

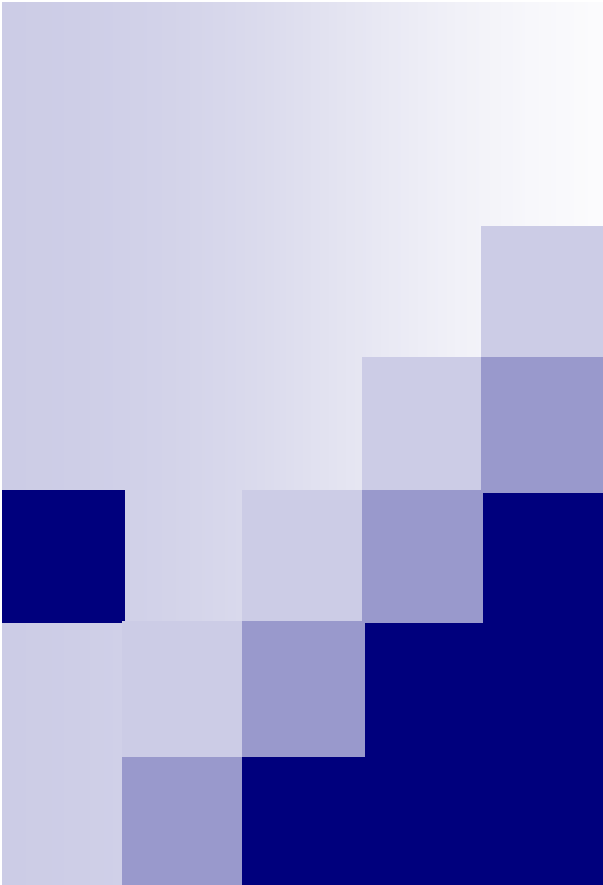


Financing in Today's Market

Michael Derk
Vice-President Capital Markets
Marcus & Millichap Capital Corporation



Marcus & Millichap
Capital Corporation



Deals are still getting
done today....

A deal with solid underwriting
and a strong borrower can be
financed.



Where things were...



Yesterday's lending environment

- Who was doing deals?
 - CMBS
 - Commercial Banks
 - Specialty Finance CDO
 - Collateral Debt Obligation
 - Credit Unions



Yesterday's lending environment

- What type of deals were getting done?
 - High leverage – 80-90% LTV
 - Non-Stabilized deals
 - Tertiary markets
 - Proforma income & expense
 - Break-even debt coverage ratios
 - Underwrite to an I/O payment



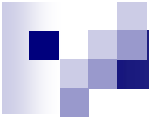
Where things are
today...



Types of banks that are lending today

Who is still in the market:

- Local/ Regional banks
- Specialty finance groups
- Agencies
- Insurance companies



The type of borrower who can get a loan in today's market

- Net worth of Sponsor
 - Large loans – net worth must be equal to or at least half the loan amount
 - Small loans – net worth must be equal to or greater than the loan amount
- Substantial liquidity after closing
- Shows well on tax returns – Global Underwriting
- Previous experience in the local real estate market
- Specific experience in asset type
- Not highly leveraged on their REO – low debt-to-income ratio



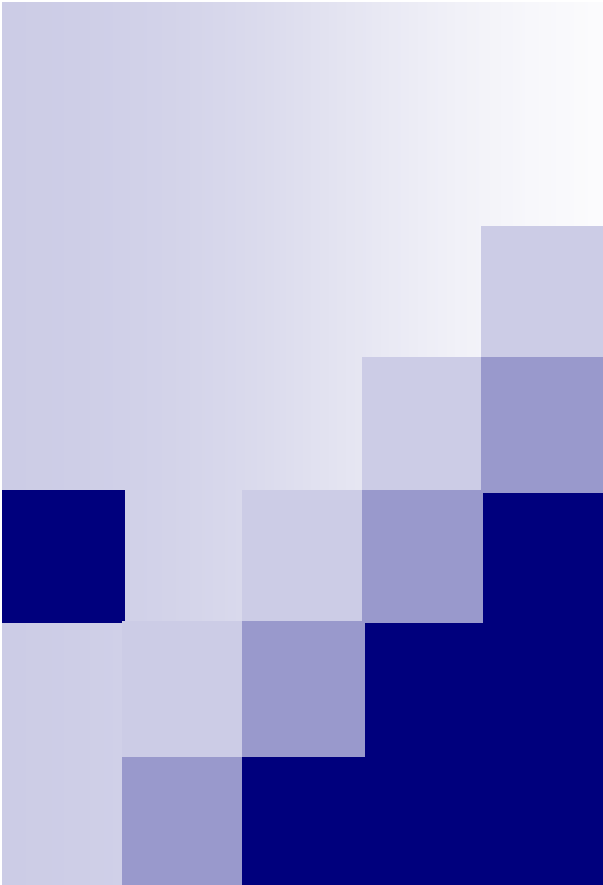
Things you will not likely see in today's market

