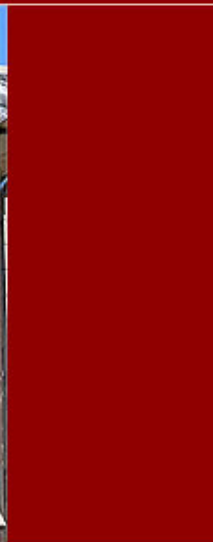




Trends in Commercial Real Estate Finance

Brian S. Andrews, CMB – Andrews Commercial Mortgage

Drew Maciasz – Dow Louisiana Federal Credit Union





Overview

General Comments

Interest Rates

- Floating Rates
- Fixed Rate Indices
- Permanent Loan Rates

Property Types

GO Zone Update

Emerging Product Focus



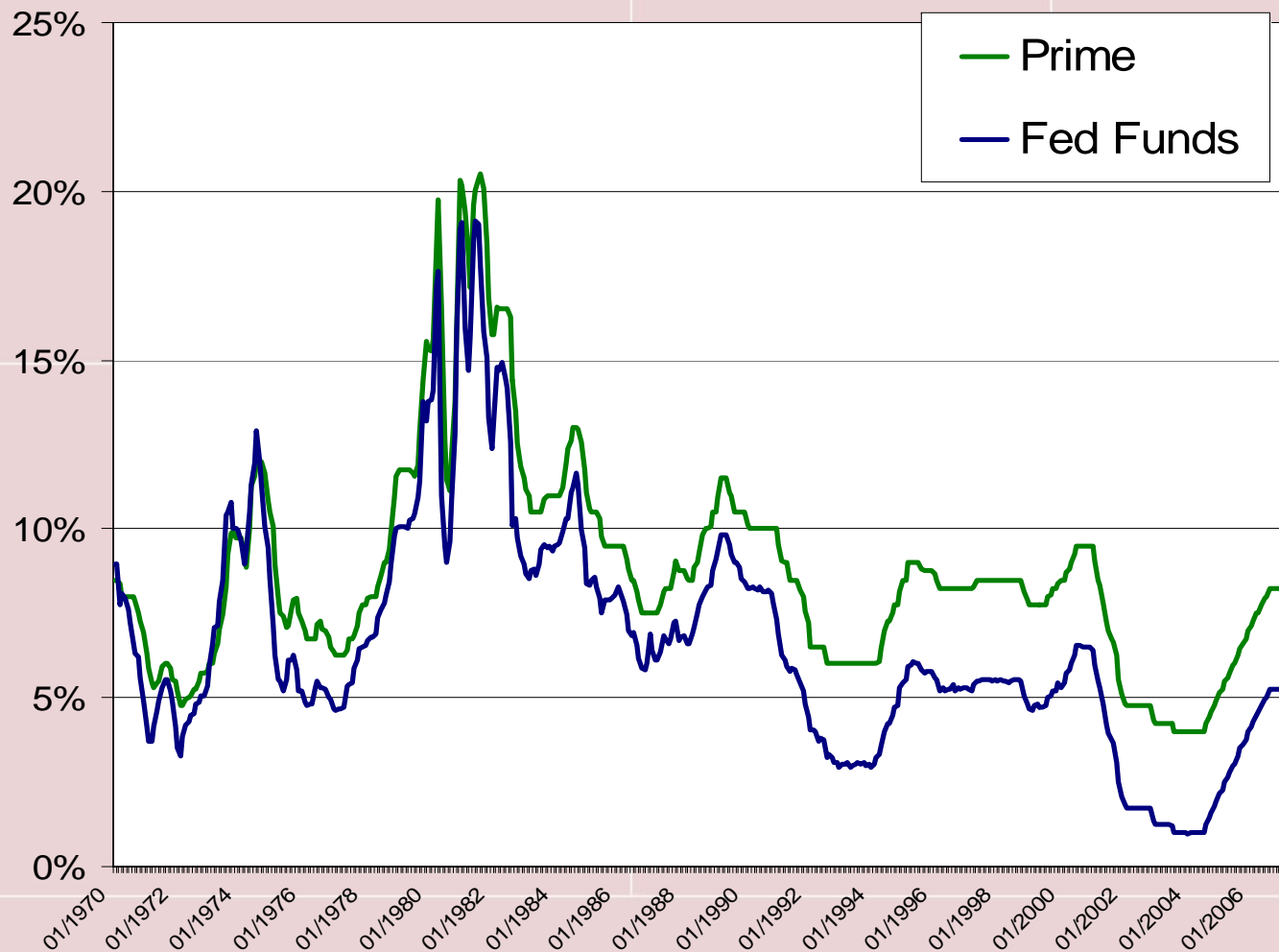
In General ...



