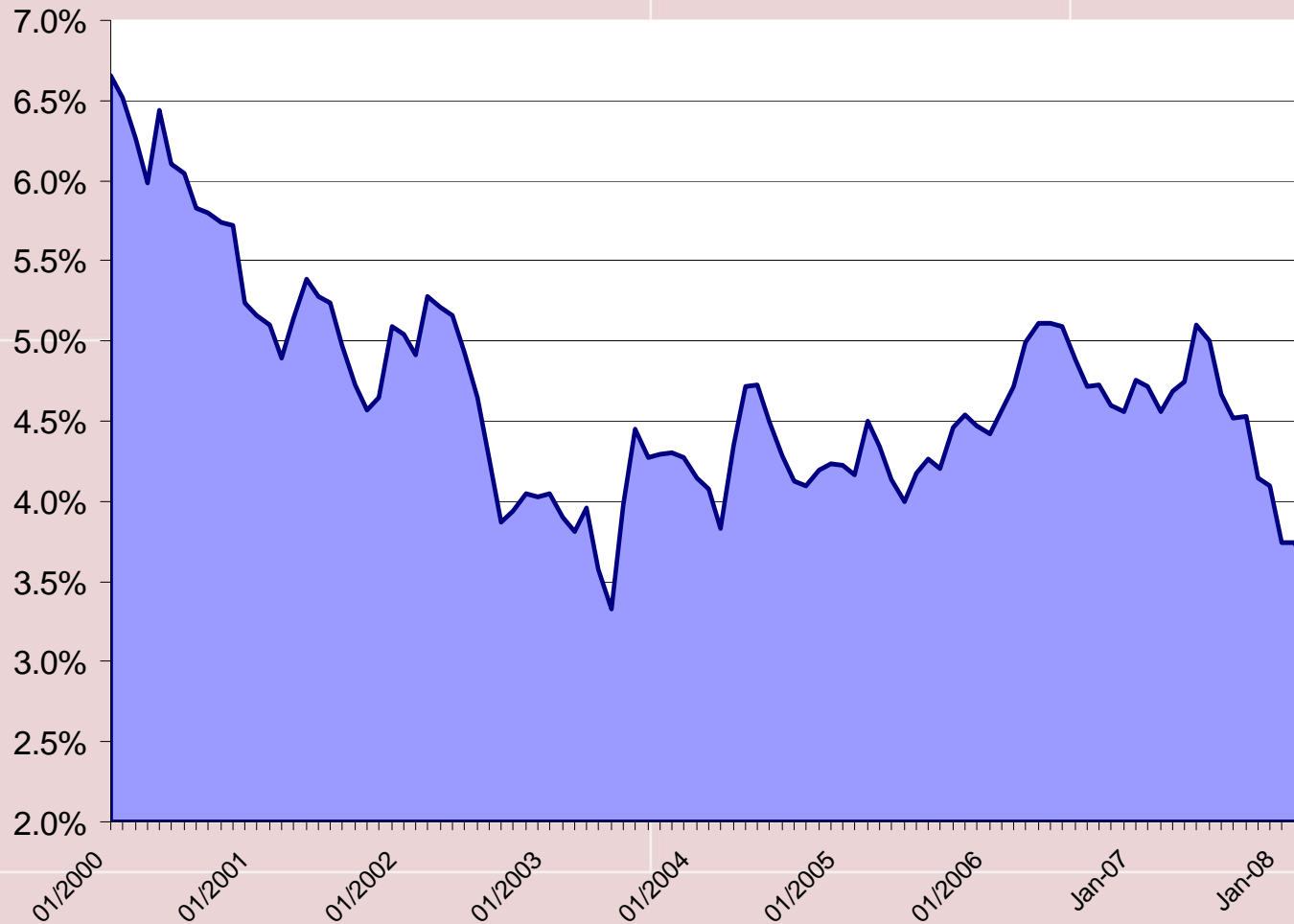
Prime Rate: January 2000 through March 2008



