



Trends in Commercial Real Estate Finance

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Overview

General Comments

Interest Rates

- Floating Rates
- Fixed Rate Indices
- Permanent Loan Rates

Property Types

Storm Issues

- Impact on Underwriting

GO Zone





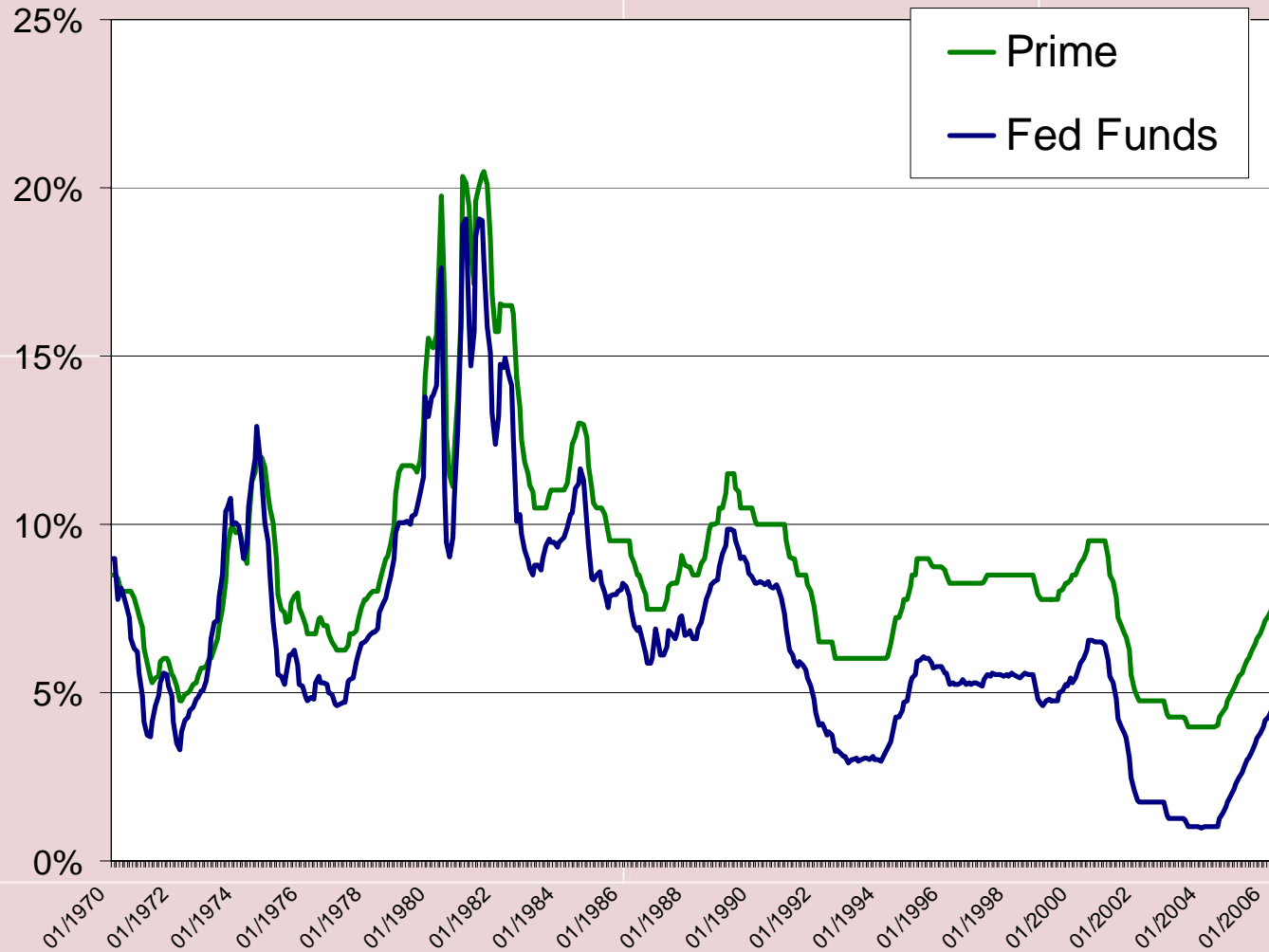
In General ...

