

2010 Real Estate Finance Overview



Presented by:
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April 15th, 2010





Where is the Money?



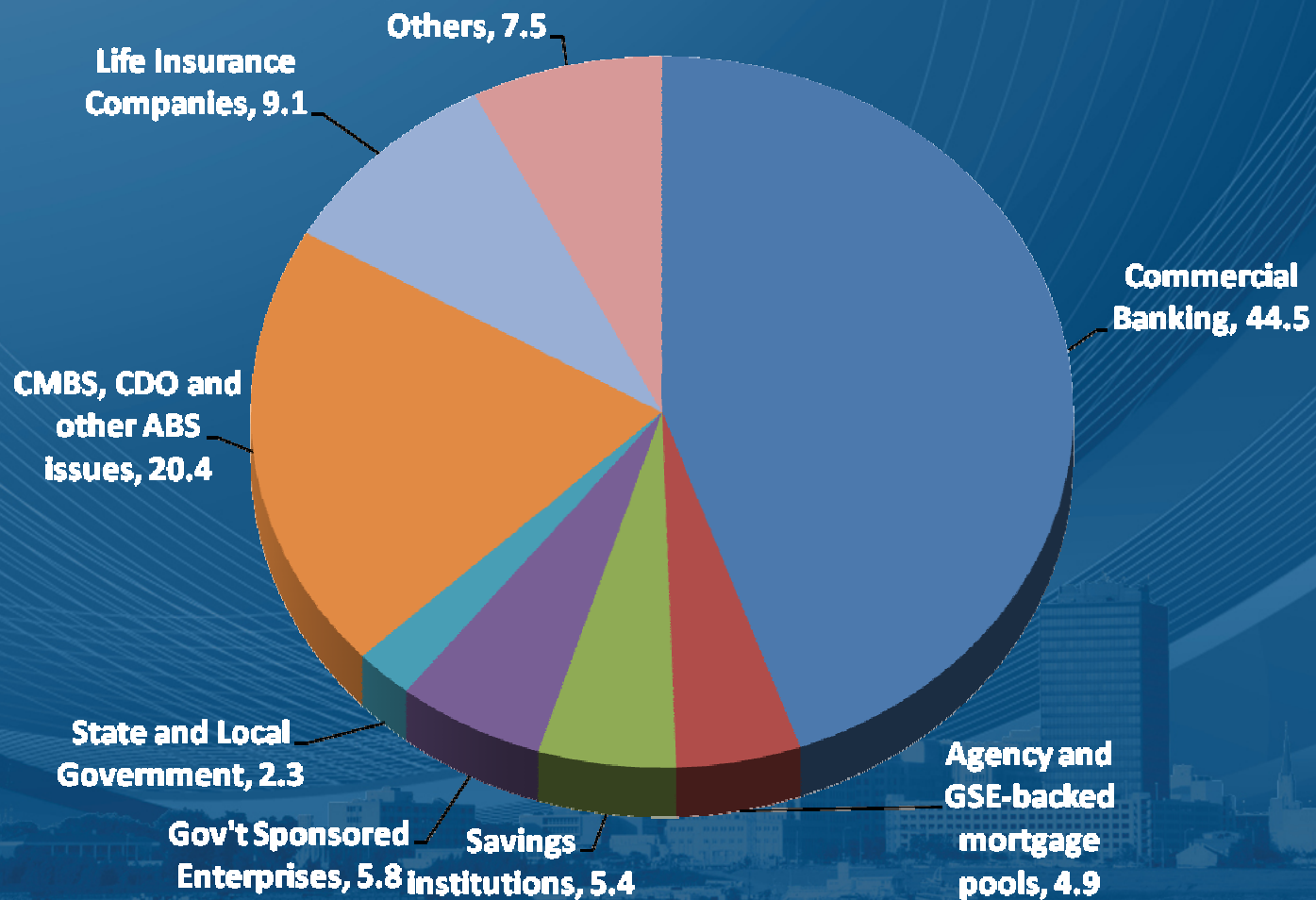


Where is the money?