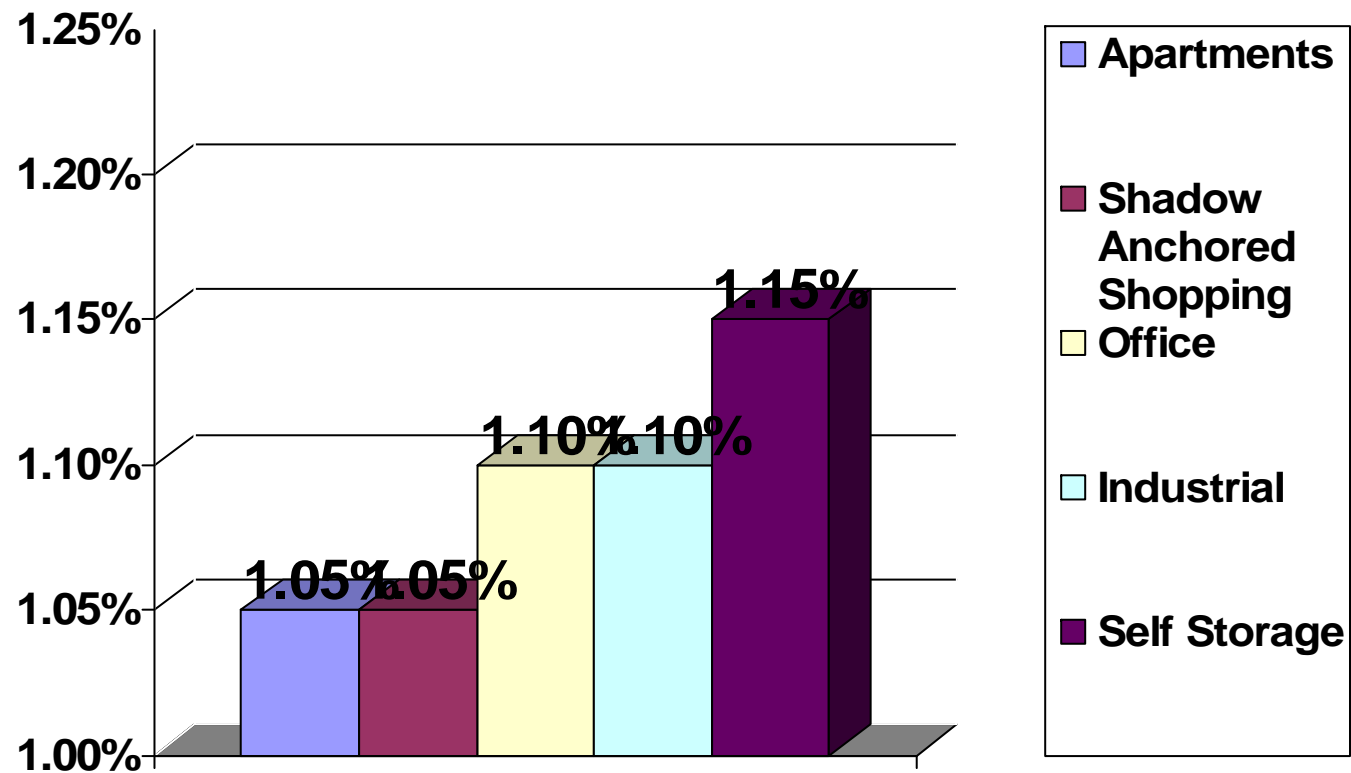
10-Year Treasury Rates – January 1970 through March 2008