Interest Rates – “Head Out For the Highway”

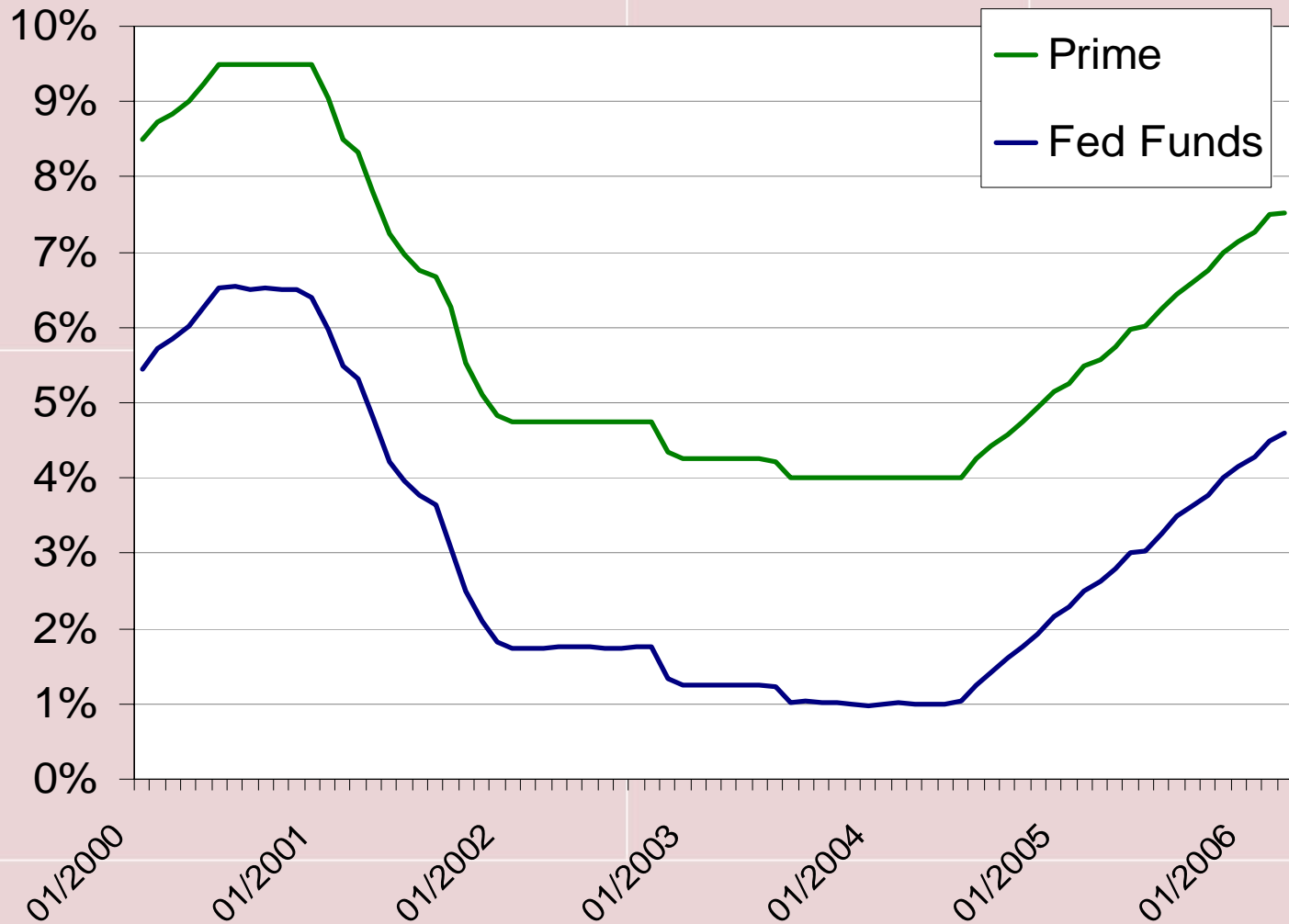
- Where are interest rates?
- Will interest rates continue to move?
- So What?



