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The state of the commercial real estate financing market - 1st Quarter 2009

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DISCLAIMER: If you have cash flowing assets financed at 6% through 2015, and want to go skiing or off to the beach - God love you and don't read below - all is fine. If you either need to or want to be doing business in 2009, read on. The good news, from a slew of recent conferences, is that we DO have a finance market in 2009. This is an improvement from the near total collapse of the 4th Quarter of 2008. We are finding a bottom painfully.

Good News - Roughly half of the life companies are back in business. Money is generally priced in the 7.5% ballpark. Supply of cash is under half of normal, but still adds up to over \$10 billion with major players we work with. Banks have stepped up to fill some of the void but usually require recourse.

Bad News - Consensus is 55% LTV with some going to 60% LTV, but the reality being most recent business has been 50%. This will not change quickly. Everyone expects economic news and thus real estate income to be on the decline all thru 2009, so underwriting will remain conservative. Reality bites. There is no market leader. This is like the bicycle race in which everyone wants some other sucker to be out front with everyone drafting behind. Given how close many institutions have come to failure they have no reason to risk it all for more profit.

Good News - There will be "quiet" leaders and we will find them. The strong will start flexing their muscles a bit and we already see this with some of our lenders. Some private capital sources sensing market opportunity are willing to do a little higher leverage at a little higher rate.

Good News - Fannie and Freddie have kept multifamily a "breed apart" with available capital at reasonable rates. Freddie had a record year and we were a top five producer for them.

Bad News - Expectations in the multifamily business are for declining incomes in general and thus declining NOIs, so the market is trying to price the decline. This will lead to widening loan margins. Plus, the agencies are reaching their government set limits in capacity and have cost of capital issues.

Good News - Private capital likes apartments and has recently been unable to compete with the agencies, but will stretch the LTV and lower rates somewhat for the best multi-family business.

Bad News - The storm is all around us and it is going to rain - hard. Lenders are going to force maturity defaults, loans are going to go delinquent and the talk will be not just note sales but foreclosure sales. Assets are being re-priced and everyone is going to feel the pain. Give-backs and foreclosures will just add to the insult of bad economics in 2009 and make new deals that much more challenging. But wait!

Good News - After you get ill - you get better! No one wants to get sick to their stomach, but once you do, you know you are on the bridge to the other side. This is our opportunity - assets re-priced to today's model. From there, the future remains challenging, but looks brighter. Lenders

are governed by "capital regulations" which force them to reserve cash in differing amounts for the performance of their assets. We can all benefit by being proactive. In other words, if you have a loan maturity within the next 24 months we should be talking. There may or may not be something advantageous to you but the situation is fluid, and bears careful analysis and monitoring.

Final Comment - There were roughly 1,500 people at the MBA, down from a 5,000 person peak a couple of years ago. That Monday, the weather outside was the opposite of normal San Diego - rain squalls were coming through, wind was whipping and everyone was seeking shelter. By Tuesday, as resigned acceptance of the realities of the market was setting in, everything was back to normal in San Diego - clear, brisk air and sunshine. The sun will shine again. We will get through this difficult time, and I stand ready to use my 30 years of experience to help you navigate through the storm and towards the recovery.

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