



## Capital Market and Interest Rate Update

From the desk of:  
 Eric H. Better, President

Monday, April 6, 2009

Volume 1, Issue 2

### Key Indices:

- Prime: 3.25%
- 11th District (COFI): 2.00%
- 12 MTA: 1.43%
- 1 Month LIBOR: .48%
- 3 Month LIBOR: 1.16%
- 6 Month LIBOR: 1.73%
- 3 Yr CMT: 1.16%
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### Commercial Property:

- Retail Properties
- NNN Restaurants
- NNN Drugstores
- Shopping Centers
- Office Buildings
- Medical Offices
- Single Tenant Properties
- Commercial Buildings
- Industrial Buildings
- Flex Buildings
- Self Storage Facilities
- Hotels
- Special Use Facilities

### Multi-Family Property:

- Apartments
- Senior Housing
- Student Housing
- Mobile Home Parks
- Apartment Re-hab
- Apartment Construction

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Exclusively prepared for the:

## Sperry Van Ness Advisors

### **Nationwide Multi-Family Rates (From \$500,000 to \$500,000,000)**

Residential Apartments, Senior Apartments, Student Apartments, and Mobile Home Parks and more

Lender Fee: \$0	Term	Rate	Min DCR	Max LTV	Amort.	Pre-Pay
Starting at	Adjustable	4.35%	1.00	80%	30	% Step Down
Starting at	3 year fixed	5.75%	1.20	75%	30	% Step Down
Starting at	5 year fixed	4.93%	1.20	80%	30	YM
Starting at	6+1 year fixed/floater	5.30%	1.20	80%	30	YM
Starting at	7 year fixed	5.23%	1.20	80%	30	YM
Starting at	10 year fixed	5.34%	1.20	80%	30	YM
Starting at	15 year fixed	6.17%	1.20	80%	30	YM
Starting at	30 year fixed	6.97%	1.20	80%	30	YM

\* SVN | BCP Correspondent pricing: non-recourse, interest only and supplemental financing available\*

### **Nationwide Commercial Rates (From \$500,000 to \$500,000,000)**

MULTI-TENANT: Retail Centers, Office Buildings, Industrial Buildings, and Self Storage Facilities etc.

Lender Fee: \$0	Term	Rate	Min DCR	Max LTV	Amort.	Pre-Pay
Starting at	Adjustable	6%	1.25	75%	25/30	Defeasance
Starting at	1 year fixed	6%	1.25	75%	25/30	2%, 1.5%, 1%
Starting at	3 year fixed	6.12%	1.25	75%	25/30	Step Down
Starting at	5 year fixed	6.12%	1.25	75%	25/30	Step Down
Starting at	7 year fixed	6.25-6.75%	1.25	75%	25/30	Step Down
Starting at	10 year fixed	6.75-7%	1.25	75%	25/30	Step Down
Starting at	20 year fixed	6.25-6.50%	1.25	75%	25/30	Step Down

\* SVN | BCP: non-recourse and limited recourse may be available \*

## Market Report Monday, April 6, 2009

Welcome to the 2nd issue (Volume 1, Issue 2) of the Sperry Van Ness | Better Capital Partners-Capital Market and Interest Rate Update Newsletter. For those readers that missed the inaugural issue, each week we will provide our readers with an overview of the following: National commercial real estate interest rates and underwriting for the major property types, marketplace conditions and how they affect various property types nationwide, insightful capital market analysis with a personal viewpoint and focused subject matter in every newsletter. You will notice that national interest rates are located on page (1) of this newsletter, and are broken down into two

continued on next page >>>>



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### Commercial Programs:

- Permanent First Mortgages
- Fixed and Adjustable
- Convertible Mortgages
- Construction Loans
- Construction/Permanent
- Forward Commitments
- Mezzanine Financing
- Bridge Loans

### Multi-Family Programs:

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categories (multi-family and commercial) and provide a sample of our national, regional and local commercial real estate financing programs. These rates are derived from portfolio lenders, life companies, credit unions, agency and exclusive national correspondent relationships. Many of our lenders and exclusive correspondent relationships have the ability to lower these interest rates by 15-30 basis points if a borrower is interested in establishing a business or personal banking relationship.

#### Major Property Types:

Let's begin by taking a closer look at the major commercial real estate property types: multi-family, office, industrial, and retail.

