

ROBERT T. GIBNEY & ASSOCIATES
COMMERCIAL REAL ESTATE FINANCE

NEWSLETTER

9/22/08

Financing News

It is appropriate to assess the commercial real estate financing landscape as we begin the 4th quarter of 2008. Whether you are an existing or prospective client of Robert T. Gibney & Associates, I hope that this information is helpful as you develop strategies to acquire, manage, and dispose of your commercial real estate investments.

Timing for New Loan Applications: If you are planning to refinance an existing mortgage, or finance the acquisition of a new investment property, you should consider applying for a new commercial real estate loan as soon as possible. Based on the information described below (fewer active lenders, stricter underwriting guidelines, weakening leasing market, unstable credit markets, etc.) lenders are anticipating a more challenging mortgage market in 2009. For example, if a lender increases the debt coverage ratio from 1.15 to 1.25 for \$100,000 net operating income, the loan amount would be reduced by \$100,000.

Balance Sheet Lenders: Lenders with ability to fund loans from their own capital, and retain loans on their balance sheet have emerged as the primary source of real estate financing. Lenders (REITs, conduits, and investment bankers) that relied on their ability to borrow short-term to fund mortgages, assemble mortgage pools, and sell securities have been shut down by the crisis in the financial markets. Balance sheet lenders include banks and insurance companies.

Robert T. Gibney & Associates is well-positioned to meet your financing needs in the coming years. With 30 years of real estate lending experience, our established network of balance sheet lenders will provide you with reliable lending at competitive pricing for refinances and purchases.

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

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.

CURRENT INTEREST RATES

Refer to website for complete rate sheet and other market information: www.azcommercial.biz

MULTI-FAMILY

3 YR FIXED	6.00%	7 YR FIXED	6.50%
5 YR FIXED	6.375%	10 YR FIXED	6.75%

COMMERCIAL - Investment

Non-Recourse with Carve-Outs*

5 YR FIXED	6.50%	7-Year Fixed	6.75%
\$500,000 to \$7,000,000	Flexible Prepayment Options	25-30 year amortization	1% Origination Fee
Max LTV 75%	No Replacement Reserves	Low Up-Front Cost	

*Lender may require full or limited personal recourse based on LTV or other factors

COMMERCIAL – Owner-User

3-Year Fixed	5.5%	5-Year Fixed	6.25%
15-Year Fixed	6.50%	½% Lender Fee	1% Origination Fee

Interest rates and loan terms are subject to change without notice.

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