- Commercial Banks and Savings Institutions still hold the majority of commercial real estate debt in the United States as of the fourth quarter of 2009
- Securitized lenders hold the second largest piece even though there have been minimal new originations during the year.
- Life insurance companies hold the third position, followed by government and other lenders.



Commercial & Multifamily Mortgage Debt Outstanding By Investor Group, Fourth Quarter 2009





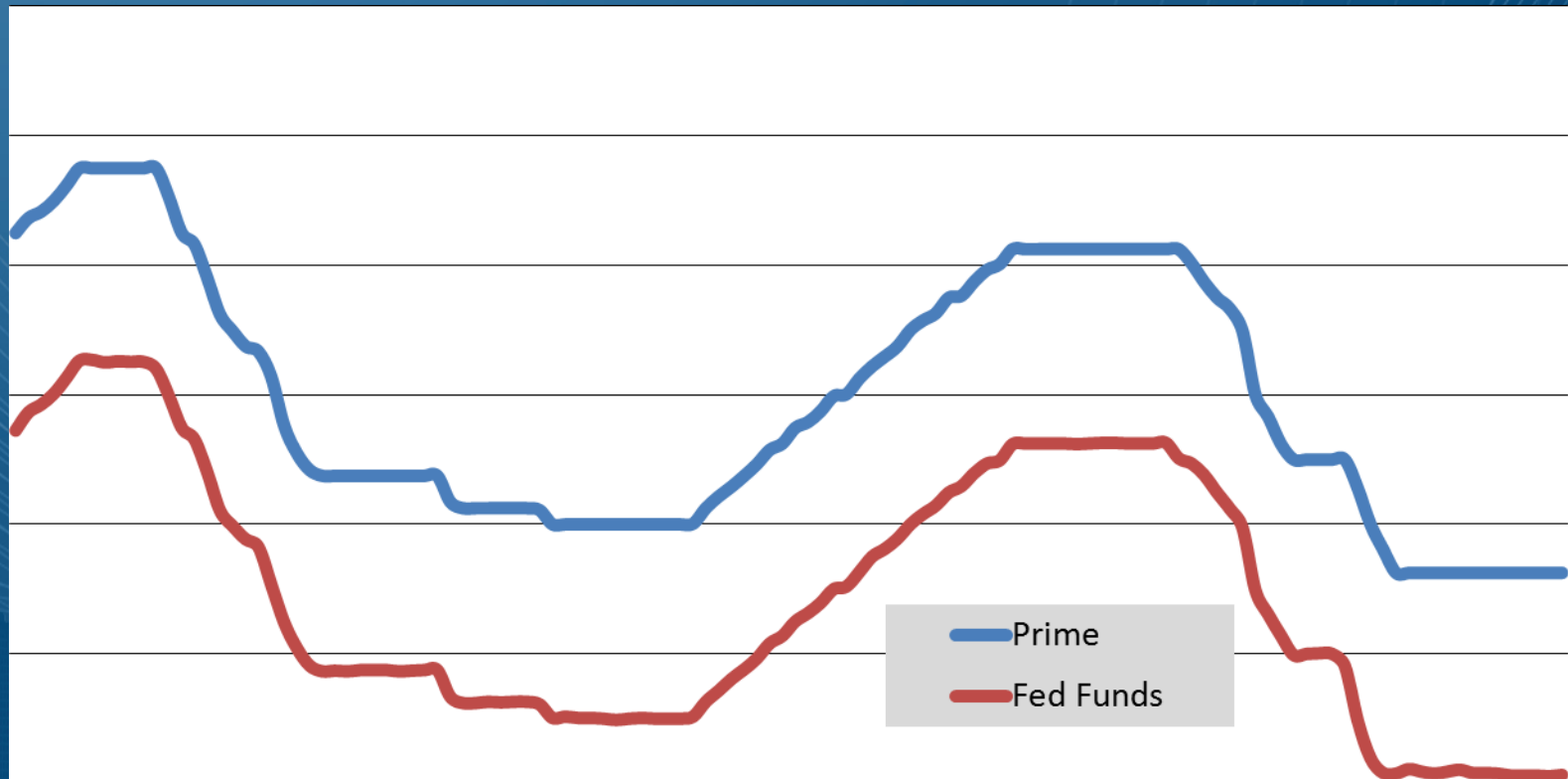
Interest Rates

Jordan St. Amant
LSU Finance Student





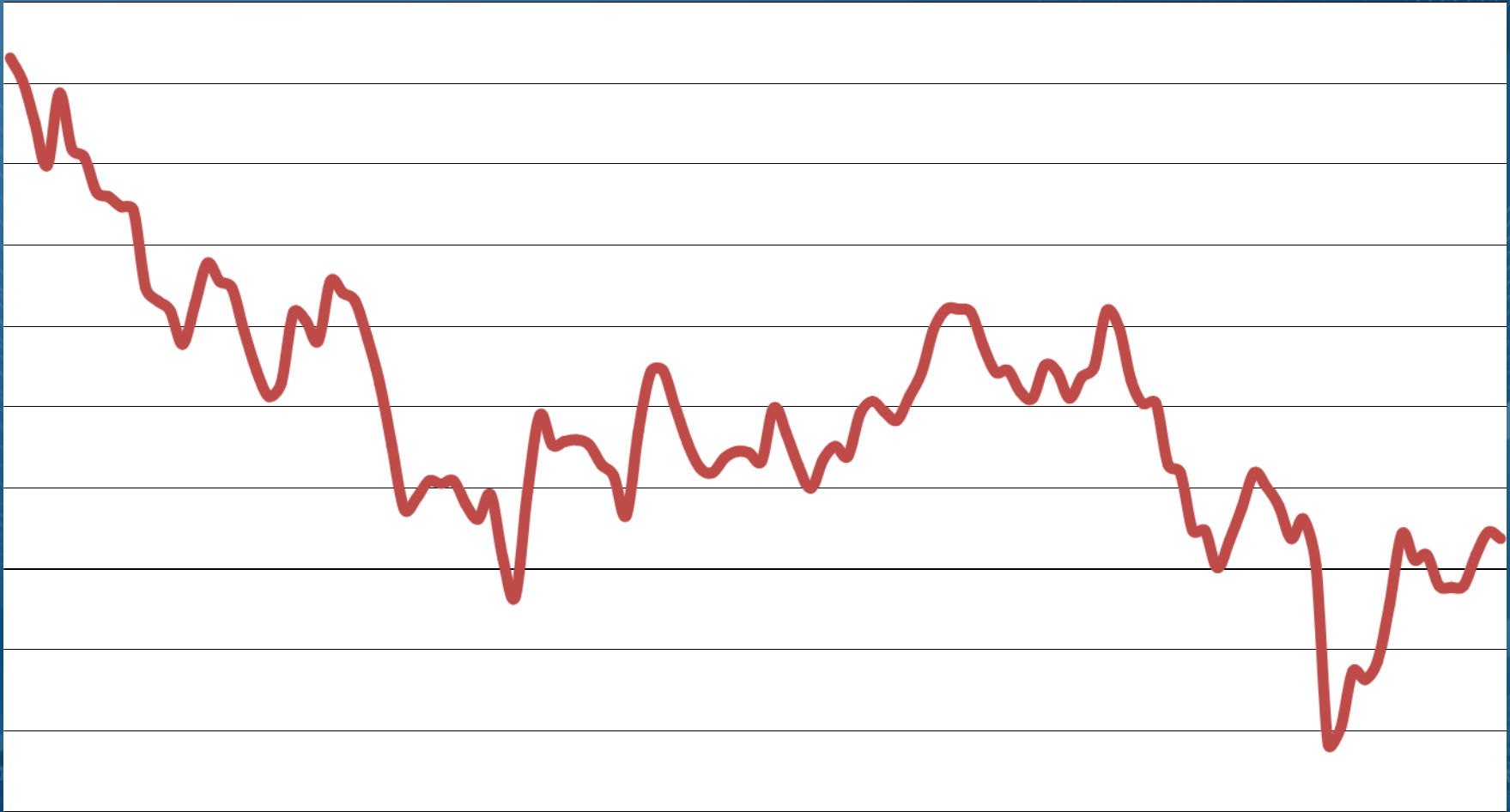
Average Monthly Prime Rates to Average Monthly Fed Funds Rates January 2000 through February 2010