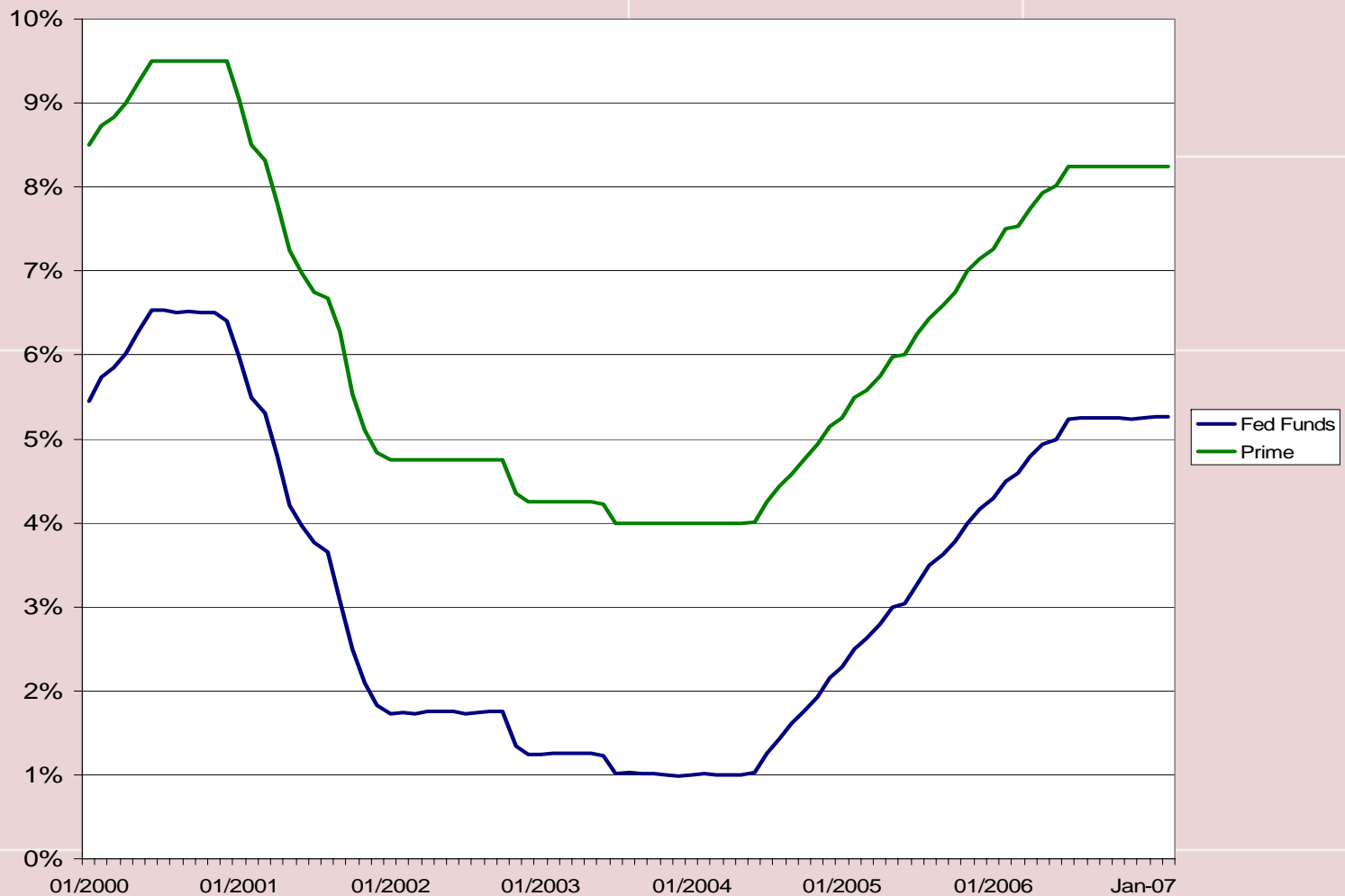
Interest Rates – “Looking for Adventure”