**Multi-Family:** This property type covers residential, senior and student apartments, assisted and independent living and mobile home parks. Non-recourse adjustable financing programs are still aggressively priced starting at 4.35%. Loan-to-values (LTV's) can still underwrite as high as 80% and underwriting debt service coverage ratios (DSCR) can go as low as a 1.00 breakeven.

Non-recourse fixed 5, 7 and 10 year terms are starting at 4.93%. Loan-to-values (LTV's) are as high as 80% and DSCR's are starting at 1.20 for our correspondent small loan permanent programs and 1.25 for our regular permanent programs. Please note that Sperry Van Ness | Better Capital Partners offers a Small Loan correspondent program with a fast track option. This program does not require tax returns and can close within 45 days. We also offer non-recourse multi-family financing programs that do not have any

origination fees other than third party expenses (appraisal, environmental etc.) and closing costs.

Be aware that intel at a very high level has informed us the Fannie, Freddie and HUD financing programs may be tightening their underwriting guidelines again at the end of this month. This could further restrict some buyers from acquiring multi-family properties in this marketplace. However on a positive note, many of our local and regional lenders are stepping up to the plate and utilizing TARP money to portfolio lend on multi-family with the intention of selling the portfolio to Fannie Mae over the next 12-18 months. Construction lending is still available nationwide through our correspondent relationships at very aggressive terms. Qualified developers/borrowers of multi-family, healthcare and senior apartment projects can still qualify for a loan-to-cost (LTC) up to 90% with an interest rate in the low 6% range with a 40 year fixed rate built into the construction package.

**Office:** The office market is expected to continue its downward decline throughout 2009. Each metro and submarket will ride out the recession in a slightly different manner and all will recover with their own timeline. The major risk facing the office market is lack of demand, oversupply is not an issue. Actually the distance between new supply and demand continues to expand. The office market is in a transition; we expect to see continued declines in demand and decreases in rent growth throughout 2009. This will push cap rates even higher. Core assets will be considered the most desired by investors, and only a small number of investors will take on a value-added office opportunity, especially, while there is still a large amount of short-term leasing risk. The flow of capital

for speculative new developments will more than likely decrease throughout the year. Lender underwriting for office properties are expected to continue to tighten and cap rates are estimated to increase another 50 basis points by the end of the year.

On the flip side, it appears that office medical buildings are still attracting buyers and selling quite well, offering very little vacancy and limited risk. Additionally, government leased office building also appear to be enticing buyers. Specifically those that don't offer short-term lease termination options.

Nationwide Interest rates are ranging from a low of 6% to a high of 7% for a 10 year term. On average a 5 year fixed is around 6.25-6.50% and may be lower. National lenders are offering the lowest fixed rates for 2 and 3 year term programs.

**Industrial:** The industrial sector is beginning to experience sizeable tenant vacancies, specifically in the warehouse and distribution centers nationwide. However, asking rents for new tenants and renewing tenants only saw modest declines. The shipping, freight, rail and trucking industries are taking the biggest hit with double digit declines. Industrial ports are also seeing sharp declines in shipping. The West coast ports in particular seem to be the most affected. On a positive note, tenants servicing the fast food, pharmaceutical, medical industries and the sector of the retail industry dealing in basic household consumables are doing well and may even grow in '09. LTV's can still underwrite as high as 80% and Small Business Administration (SBA) programs can underwrite as high as



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90%. The SBA has recently eliminated or drastically reduced their origination fees to make an SBA loan that much more attractive for a borrower.

Nationwide, fixed 5, 7 and 10 year terms are starting at 5.75% for permanent owner-user programs and 6.25% to 6.75% for investment properties with 25 and 30 year amortization.

**Retail:** Retail properties can still be aggressively financed. Interest rates for retail are still ranging in the 6% to 7% range with 25 and 30 year amortizations and DSCR's in the 1.20-1.35+ range. If you're looking for aggressive retail financing, the name of the game is low leverage and strong sponsorship, and a swap program.

The current recession is posing a real challenge for many retailers. Vacancies are up nationwide and many businesses are closing underperforming locations. Single tenant transactions are also expected to be down year-to-year. The trend the past few years has been for multi-family owners to exchange into single tenant properties like quick service restaurants. However, the recession and liquidity crisis has made it difficult to sell many of these multi-family properties at capitalization rates that are acceptable to the owner. As a result, there will be an over-supply of this specific type of commercial real estate property and cash buyers will be on the prowl to acquire some of these distressed assets. Here is a snap shot of what we are seeing in the Single-Tenant Retail Market nationwide.