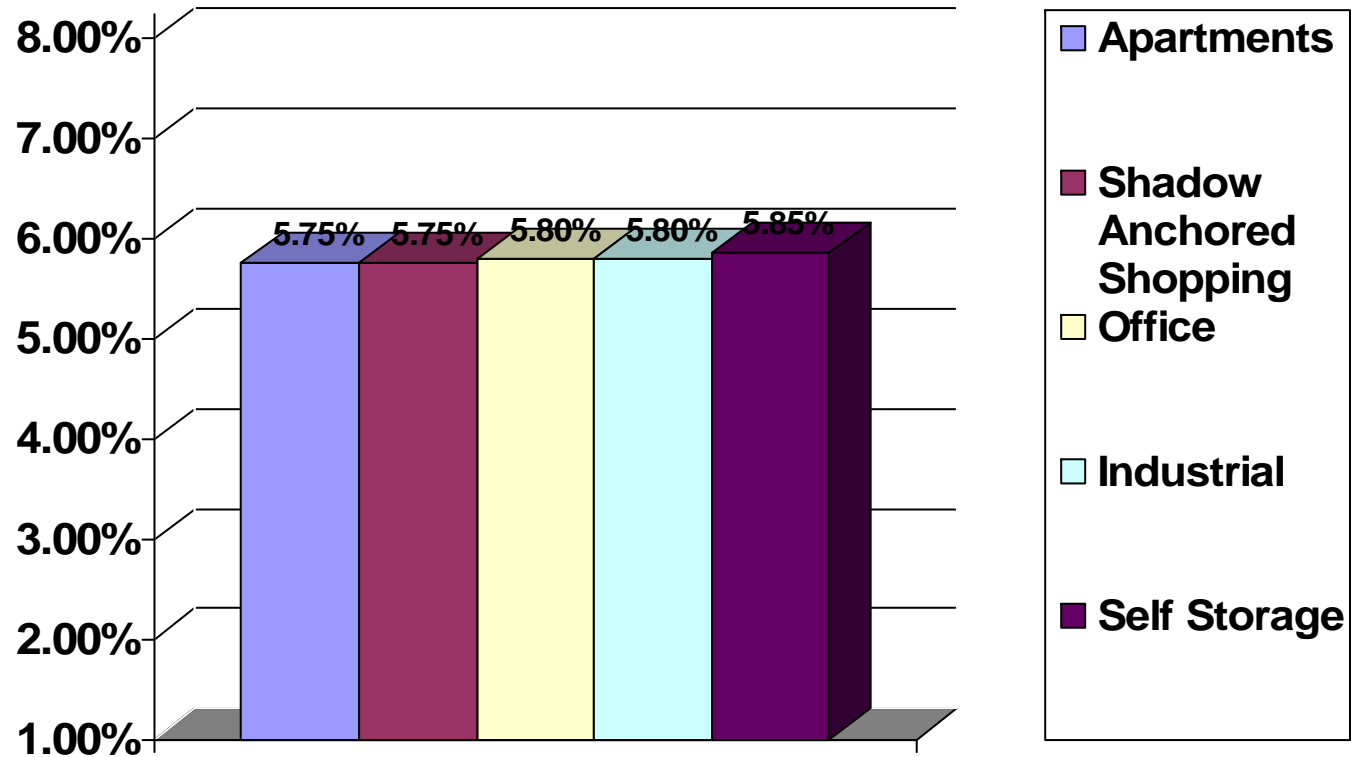
10-Year Treasury Rates – January 2000 through March 2008



10-Year Spreads over Treasury – Last Year



All-In Permanent Rates – Last Year



Interest Rates – Will They Continue to Move?

- Yes and No
- So much turmoil in the market right now and so many challenges to monetary policy, including risks of inflation, it is impossible and dangerous for the typical real estate investor to anticipate interest rate changes.





So What?

- Decreases in indexes will increase the amount that can be borrowed, all other things being held the same.
- But the lenders are pricing risk into the spreads, keeping all in rates where they were or causing them to increase.
- Cap rates are coming under upward pressure, decreasing the amount that borrowed.
- It may not be about rates anymore. It may be about where the money is.