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

Prime Rate & Fed Funds: January 1970 through March 2007

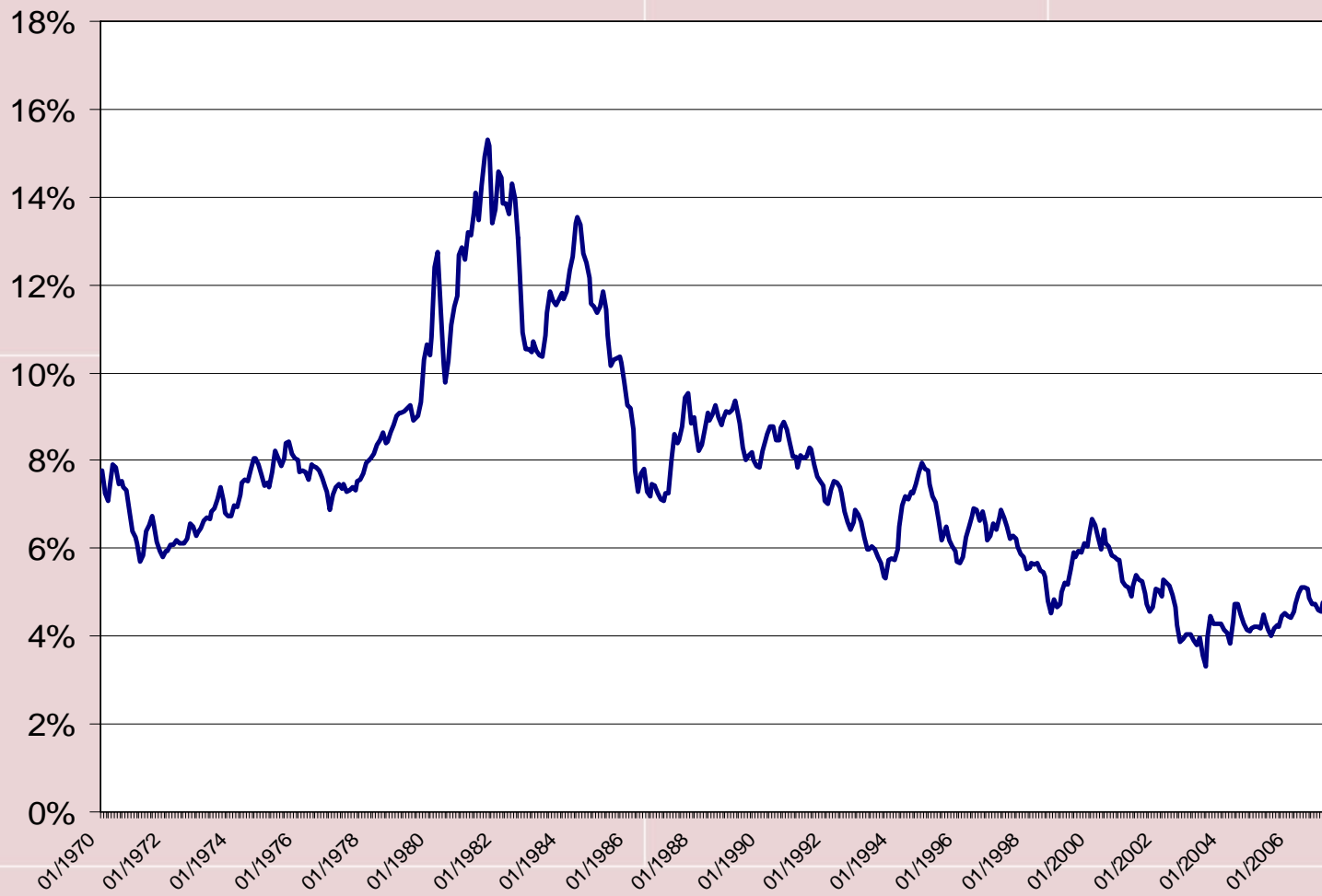