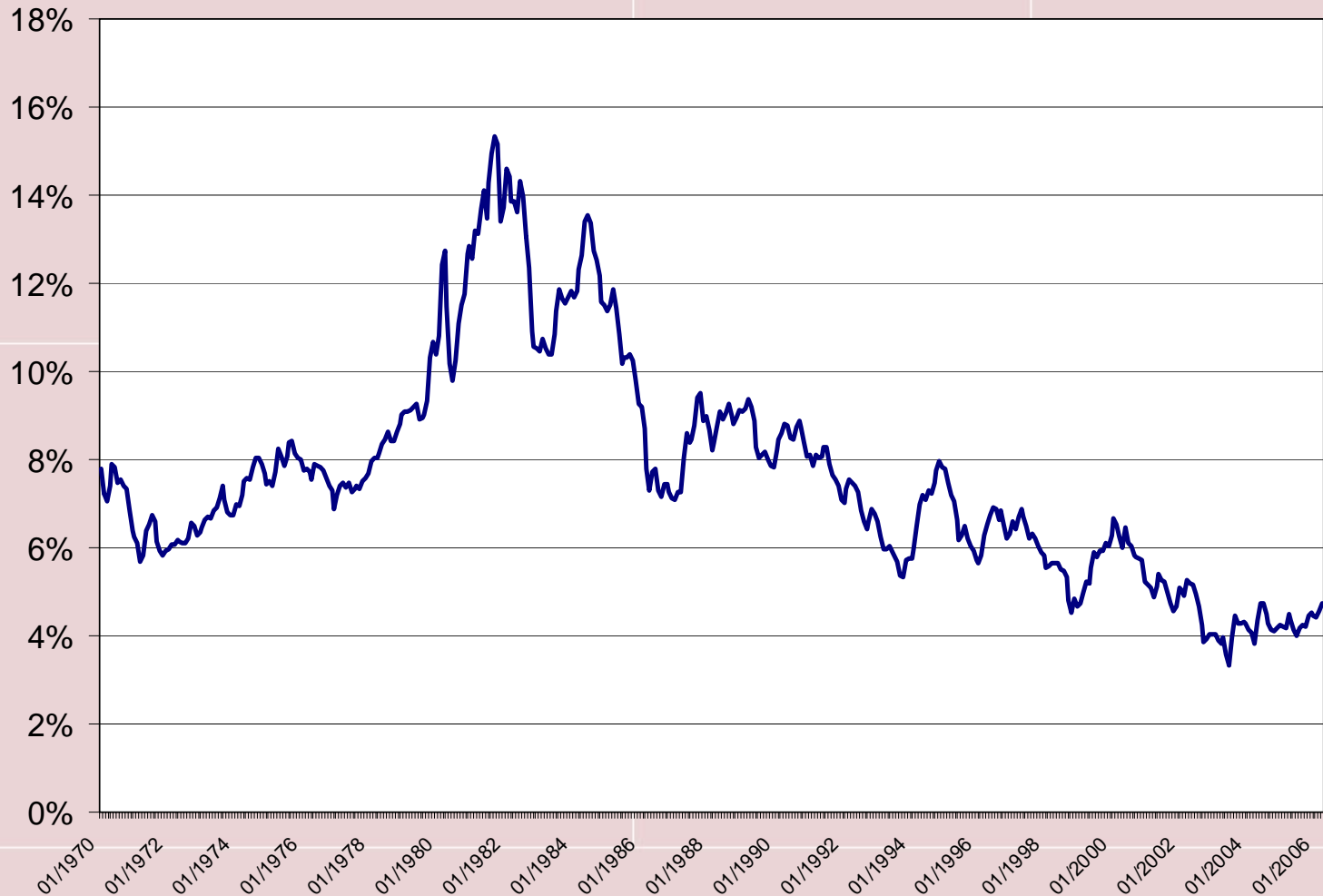
Prime Rate & Fed Funds: January 1970 through March 2006



