



Trends in Commercial Real Estate Finance

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Overview

General Comments

Interest Rates

- Floating Rates
- Fixed Rate Indices

Lender Update

GO Zone Update



In General ...

Locally versus Nationally

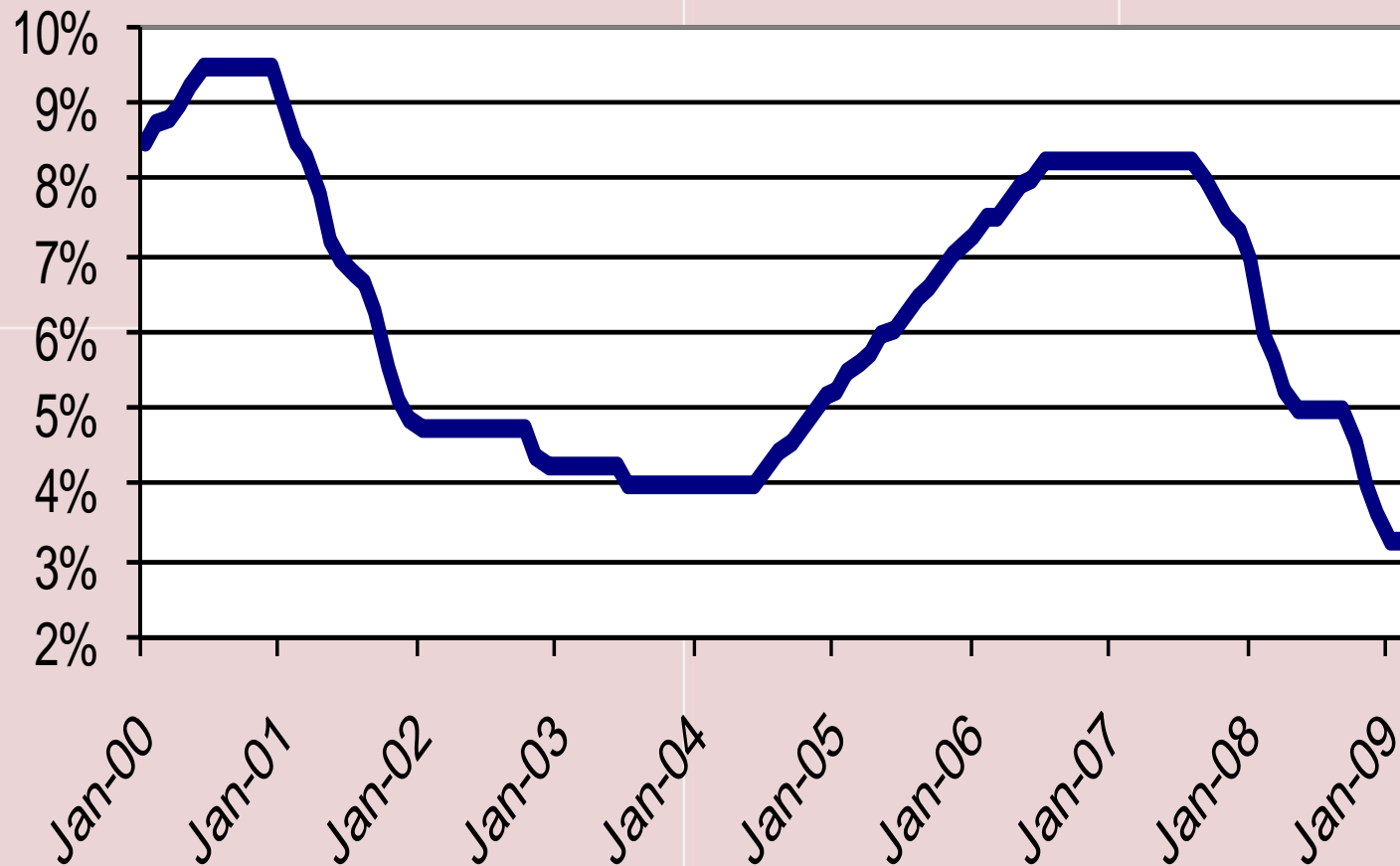
- Locally we seem to be doing fine with lenders making loans in most sectors to borrowers with cash equity. Underwriting is tighter but loans are available.
- Nationally the picture is more severe with large lenders still holding on to their funds.
- The national press does not reflect our local reality.