Prime Rate & Fed Funds: January 2000 through March 2007



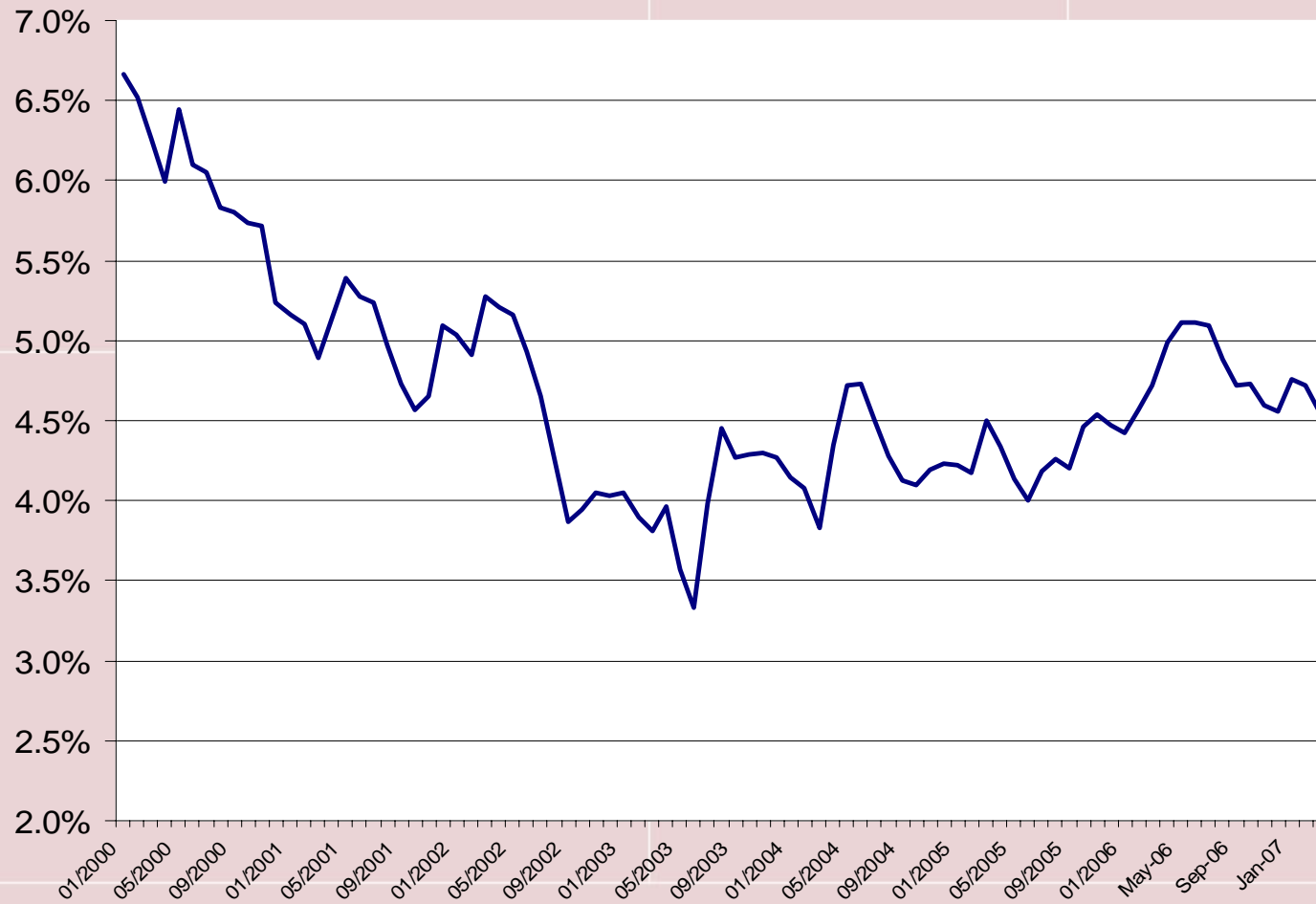
4/26/2007

10-Year Treasury Rates – January 1970 through March 2007