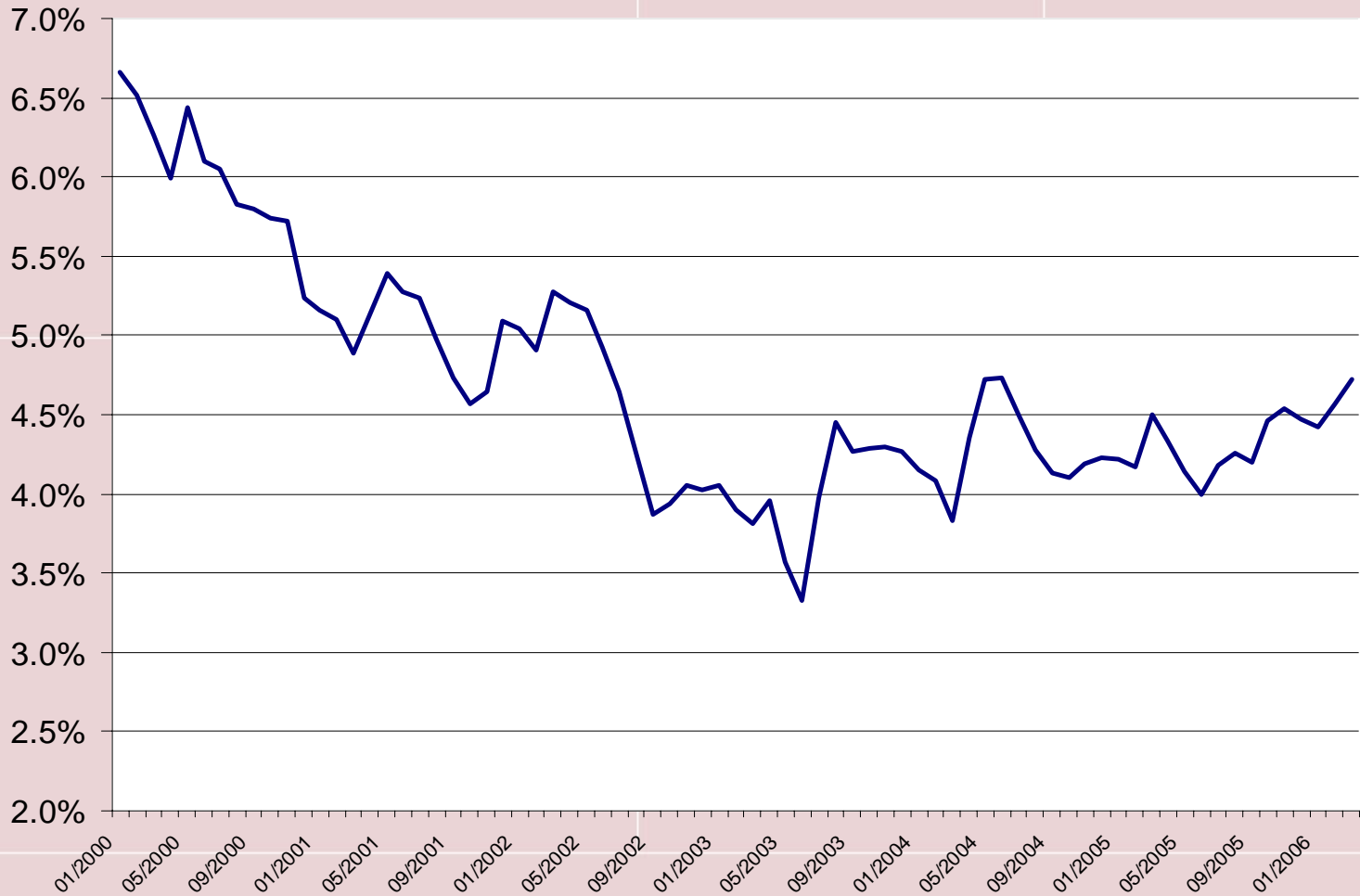
Prime Rate & Fed Funds: January 2000 through March 2006



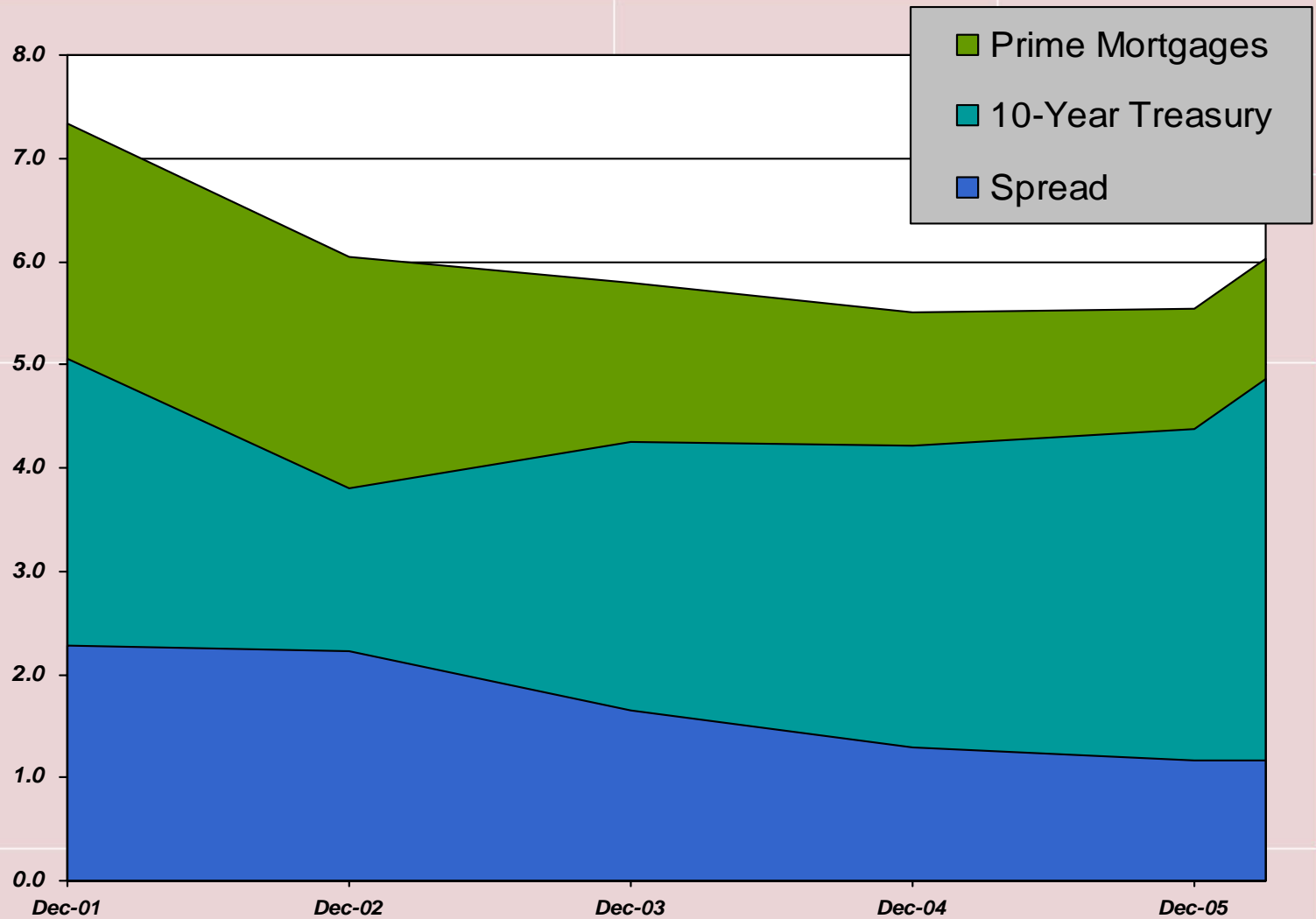
10-Year Treasury Rates – January 1970 through March 2006