Where Is The Money?

2008 Worldwide CMBS Through March

	<u>2008</u>	<u>2007</u>
US	\$6B	\$65B
Non-US	\$4B	\$24B
Total	\$10B	\$89B



Cost of CMBS DEBT

Spreads over 10 year Treasury

	<u>04/07</u>	<u>04/08</u>
AAA	0.82%	2.62%
BBB	2.25%	17.8%
BBB-	2.79%	21.0%



What is the CMBS Problem?

- **Liquidity Issue versus a Credit Issue**
- **Uncertainty**
- **No faith in the rating agencies**



Where Is The Money?

- **Life Insurance Companies**
- **Agencies**
- **Banks**



Life Insurance Companies

- **Not a securitized lender**
- **Offer a more stable source of capital**
- **Have local representation to better meet the needs of the community**
- **Offer longer fixed rate terms and longer amortizations than the local bank**



Life Insurance Companies

- **Lock rate at Application**
- **Fixed rate terms up to 25 years**
- **Interest Calc method of 30/360**



Life Insurance Companies

- Rates today are in the 6.0% - 7.0% range
- Leverage up to 75%
- Non-Recourse



Life Insurance Companies

- Second mortgage financing
- Ability to waive reserves (Tenant Improvement/LC, Capital Reserves and even Insurance Reserves)
- Loan servicer is local not overseas or in some other state (portfolio lenders)



Life Insurance Companies

Property Types Include:

- **Retail**
 - Regional Centers
 - Grocery Anchored
 - Shadow Anchored
 - Single Tenant (Credit)
 - Strip
- **Multi-Family**
- **Multi-tenant Office**
- **Medical Office**
- **Industrial**



Fannie Mae

- Busier than they have ever been.
- Pricing has increased significantly but is still good with all-in rates at around 6.25%.
- Despite challenges on the residential side, the commercial side is well capitalized and solid.



Fannie Mae – Recent Program Changes

- Debt Service Coverage Ratio requirements have increased from 1.20x to 1.25x for Nationwide Market, Tier 2 conventional transactions,
- Any Nationwide Market acquisition transaction with greater than 25% cash equity (changed from 30%) may use Strong Market Tier 2 DSCR of 1.20x (up from 1.15x),
- All transactions with 5 year terms are limited to 75% LTV,
- Full term interest only is allowed on Tier 2 Mortgage Loans with LTV's of 65% or less for non-acquisition transactions and 70% or less for acquisition transactions,
- For acquisition transactions, when the Lender is calculating the Baseline expenses, Lenders may use borrower's budget in conjunction with historical and market expenses to estimate certain expense items,
- For both acquisition and refinance transactions, Lenders do not have to inflate expenses by 3% if they use trailing 12 expenses or YTD annualized.



HUD

Still in the market for new construction using the 221(d)4 product and refinancing using the 223(f) product *subject to*:

- Very sensitive to market conditions, not only in the amount of pending apartment activity but also in the amount of pending single-family activity.
- Some market conditions appear to be softening with the presence of rental concessions.
- Aware of issues with population and labor data which suffer from inconsistent reporting.

Banks and Other Financial Institutions

- Subject to more scrutiny from regulators
- Cutting back on speculative lending
- National lenders are pulling back on all lending as liquidity and capital suffer
- Local lenders are still doing fine, though they must protect against mistakes made by the nationals.