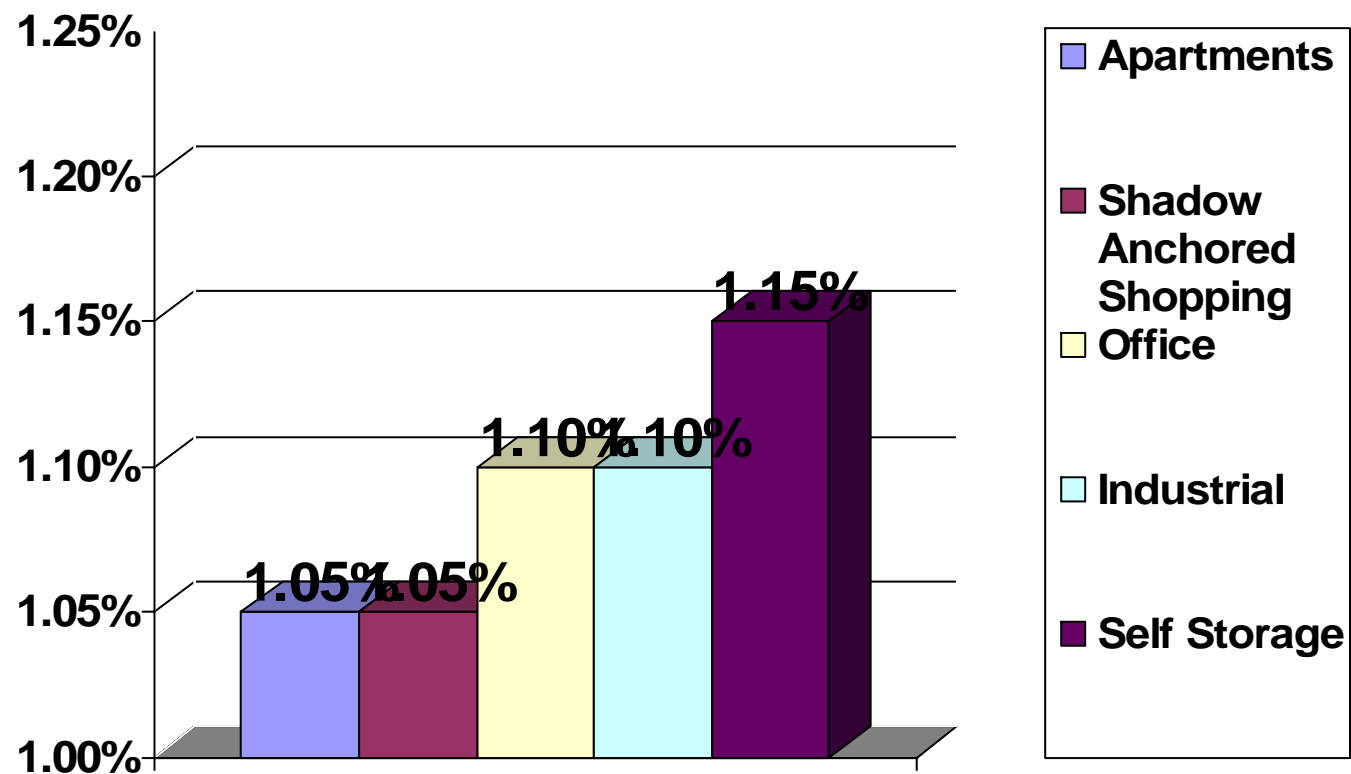
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10-Year Treasury Rates – January 2000 through March 2007