**Quick Service Restaurants:** Starbucks is moving forward with its plans to close 600 stores and has cancelled its plan to launch 1000 new stores in 2009 and beyond. Icons like Mc Donald's and Wendy's are focused on inexpensive

menu items with the intention of increasing customer traffic. **Convenience Stores/Gas Stations:** Higher gas prices have a dramatic effect on in-store items that provide high profit margins for the owner. As gas prices continue to stabilize, we expect a significant increase in purchasing by consumers. **Casual Dining:** Families nationwide are tightening the purse strings and are eating out less frequently. Restaurant sales are down; many locations are shutting down and scaling back market expansion plans. **Drugstores:** It appears that CVS and Walgreens will continue to lead the market and are the preferred chains by most lenders. Rite Aid's still appear to be the most difficult to finance. However, they do offer some of the best capitalization rates in this category. **Grocery Stores:** The small local grocer is getting hit the hardest. The larger warehouses like Costco have cost efficiencies and can price very aggressively.

Interest rates for retail are still ranging in the 6% to 7% range with 25 and 30 year amortizations and DSCR's in the 1.20-1.35+ range.

### Capital Markets- Financing Shortfalls

Recently Foresight Analytics (FA), a locally based provider of national real estate analysis and projections produced some very interesting insight into the debt market. Below is my overview on their analysis:

FA's analysis utilized key data from the FDIC and focused on the increasing need for commercial real estate debt during this financial crisis. It is estimated that \$814 billion in commercial and multifamily mortgages will mature during 2009 to 2011. This breaks down to approximately \$594 billion in commercial mortgages and \$220 billion in multi-family mortgages over the next three years. It is estimated that nearly \$250 billion in combined commercial and multifamily mortgages will mature in 2009 and will increase to approximately \$300 billion

per year during 2011 to 2013. Maturing mortgages should settle back after 2013 but will still remain historically high exceeding \$200 billion annually through 2017.

How did this happen? Taking an historical snapshot, the majority of the new debt growth occurred in 2005, 2006 and 2007, with more than \$300 billion in net growth in each year. 2007 hit a high with \$379 billion in net growth. Actually between 2000 and 2007 approximately \$1.8 trillion in new debt for commercial and multifamily real estate was created.

In 2007 the issuance of commercial mortgage backed securities (CMBS) came to a standstill, created a major liquidity problem for commercial real estate borrowers nationwide. Banks and Thrifts have appeared to fill some of the void providing some recent net growth in the marketplace. Overall net volume is down dramatically, from around \$33 billion per quarter in 2006 and 2007 to only \$21 billion per quarter in the second half of 2008.

Life companies still remain net contributors to growth in this market. Life companies accounted for approximately \$1.7 billion per quarter or 12% of the net growth during the second half of 2008. Their share is actually up from 2006 and 2007, but the dollar volume is down by about 50%.

CMBS itself has been contracting, due to defaults and foreclosure activity and loans being paid off. This is a substantial change from 2006 and 2007 when CMBS loans accounted for 41% of net inflows to the commercial mortgage marketplace. Today they account for net outflow to the marketplace.

It appears that serious financing shortfalls beyond the current environment could appear on the horizon shortly. Borrowers need to refinance and acquisitions need new debt as well. One of the biggest obstacles to refinancing a property today is the inability of these properties to qualify. Today properties have lower valuations, lower loan-to-value



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ratio's, and in most cases higher interest rates and shorter loan terms.

Some relief has been reported by the existing portfolio lenders and CMBS servicers. Many are providing temporary one-year extensions for maturing mortgages if a borrower or borrowing entity can't obtain or qualify for refinancing. This will ease those loans coming due in 2009 but add to the refinancing volume in 2010.

If current conditions like values and cash flows remain flat or negative beyond 2010, a significant portion of the \$300 billion of maturing loans from 2011 to 2013 will be at risk. If the lending community can stabilize and obtain liquidity in the years ahead, a large number of defaults and foreclosures could be avoided.

As early as 2008, the lending community saw refinancing requests exceed new lending debt requirements. It is expected that this trend will continue over the next few years. If this assumed shortfall does develop, we may see minimal net growth in the commercial real estate financial market over the next ten years or so.

### Financing for acquisition and refinance.

For a soft or hard quote, or to refer a client, please visit our corporate website at [www.svnbc.com](http://www.svnbc.com) or contact Eric Better for further information.

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