10-Year Treasury Rates – January 2000 through March 2006

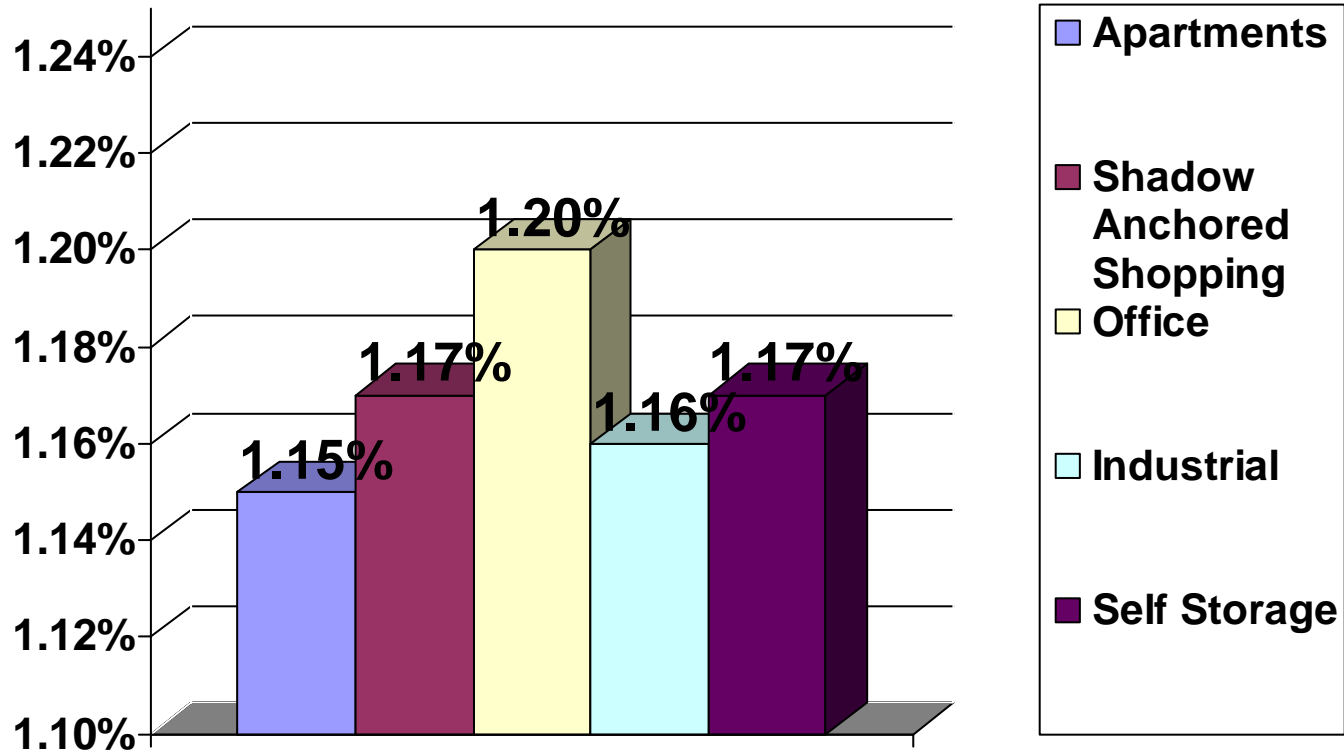


Private Real Estate Mortgage Capital Markets



Source: Barron's/John B. Levy and Company Survey

10-Years Spreads over Treasuries



Interest Rates – Will They Continue to Move?