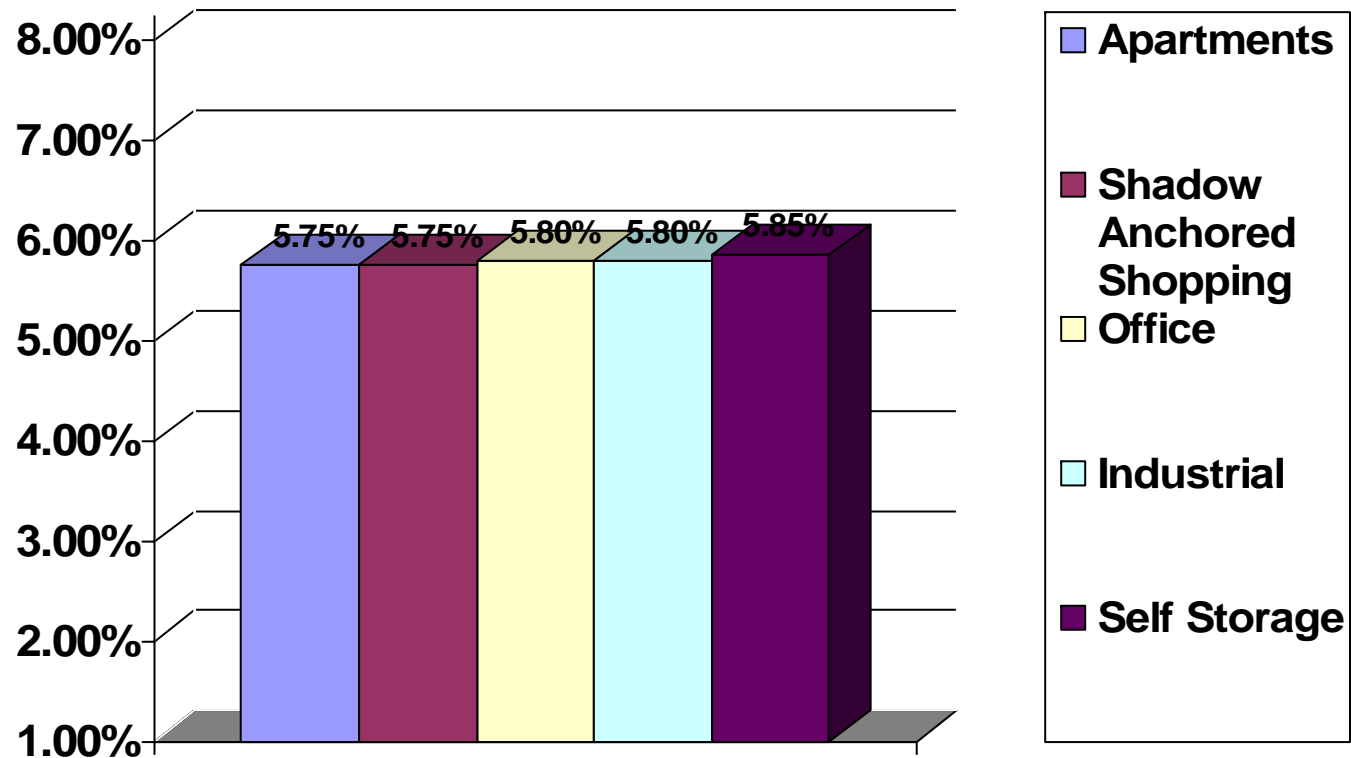


4/26/2007

10-Year Spreads over Treasuries



All-In Permanent Rates





Interest Rates – Will They Continue to Move?

- Yes and No
- Fixed Rates: Up by year end, maybe to 5.0%
- Floating Rates: Up, Down or The Same



Interest Rate Conclusions

- Loan indexes began their rise out of the basement in 2004 and still have a LOT of room to go up. There have been continued ups and downs but the TREND is up.
- Spreads have been stable until very recently, moving up between 8 and 15 basis points.



So What?

- Increases in rates will decrease the amount that can be borrowed, all other things being held the same.
- Unless there has been a fundamental shift in how cap rates are determined, they should come under upward pressure, also decreasing the amount that borrowed.
- Increases in home mortgage rates will make home ownership less advantageous over apartment living, improving the fundamentals in multifamily.
- Increases in commercial rates will make garden offices for owner-occupants less affordable, improving the fundamentals in the multi-tenant office market.