10-Year Constant Maturity Treasury Rates

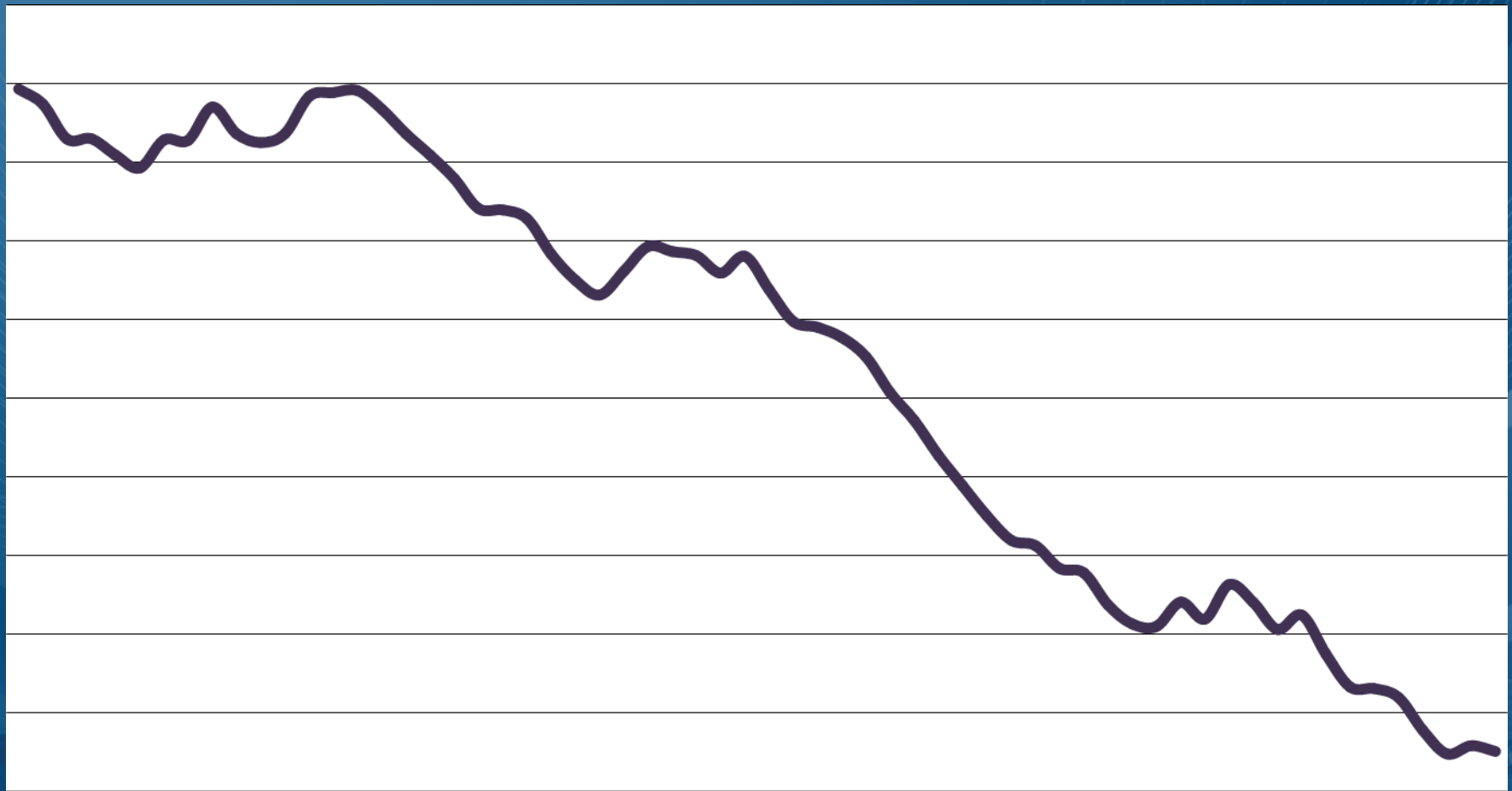
January 2000 through February 2010





Interest in What Tom Cook Has To Say

January 2005 through February 2010





Where Do Rates Go From Here?

- In their March 2010 *Economic Forecast*, the Mortgage Bankers Association projected flat results for both indexes through the end of 2010.
- The Mortgage Bankers Association projects a 50 basis point increase in the 10-Year Treasury through 2010 and minor increases in 2011.



Lender Updates





Lender Updates

- Commercial Banks, Credit Unions, Savings Institutions
- Conduits and Other Securitized Lenders
- Life Insurance Companies
- Apartment Lenders
- SBA Loan Programs for Real Estate



Commercial Banks, Credit Unions and Savings Institutions





Commercial Banks, Credit Unions and Savings Institutions

- Under significant pressure to maintain proper levels of commercial real estate portfolios relative to capital levels while still meeting the needs of creditworthy borrowers.
- Looking at new deals but underwriting is conservative and pricing reflects risk.



What's New?

- New borrowers to an institution will be scrutinized more than ever.
- Global cash flow statements are required from all borrowers, old and new.
- Cooperation is the key to success.





Conduits





Life Insurance Companies

Thomas A. Kehoe, Jr.
Eustis Commercial Mortgage



Life Insurance Companies

- Life insurance companies tend to lend in this environment and are filling the long term lending gap left by the conduits.
- Quality assets are given highest priority and pricing is competitive.





In Favor Property Types

- Grocery anchored retail
- Industrial
- Multi-tenant office
- Anchored retail with credit tenants, but shying away from single tenant credit tenants unless it's a Wal-Mart, etc.
- Multi-family



Out of Favor Property Types

- Unanchored retail unless it has excellent real estate fundamentals
- Hospitality, but will entertain the strongest of properties and flags