Interest Rates

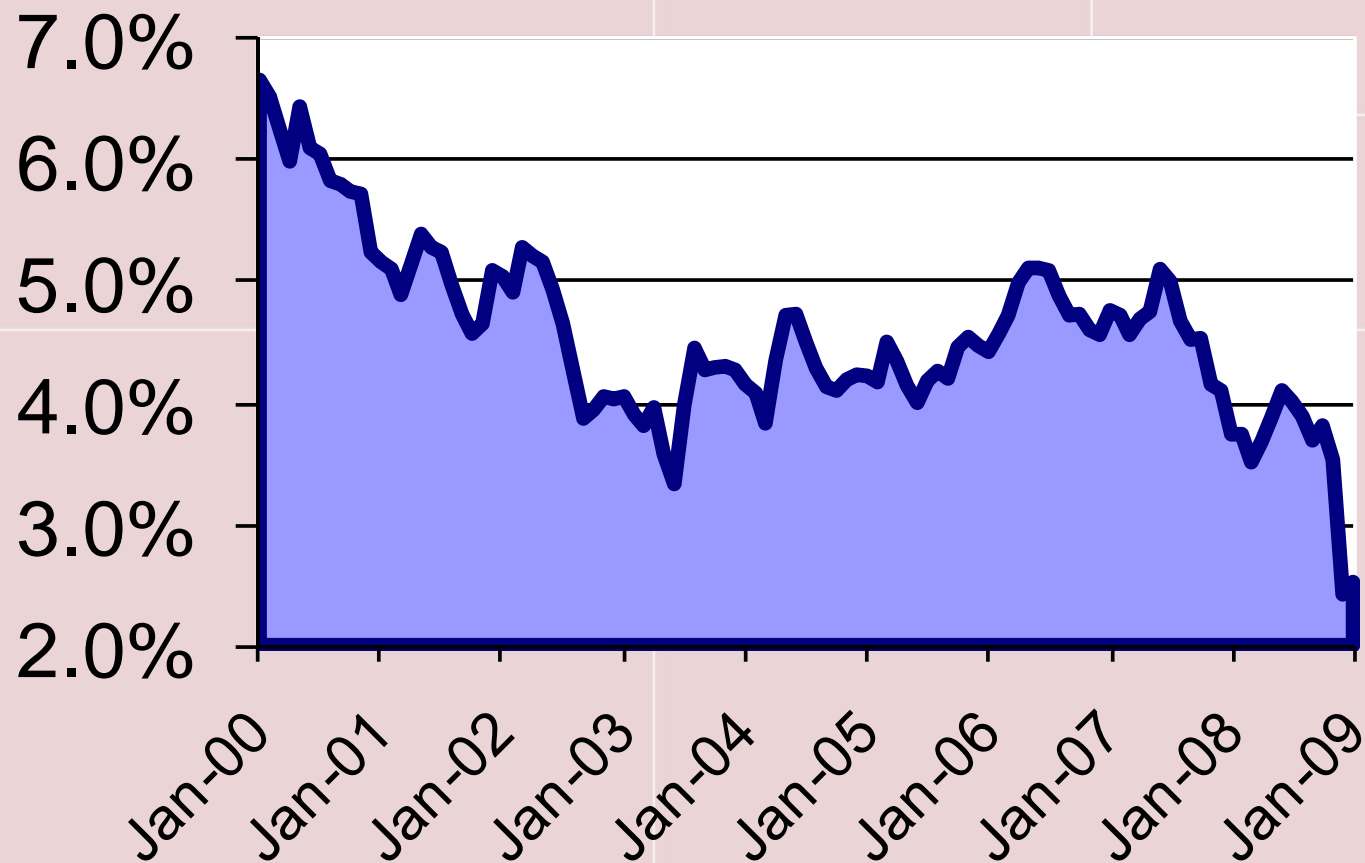
- Where are interest rates?
- Will interest rates continue to move?
- So What?