- Non-recourse lending
 - With the exception of agencies & large loans with an LTV less than 60%
- Market Rent programs
- Stated Income loan applications
- High LTVs
 - Greater than 75%
- Interest-Only programs
 - With the exception of agencies & large loans with an LTV less than 50%
- Lenders being aggressive in tertiary markets
- Weak borrowers – low net worth & low liquidity
- Inexperienced borrowers getting loans



Then vs. Now

	Then	Now
LTV	80%	70% or less
DCR	1.20x Interest Only	1.25x Amortized
Interest Only	Full term	Maybe for 2-years
Asset Quality	Didn't matter	B or better
Demographics	Didn't matter	Minimum density population requirements
Tenant Credit	Flexible	Must have strong financials with good historicals, long term leases
Non Recourse	Available for most – even high leverage deals	Very hard to come by and only with low leverage deals
Market Rents	Available	Rare



Underwriting in
today's market...



Stabilized Small Loans

Loan size less than \$10,000,000

■ Fundamentals of Underwriting

- No Proforma basis
- Historical operating numbers are key
 - Vacancy, taxes, etc.

■ What is a lender looking for?

- Strong historical cash flow that is supported by market
- Quality asset
 - Age, neighborhood, tenant quality, etc.
- Exit strategy
- Never take back the property



Stabilized Large Loans

Loan size more than \$10,000,000

- Fundamentals of Underwriting
 - Minimum 1.25x DSCR on a 25 or 30-year amortization
 - Max leverage of 60-65% LTV for non-recourse
 - Rents marked to market
- What is a lender looking for?
 - Quality assets at lower leverage
 - Strong historical occupancy and operations
 - Experienced and well capitalized borrower
 - Prime locations
 - Minimal refinance risk
 - Exit strategy – how will the lender’s loan be taken out once the loan is due?



Construction Loans

■ Fundamentals of Underwriting

- Maximum 65% LTC and 65% LTV
- Exit Stress Rate 7.75% - 8.50%
- Minimum 1.40 – 1.60x DSCR on stabilized income
- No trending of rents upward for inflation or rent growth

■ What is a lender looking for?

- Pre-leasing on all assets except multi-family
- Experienced developer with good market study
- Infill Product



Transitional/ Bridge Loans

- Fundamentals of Underwriting
 - 9% to 10% Debt Yield on stabilized loans
 - Proven market rents for stabilized underwriting
 - Current DSCR flexible
- What is a lender looking for?
 - Experienced sponsors
 - Very specific rehab or lease-up plans
 - Infill locations
 - Ideally an asset with some current cash flow



Assumption Loans

- Requirements for the borrower
 - Personal signature on carve-outs for non-recourse loans
 - Experienced borrower
 - Net worth & liquidity
 - Large loans – net worth must be equal to or at least half the loan amount and liquidity of at least 10 percent
 - Small loans – net worth must be equal to or greater than the loan amount and substantial liquidity
- What is the lender looking for?
 - A borrower as good or better than the current borrower – this can be arbitrary
 - Cash equity in the transaction equal to or above what the seller originally put in



Getting a deal done in
today's market...



Deals that will be difficult in this market

- High leverage
- Condo construction – commercial or residential
- Inexperienced borrowers
- Deals without recourse unless very low leverage
- Poorly located properties
- STNL properties with poor tenant financials
 - Restaurants (limited service) difficult to get done
- Special purpose assets are a going concern

Recently closed Multi-family deal

- 22-Unit Building in San Diego
- 71% LTV
- 6.05% for 5-year fixed
- 1.20 DSCR based on in-place income
- 37% expense ratio
- Full recourse
- Rate and term refinance
- Challenge: former play for condos but the owners missed the market and instead released as apartments





Multi-family Deal Closed This Week

- Total loan amount \$13,637,000
- 2 Properties in Tustin, CA – 117 Units
- 65% LTV
- 1.20 DSCR based on in-place income
- 6.25% for 5-year fixed
- Full recourse
- Cash-In refinance to take out bridge loan
- Challenge: The properties were not operating at their full potential when our borrower made the acquisition. We had to rely on the strength of the borrower and his real estate experience to counter the poor historical operating information.