- yes
- up
- Maybe not so much by year end



Interest Rate Conclusions

- Loan indexes began their rise out of the basement in 2004 and still have a LOT of room to go up.
- Spreads have been stable and kept mortgage rates from rising as fast as the indexes, but for how long?



So What?

- Increases in rates will decrease the amount that can be borrowed, all other things being held the same.



For Example:

	Base Case	Scenario 1	Scenario 2
NOI	\$241,226	same	same
Index	4.30%	4.80%	4.80%
Spread	1.70%	same	2.00%
All-In Rate	6.00%	6.50%	6.80%
Loan Amount	\$2,400,000	\$2,290,150	\$2,227,900
Asset Value	\$3,000,000	same	same
Equity Required	\$600,000	\$709,850	\$772,100
Equity / Value	20%	23.7%	25.7%

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 2005 were up from 2004
- 2006 looks just as good.
- HUD insured apartment construction loans are coming out of the ground and going through stabilization, so look for new HUD financing again.
- Fannie Mae forward commitments are being looked at again to hedge increasing interest rates.
- Hotel financing is making a full comeback.



Property Types - Conclusions

- In the permanent market, apartments are king
- Apartment construction in our area will need traditional financing sources for the near term, but HUD 221(d)(4) should be back
- 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 banking arenas leading to easing of lending terms, particularly pricing.



So What?