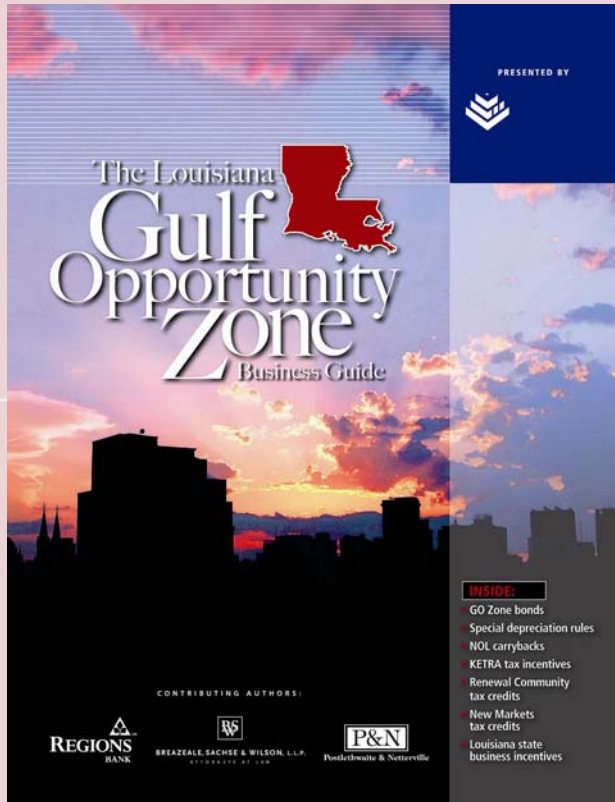




So What?

- Get out and shop the deals *but know that it is a lender's market*
- Don't be afraid to ask for what you want *but understand that you might not get it*
- The community banks and local lenders may be able to handle larger loans *though participants are harder to find (though clearly not impossible)*
- The regional and national banks have new services to offer *but may be up to their eyeballs in gators.*
- Conduits are on the sidelines but life insurance companies, GSEs and HUD are still in play.

The Gulf Opportunity Zone Act of 2005



- Tax-Exempt Bond Financing
- More LIHTC
- 50% Bonus Depreciation
- More ability to expense cleanup and demolition costs
- Enhanced Net Operating Loss Carryback

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GO Zone Legislative Update

- Under the GO Zone legislation, businesses could take advantage of increased bonus depreciation for construction of commercial properties and residential rental properties, deducting 50 percent of the value of their property from their taxes if they began construction by December 31, 2007.
- Under an amendment sponsored by Sens. Landrieu, David Vitter, R-La., Thad Cochran, R-Miss., and Roger Wicker, R-Miss., businesses can begin construction at any time. Construction must be completed by the end of 2010 for the most damaged areas of the GO Zone, and by the end of this year for less-damaged areas.
- Requires further approval by House and President.



Commercial Real Estate Finance – Wrap-Up

- Money is still out there for construction projects, acquisitions and permanent refinances, *but the deals need to be strong and well capitalized and the players have changed.*
- Interest rates are *a real wild card!*
- There have not been major shifts in appetite for property types *but lenders have returned to fundamentals that might impact some sectors.*
- Lenders are hungry *but may struggle with credit quality and their own liquidity.*
- GO Zone incentives are available