Two Long Beach Deals



	Refinance	Purchase
Loan Amount	\$2,567,500	\$2,356,000
LTV	65%	57%
Rate	5.25% - 12-MAT Adjustable	5.83% - 10yr fixed
DCR	1.33x	1.25x
Recourse	Recourse	Non-Recourse

Recently closed Commercial deal

- Strip-retail center with long-term leases
- 60% LTV
- Full-Recourse
- 5-year Fixed Rate - 6.17% with 30-Year amort.
- 1.25x DSCR
- Acquisition financing with significant cash equity
- Challenge: Building had high vacancy factor at the time of acquisition.





What borrowers can do to get their deal funded

- Don't broker a loan by yourself – enlist the market expertise of a loan originator in MMCC.
- Have realistic lending expectations.
- Have financial documents readily available.
 - Tax Returns, Bank Statements, etc.
- Pay attention to timelines – encourage your broker to fight for more time and extensions if the loan is taking longer than expected
- Be available for the loan process
 - Don't have lengthy vacations or be out of the country during the loan process



What brokers can do to get their deal funded

- Don't broker a loan by yourself – enlist the market expertise of a loan originator in MMCC.
- Encourage your clients to have realistic lending expectations.
- Be prepared to assist with the appraisal process – collect valuable comp information for the deal.
 - Both closed comps and on-markets
- Screen your borrowers. Make sure they have the experience and liquidity before you start the deal.



Where things will be
tomorrow...



What does the future hold?

- Commercial delinquencies likely to rise to 3-5%
- Fannie/ Freddie expected to remain active apartment lenders in the foreseeable future but spreads predicted to rise
- Treasuries in the short term expected to range in the high 3% to low 4% range
- Treasuries expected to rise as the government finances Emergency Economic Stabilization Credit Act and other support systems over next 12-18 months



What does the future hold?

- Long-Term (10-Yr) Fixed Rates will be in the 6.35% to 7.35% range
- Market normalizing with LTVs of 60% to 70%:
 - Commercial Banks – 60% to 70%
 - Life Companies – 55% to 65%
 - Government Sponsored Enterprises – 65% to 75%
- Loans taking longer to close – loan process takes around 60 days to close in this market.



In conclusion...



In Conclusion

- Underwriting will continue to be conservative:
 - Much more focused on sponsorship
 - Lower LTVs
 - Use of shorter terms and bridge financing for stabilized projects
 - Well-grounded revenue
 - Use of trailing 12-month operating expenses updated to market
 - Funded reserves
 - Strong tenancy
 - Debt service coverage ratios 1.25 to 1.35
 - I/O available only for short periods



RECENT CLOSINGS

\$4,375,000

Medical Office
10-Year Fixed
6.50% - 30-Year Amort.
North Carolina

\$2,475,000

Apartment Building
Adjustable
5.25% - 30-Year Amort.
Los Angeles, CA

\$1,595,000

Apartment Building
5-Year Fixed
6.50% - 30-Year Amort.
Huntington Park, CA

\$1,250,000

Apartment Building
5-Year Fixed
6.56% - 30-Year Amort.
Los Angeles, CA

\$1,700,000

Apartment Building
5-Year Fixed
6.15% - 30-Year Amort.
Reseda, CA

\$500,000

Single Tenant Net Lease
5-Year Fixed
7.00% - 25-Year Amort.
Crystal City, MO

\$950,000

Industrial Building
5-Year Fixed
7.00% - 30-Year Amort.
Newbury Park, CA

\$2,100,000

Apartment Building
Adjustable
5.25% - 30-Year Amort.
Los Angeles, CA

\$1,025,000

Retail Center
10-Year Fixed
6.85% - 30-Year Amort.
Solvang, CA

\$930,000

Retail
10-Year Fixed
7.10% - 30-Year Amort.
San Bernadino, CA

\$1,100,000

Industrial Building
3-Year Fixed
7.10% - 30-Year Amort.
Cerritos, CA

\$635,000

Apartment Building
Adjustable
5.25% - 30-Year Amort.
Los Angeles, CA