Prime Rate: January 2000 through February 2009



10-Year Treasury Rates – January 2000 through February 2009

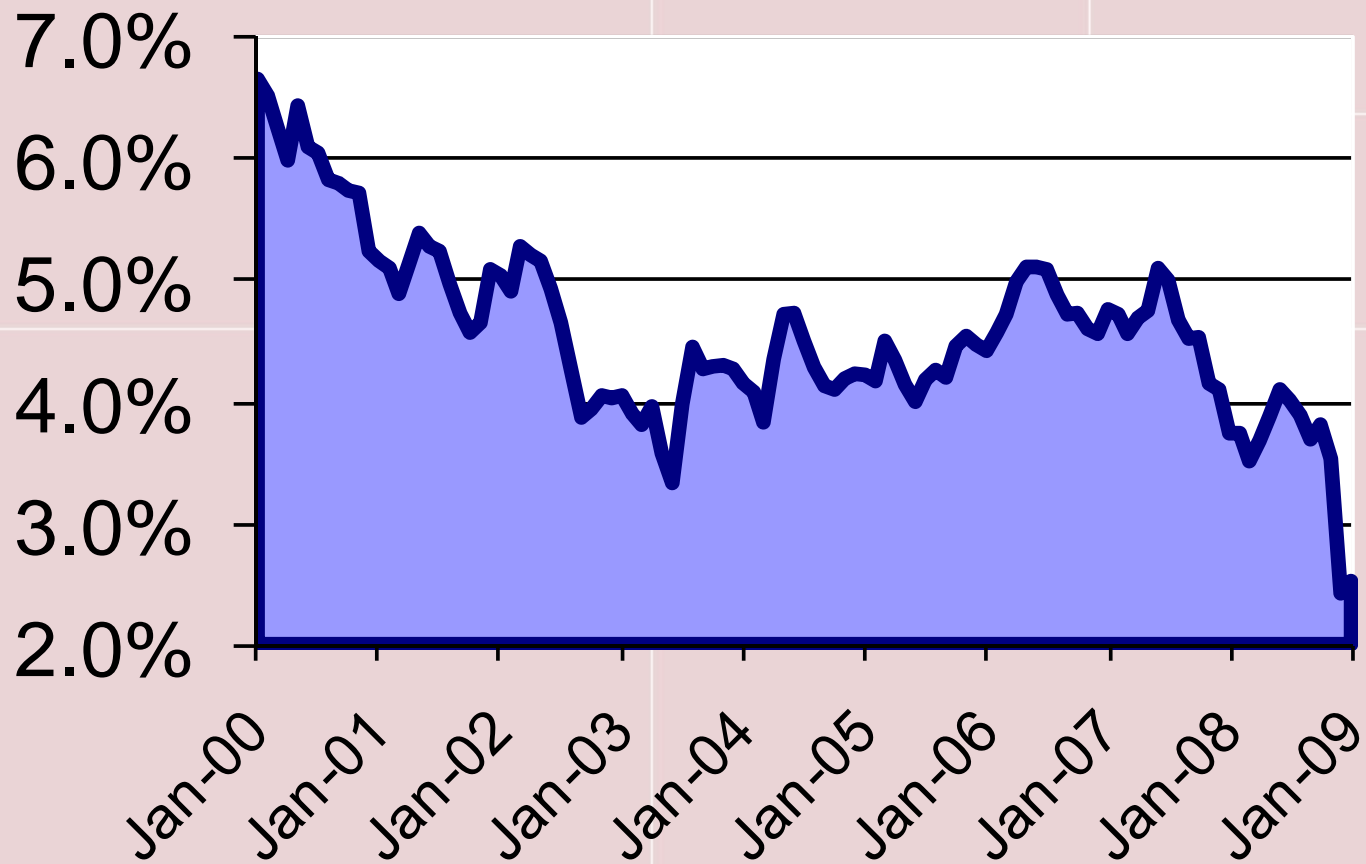




Interest Rates – Will They Continue to Move?

- Yes and No
- Fed would be hard pressed to have floating rates go any lower, so Prime is about as low as it can go.
- The 10YR Treasury is also at an all time low, so it is doubtful that it will go much lower.
- The key for borrowers is the spread over the index, and banks are pricing for risk and inflation.

10-Year Treasury Rates – January 2000 through February 2009





So What?