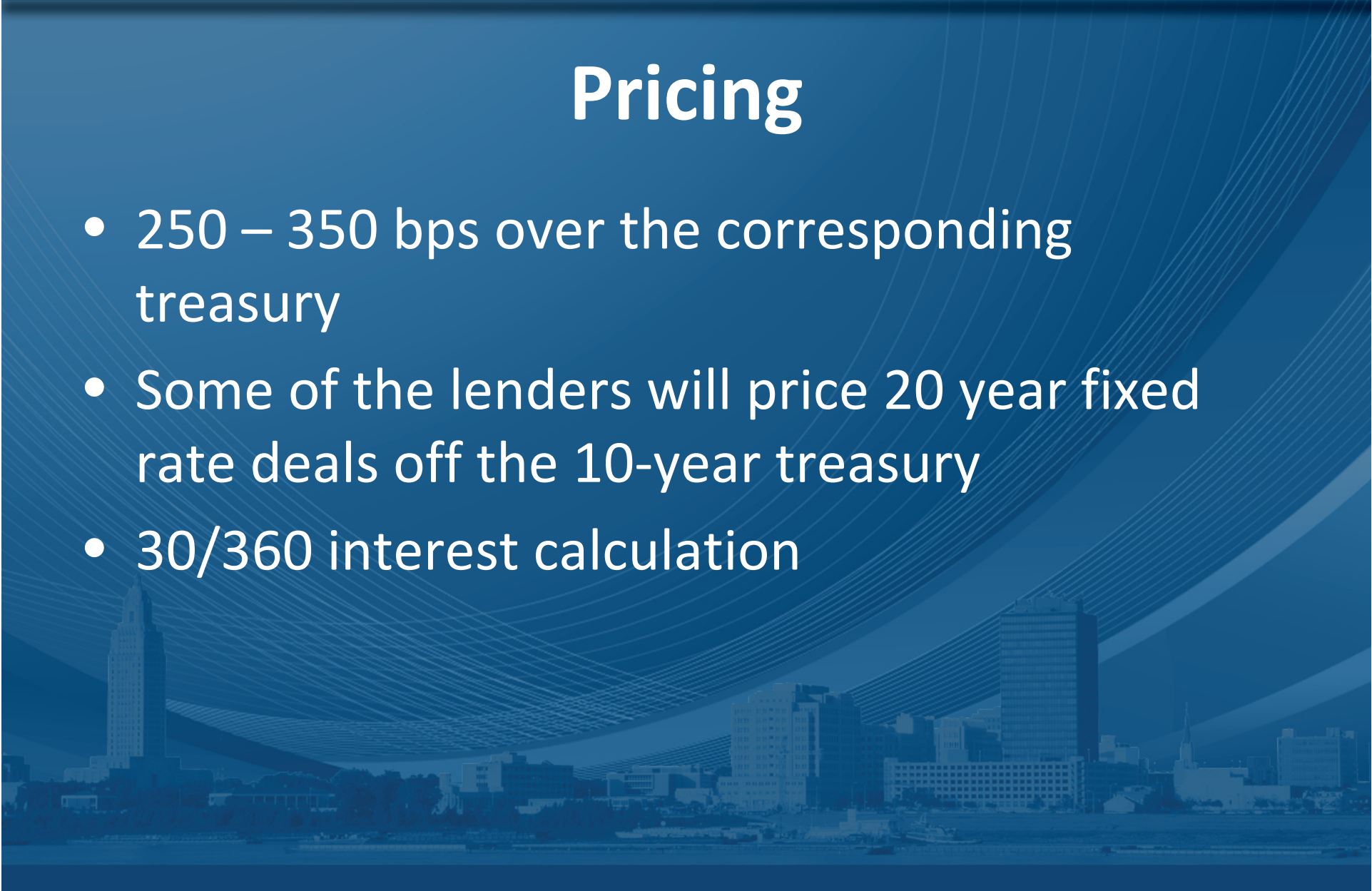
Structure

- 5 – 25 year fixed rate terms with 10 – 30 year amortizations
- Will do 25 year full pay loans
- Rate locked at application
- No TI/LC reserves





Pricing

- 250 – 350 bps over the corresponding treasury
 - Some of the lenders will price 20 year fixed rate deals off the 10-year treasury
 - 30/360 interest calculation
- 



Underwriting

- Rents in place
- 10% vacancy
- Prior year expenses plus 3%
- \$0.10/sf in structural reserves (underwriting only)
- 8.5% - 9% caps for internal underwriting
- 65% LTV, but will go 70% for the right property



Other

- Limited to no cash out except for closing expenses or funding future capital/TI/LC reserves
- Will look at balance sheet and make sure the borrower has some hard equity in the deal



Apartment Lending





Multifamily Permanent Lenders

- HUD
- Fannie Mae
- Freddie Mac
- Conduits
- Insurance Companies





HUD 221(d)4 Program

- HUD's program to insure multifamily construction loans made by approved lenders.
- In general, borrowers get two years to build and stabilize the properties, followed by a forty-year fully-amortizing loan.