Property Types and Lender Appetites

- Apartments are still the most highly sought property type.
- Lending volumes in 2006 were up from 2005
- 2007 looks just as good.
- HUD insured apartment construction loans
- Fannie Mae forward commitments are being looked at again to hedge increasing interest rates.
- Hotel financing is making a full comeback.
- “A lot of money chasing deals”



Property Types - Conclusions

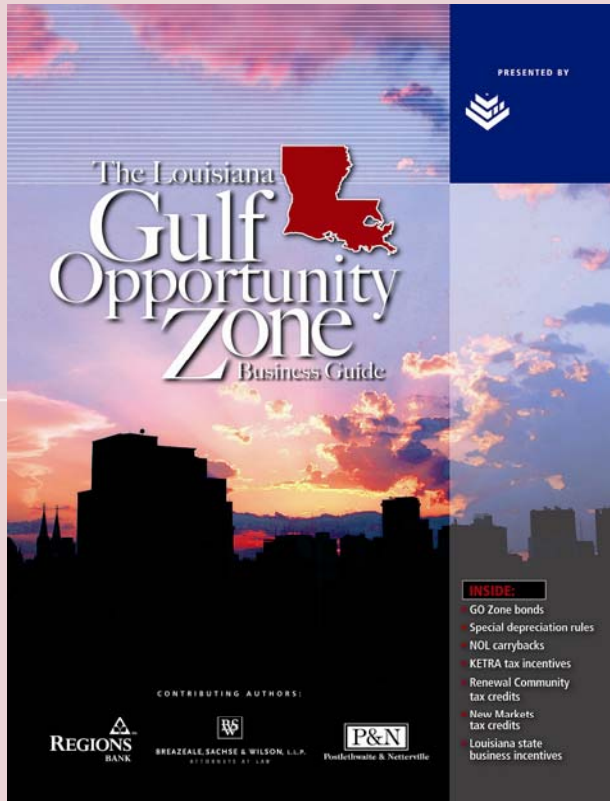
- In the permanent market, apartments are still king
- Apartment construction in our area will be funded by traditional financing sources, HUD 221(d)(4) and Fannie Mae programs.
- For deals outside of "the box", a good story still gets a loan from creative lenders at higher pricing
- Office and Retail construction still probably require substantial pre-leasing
- There is a significant amount of competition in the lending arenas leading to easing of lending terms, particularly pricing. Base underwriting may start firming.



So What?

- Get out and shop the deals
- Don't be afraid to ask for what you want
- The community banks and local lenders may be able to handle larger loans
- The regional and national banks may have new services to offer
- Non-bank sources are 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



Emerging Product Focus – Credit Unions

- *Member Business Lending* program
- Similar programs as commercial banks with similar terms, including 80% LTV
- Construction, development, agriculture and SBA loans



Business Loans Outstanding (\$millions)

	FY 2005	FY 2006	Change
Total MBLs	\$15,834	\$19,595	23.8%
Real Estate	\$13,354	\$17,215	28.9%
Construction	\$1,356	\$1,798	32.6%
Agricultural	\$995	\$1,127	13.3%
Participations	\$3,627	\$4,887	34.7%
SBA	\$229	\$483	110.9%
Unsecured	\$76	\$74	-2.6%



Commercial Real Estate Finance – Wrap-Up

- Money is out there for construction projects, acquisitions and permanent refinances
- Interest rates are holding steady, though long term rates will increase moderately to a normal yield curve
- There have not been major shifts in appetite for property types; hotels are back in favor
- Lenders are hungry
- We need to find ways to lock interest rates early
- GO Zone incentives are available
- Consider emerging lenders such as Credit Unions



What Could Cause A Big Problem With BR?

- Too much new product in the market
- Overbuilding within a specific geographic area
- Monetary policy on the Federal level
- Cost overruns in new construction
- Overburdened public systems
- Out-migration of young people
- Katrina-like natural disasters