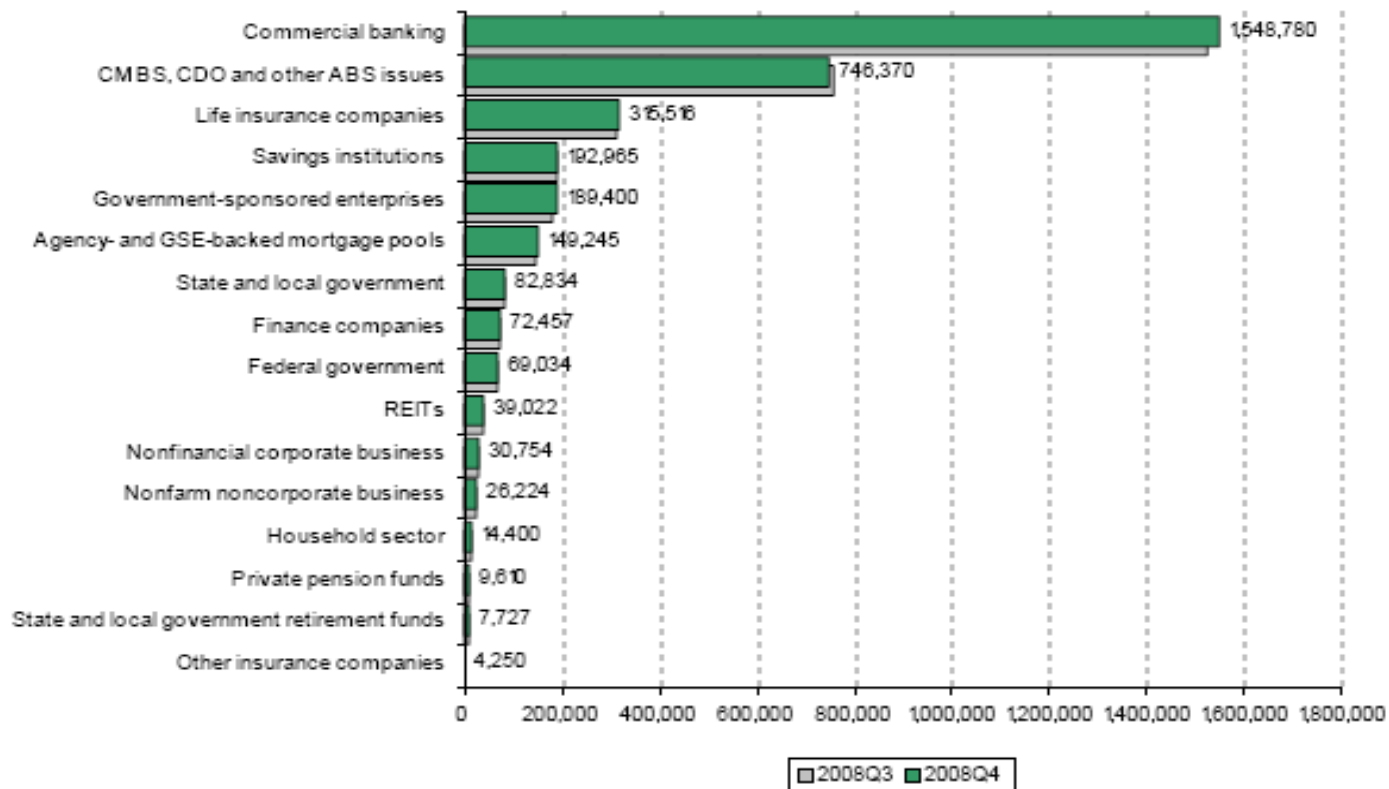
- For the home building and related industries, lower interest rates are helping purchasers afford mortgage payments.
- Refinances of home mortgages may strengthen the consumer base and support retail.
- For commercial real estate development it is not about rates anymore. It is about where the money is.

Where Is The Money?

COMMERCIAL AND MULTIFAMILY MORTGAGE DEBT OUTSTANDING

Total Commercial and Multifamily Mortgage Debt Outstanding, by Sector

(\$millions)

