

11th Annual Western States Commercial Real Estate Finance Conference
September 16, 2008

The following is a brief summary of lending issues that were discussed at the CREF Conference:

Competitive Loans Terms: Lenders are competing for loans with strong fundamental underwriting characteristics (i.e. 1.30 or higher DCR, superior properties in desirable areas, realistic operating expenses, stable tenant mix, strong borrower financials and experience). Borrowers should expect interest rates in the low to mid-6% range for high quality loan applications.

Missing in Action: Many lenders who have attended previous conferences were not in attendance:

- Specialty Apartment Lenders (IMPAC, LaSalle, Indymac), who are no longer in business
- Wall Street Conduit Lenders
- Other lenders who have reduced their travel budgets

Fewer Lenders: Real estate owners will have a reduced number of potential lenders to choose from in the coming years.

- Wall Street Conduit Lenders – The conference was offset by news of the demise of Lehman Brothers and the sale of Merrill Lynch to Bank of America. The remaining investment bankers, Goldman Sachs and Morgan Stanley, are both struggling with unsold pools of commercial mortgages, and securitized debt with an undetermined value and limited marketability.
- Balance Sheet Lenders – Banks will have a reduced appetite for commercial real estate loans as they deal with regulatory constraints and portfolios of existing loans that require workout attention. In many cases, origination personnel are being reassigned to Special Asset Departments to concentrate on loan modifications, workouts and foreclosures. Life Insurance companies are maintaining a high standard for new loan requests based on the competitive advantage that they enjoy in the absence of competition from the conduit lenders.

De-Leveraging Real Estate: Many property owners may need to consider investing additional equity into their real estate investments in response to current underwriting policies. In many cases, lenders are using tougher underwriting standards (i.e. 1.35 vs 1.20 DCR, higher capital reserves, increased vacancy factors, and higher interest rates) compared to 3-4 years ago. The result is lower loan amounts as property owners approach lenders about refinancing existing debt.

Higher-Risk Financing: Financing continues to be available for borrowers who do not meet conventional underwriting standards.

- National and International Banks – Large projects with unique characteristics may be financed by banks that specialize in this area. Pricing, fees, and other loan terms tend to be increased to provide adequate returns and to provide the banks with a safety margin in the event that the loan is sold in the future.
- Private Lenders – Well-managed private mortgage companies are a reliable source of financing for low-leverage projects that do not conform to institutional underwriting standards.

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