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

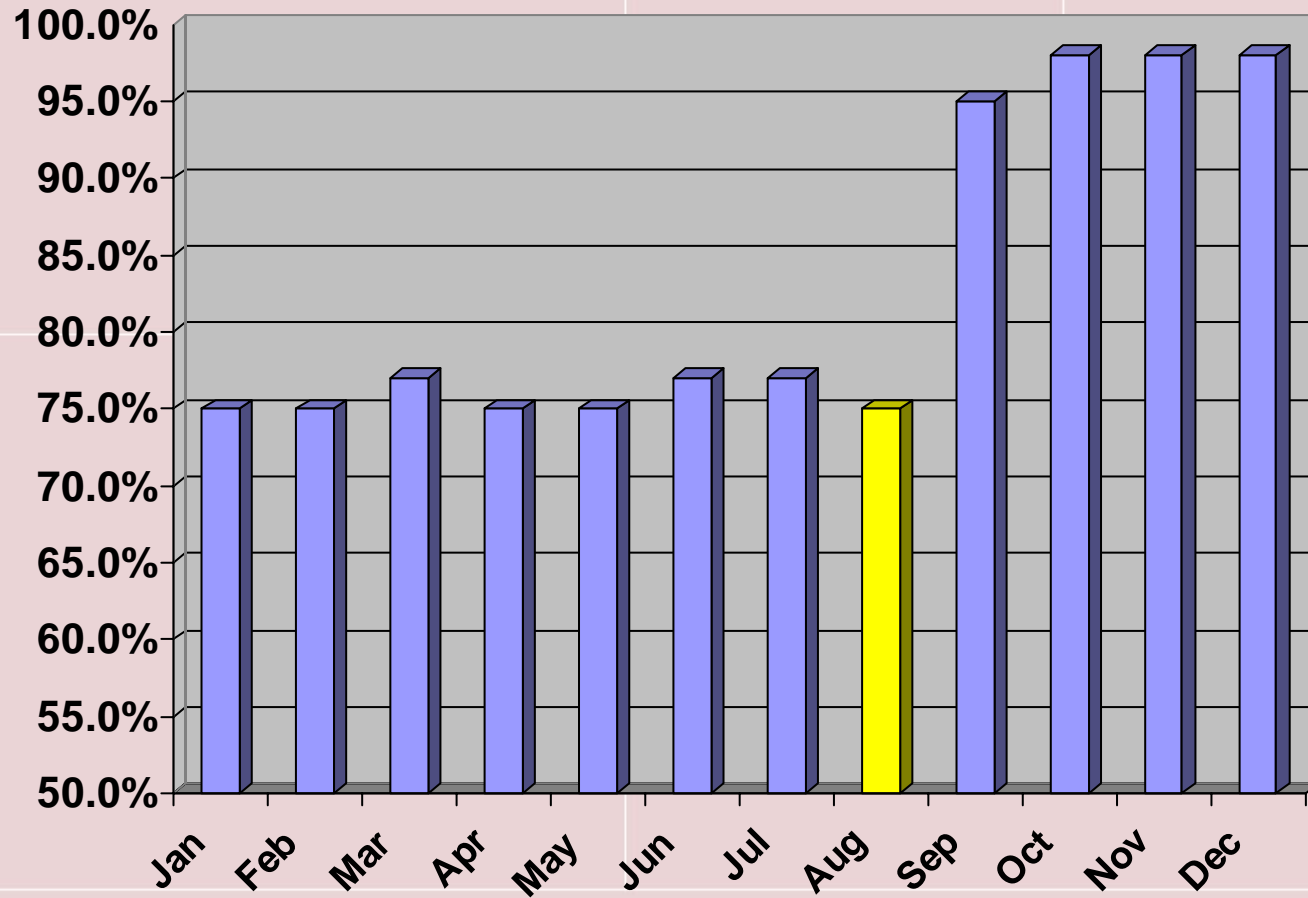


The Katrina Effect on Underwriting

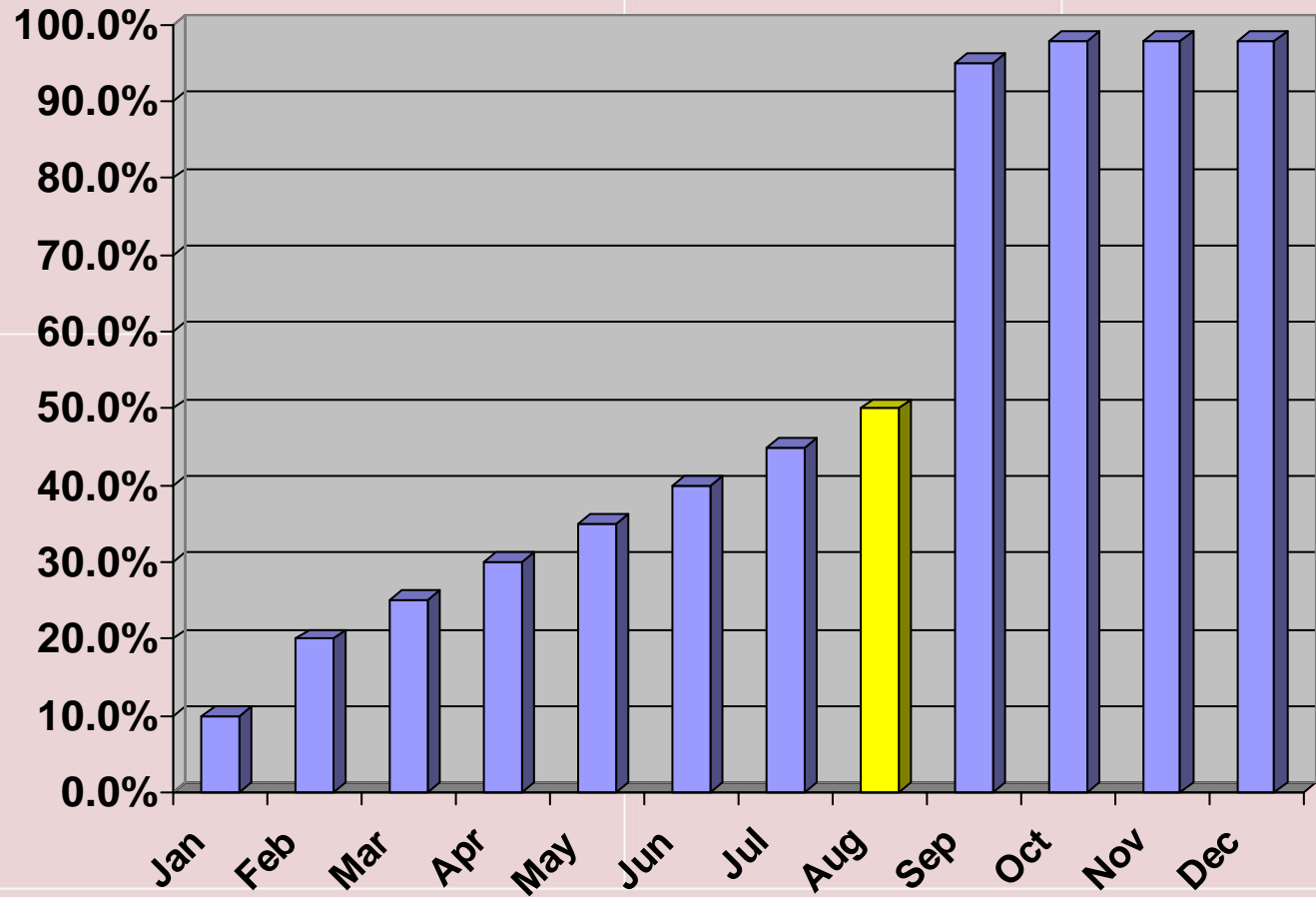
- Instant Lease Ups
- New Market Rents



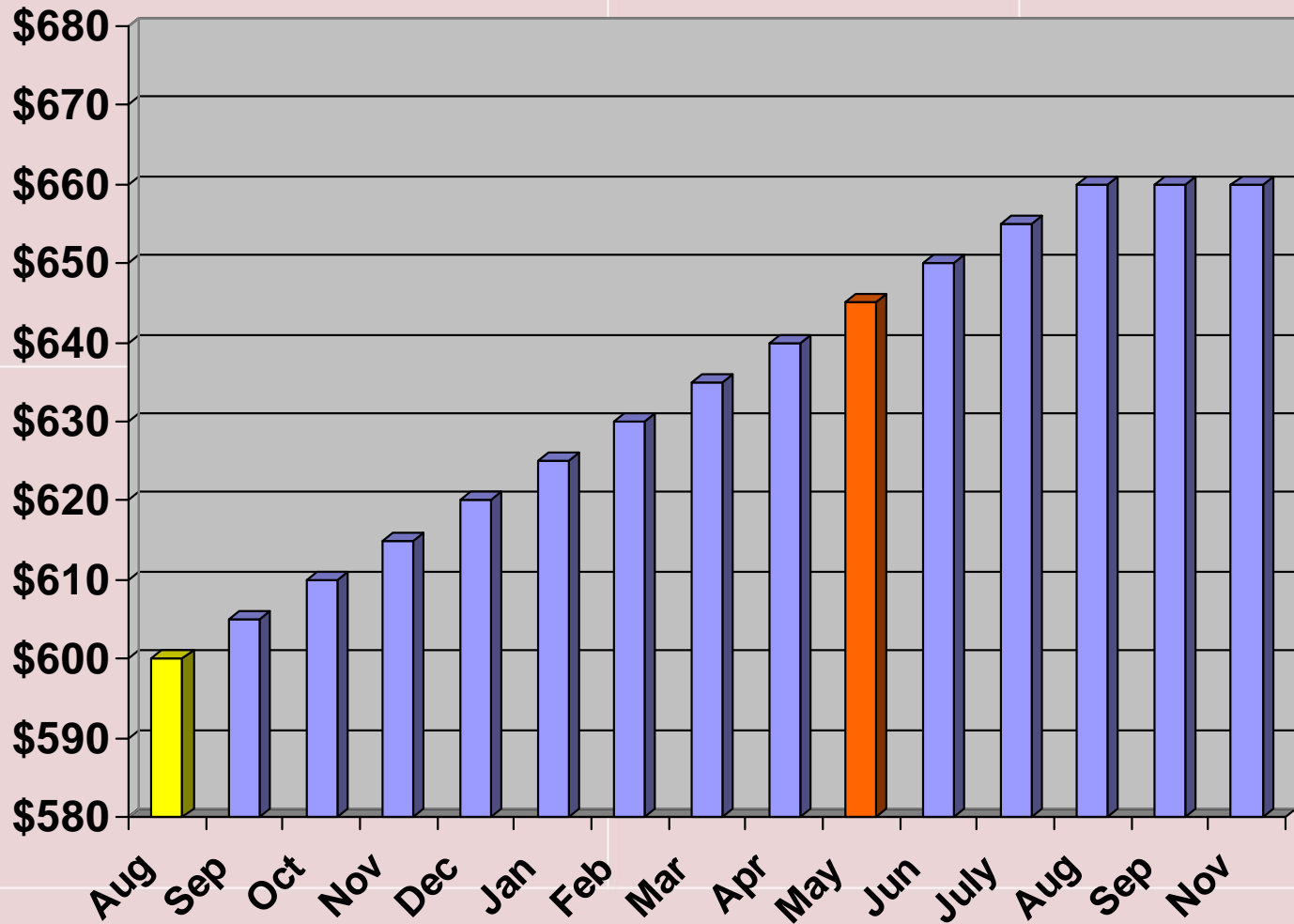
The Katrina Effect – Instant Lease Up



The Katrina Effect – Instant Lease Up



The Katrina Effect – New Market Rents



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

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Commercial Real Estate Finance – Wrap-Up

- Money is out there for construction projects, acquisitions and permanent refinances
- Interest rates are climbing out of the basement
- There have not been major shifts in appetite for property types, though retail is becoming more popular nationally and hotels are back in favor
- Lenders are hungry
- We need to find ways to lock interest rates early
- The Katrina Effect will be with us for a few more months
- GO Zone incentives are available