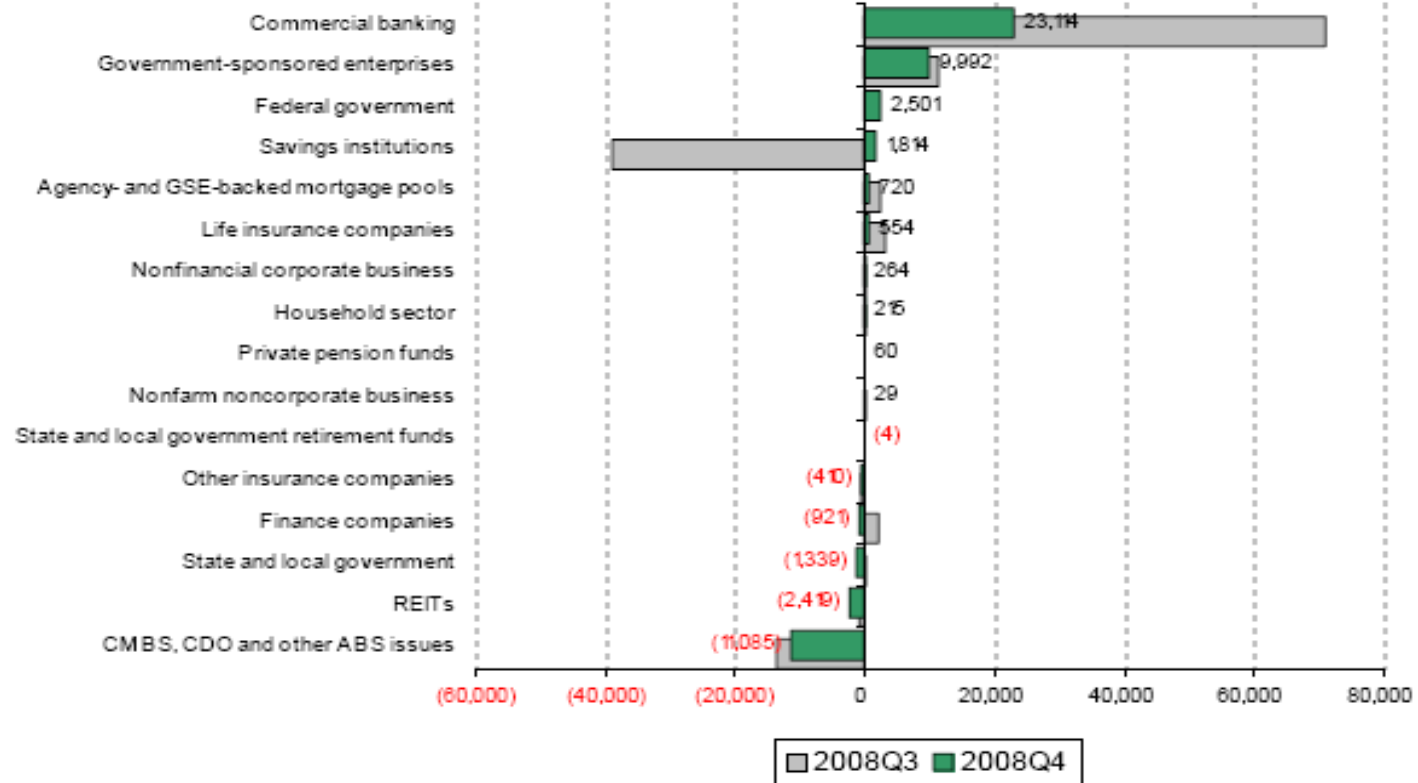


Source: Flow of Funds Accounts, Federal Reserve Board of Governors

Where Is The Money?

COMMERCIAL AND MULTIFAMILY MORTGAGE FLOWS

Net Change in Commercial and Multifamily Mortgage Debt Outstanding, by Sector
(\$millions)



Source: Flow of Funds Accounts, Federal Reserve Board of Governors



Fannie Mae & Freddie Mac

- Still incredibly busy.
- Pricing has remained flat since last year with all-in rates between 5.75% and 6.25%.
- Still in receivership ...



Fannie Mae – Recent Program Changes

- Count on Loan to Value ratios of no more than 75%; Count on Debt Service Coverage Ratios of 1.25%
- If the transaction is a refinance with cash out to the borrower, underwriting will be somewhat tighter
- If there are declining trends, underwriting will be much tighter
- Supplemental loans at 65% to 70% maximum



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.





Banks and Other Financial Institutions

Appetites by Property Type

Strong

Apartments
Industrial

Contract Homes

Medium

Retail
Office

Weak

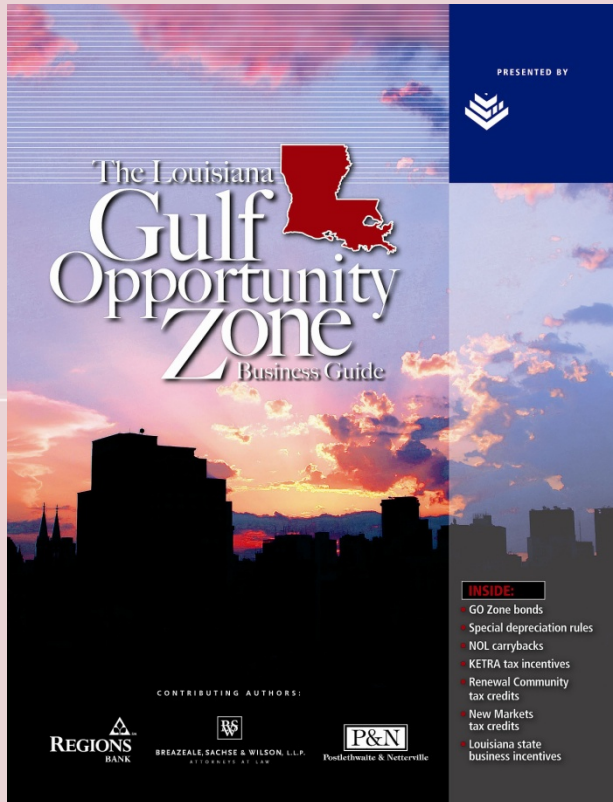
Land
Hotels

Spec Homes

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

www.gozoneguide.com

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.
- There have been shifts in appetite for property types as lenders have returned to fundamentals that have impacted some sectors.
- Lenders are lending but may struggle with credit quality and their own liquidity.