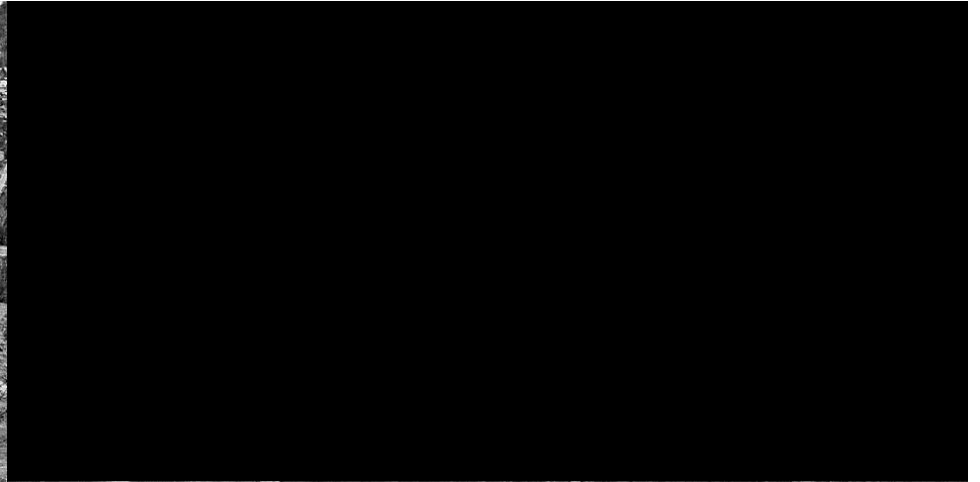






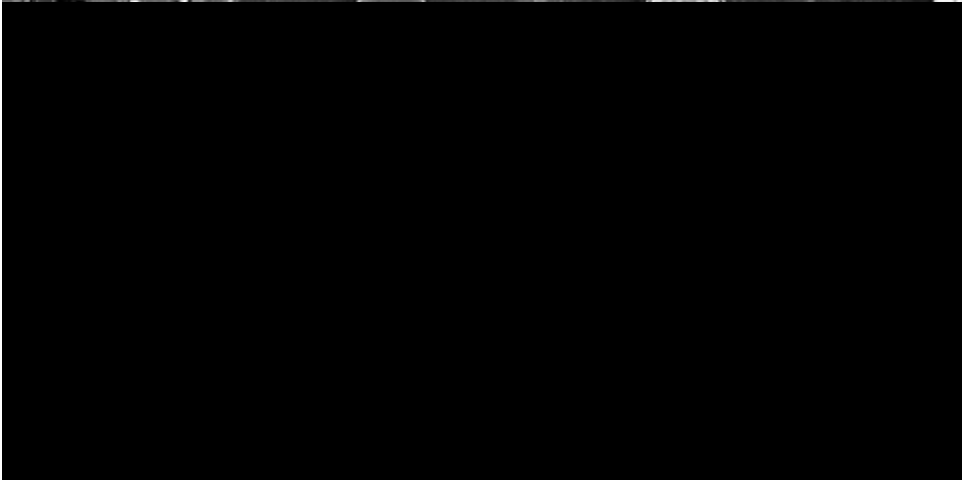
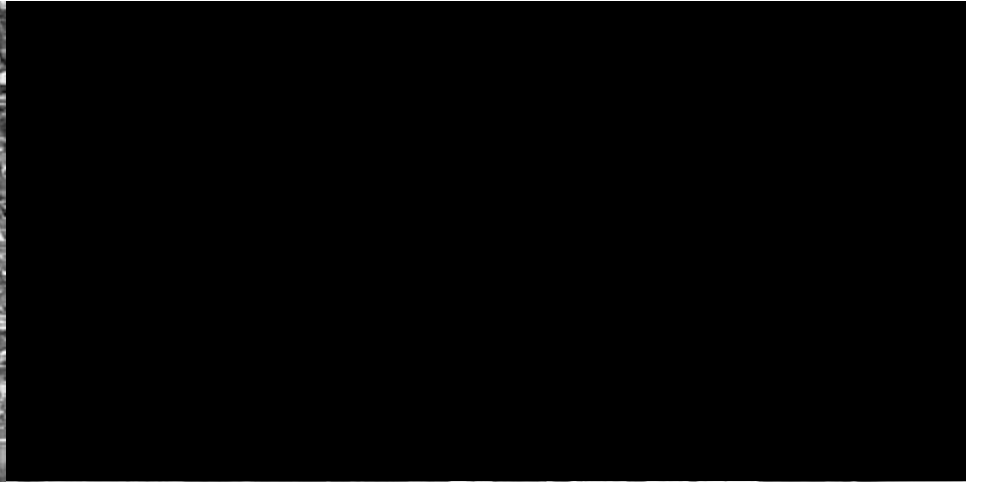


















November 20, 1971

THE NIGHT THE IRISH CAME TO DEATH VALLEY

LSU 28

NOTRE DAME 8