HUD 221(d)4 Program

- Program is still being offered in Baton Rouge, though it is likely that HUD will limit new requests until projects currently under construction reach stabilization.
- Market chatter is that HUD has a strategy of pulling back on market rate deals in favor of affordable projects; NOT a stated HUD goal.



HUD 221(d)4 Program

There is discussion of tightening up the underwriting of these loans by:

- raising the debt service coverage ratio to 1.20x for market-rate deals, and
- lowering the maximum loan-to-cost ratio to about 83 percent.



HUD 221(d)4 Program

There is also discussion of:

- increasing the minimum required working capital escrow from 2% of the total loan amount to 4% , and
- increasing the program's required initial operating deficit reserves from 3 months of debt service to 4 months.



HUD 221(d)4 Program

For affordable housing there is discussion of:

- Projects with subsidy levels of 95 percent or greater will still enjoy a 1.11x DSCR and 90 percent LTC
- Low-income housing tax credit deals would be increased to a minimum 1.176x and lowered to 87 percent LTC.



HUD 221(f) Program

- HUD's program to insure refinancing of multifamily construction loans.
- In general, borrowers get a thirty-five-year fully-amortizing loan.





HUD 223(f) Program

- The waiver of the three year rule is still in effect on a case-by-case basis.





For All HUD Programs

- Processes and procedures are changing; what was taken for granted six months ago may no longer be the case going forward.
- Processing times have lengthened and PSAs need to provide sufficient room to close.
- Experience and financial capacity of the key principals are more important than ever.



Fannie Mae

Changes in underwriting:

- Minimum debt coverage ratio increased from 1.20x to 1.25x
- More strict underwriting of student properties
- Cash-out loans are limited to 75% LTV
- Cash-out supplemental loans are limited to 70% LTV unless done with an assumption.



Fannie Mae

- Intense scrutiny of property condition
- Heavy review of Real Estate Owned schedules
- Performance of the borrower on all deals reviewed; more questions being asked





SBA Loan Programs

Gary Littlefield
Gulf Coast Bank



Two SBA Programs for Owner Occupied Properties

- The 7(a) Loan Program
- The CDC/504 Loan Program





SBA 7(a) Program

- SBA's primary program to help start-up and existing small businesses obtain financing when they might not be eligible for business loans through normal lending channels.
- SBA itself does not make loans, but rather guarantees a portion of loans made and administered by commercial lending institutions.



SBA 7(a) Program

- Financing can be guaranteed for a variety of general business purposes, including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation and new construction), leasehold improvements, and debt refinancing (under special conditions).



SBA 7(a) Program

- Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets.





SBA CDC/504 Program

- Provides small businesses requiring “brick and mortar” financing with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization.





SBA CDC/504 Program

Typically, a 504 project includes:

- A loan secured from a private sector lender with a senior lien covering up to 50 percent of the project cost;
- A loan secured from a CDC covering up to 40 percent of the total cost;
- A contribution from the borrower of at least 10 percent equity.



SBA CDC/504 Program

Proceeds must be used for fixed assets:

- Purchasing land and improvements, including existing buildings, grading, utilities, street improvements, parking lots and landscaping;
- Construction of new facilities or modernizing, renovating or converting existing facilities;
- Purchasing long-term machinery and equipment.



SBA CDC/504 Program

- The business must be operated for profit and fall within the size standards set by the SBA.
- Under the 504 Program, the business qualifies as small if it does not have a tangible net worth in excess of \$7.5 million and does not have an average net income in excess of \$2.5 million after taxes for the preceding two years.



SBA CDC/504 Program

- Loans cannot be made to businesses engaged in speculation or investment in rental real estate.





SBA CDC/504 Program Proposed Modification

Expand program temporarily to support refinancing for small business owner-occupied CRE loans that are maturing in the next few years and help refinance over \$20 billion each year in properties that might otherwise be foreclosed and liquidated.

- **504 eligibility remains the same.**



Wrap-Up and Summary

