

As we head into the third month of 2010 we as an industry are feeling much more optimistic. However, the same question is still being asked "are lenders lending again?" It has been two weeks since the MBA and there was a energy there that has not been seen in 24 months. The best way to describe it is that Life lenders, alternative funds and conduits are quoting and closing deals (some are talking 70% LTC or LTV).

Life Companies are looking for transactions that can give them a minimum 1.20DSCR at a 50%-65% LTV. As we progress through the year and money is still available some of the lenders are thinking a possible 70% LTV for a higher rate.

Draper and Kramer met with several alternative and conduit lenders that state that they are doing business as usual. Conduit lenders say they are quoting however rates are higher than Life Company lenders and they don't lock rates until just before closing. Alternative funds are quoting deals and many are keeping the transactions on their books. Their quotes are around 7.25- 7.5% with a 25 and a 30 yr amortization (depending on the asset type).

Draper and Kramer works with 25 life company lenders and the great news is that 24 are back in the market and lending. If you or anyone you know is in need of a commercial mortgage please call me.

<u>Term</u>	<u>Rate</u>
5	5.5%-6.25% (Non-recourse Life Company quote)
10	6.5%-7.25% (Non-recourse Life Company quote)
15	7.05% (Non-recourse Life Company quote)
20	7.05% (Non-recourse Life Company quote)

LIBOR based quotes are available from certain lenders

Risky or Not, Lenders Slowly Opening Vaults to CRE Lending Again Loan Renewals, New CRE Lending Jump in December

By Mark Heschmeyer
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Even as banking regulators and politicians deal with the fallout from the collapse of commercial real estate values and the subsequent impact on the banking systems, it appears that an increasing number of lenders are more inclined to jump back into the sector.

Total renewals of existing commercial real estate accounts increased 57% from November to December of last year, according to numbers released this week by the U.S. Department of Treasury. Treasury completes a monthly tally of lending activity of the nation's 20 largest bank, which control 57% of all U.S. banking assets.

While seasonality contributed to the increase -- as year-end is an active time for renewals -- new lending also more doubled in December from the previous month. Total new commercial real estate commitments increased 157%. That was the first increase in four months.

Citigroup's new CRE lending increased eightfold in December to \$294.4 million. Loan renewals more than doubled to \$282.3 million, reflecting an increase in capital-raising activities by real estate investment trusts, Citigroup said.

Even with new and renewals increasing, the big banks also increased their disposal of CRE assets on their

books. Citigroup noted, for example, that its average total CRE loan and lease balances totaled \$22.8 billion at the end of December, 3% lower than it was in November. The outstanding balance of CRE loans of all respondents fell 1% in December, and the median change in outstanding balances was a decrease of 1%.

Fifth Third Bancorp's average CRE balances decreased by approximately 1.3% in December compared to November. New CRE commitments originated in December 2009 were \$196 million, which was up almost 50% from \$132 million in November 2009. Renewal levels for existing accounts increased significantly in December 2009 to \$1.2 billion versus November 2009 at \$471 million due to normal year-end seasonal trends.

Even though Fifth Third's combined originations and renewals were higher in December than November, payments and dispositions of troubled CRE outpaced the higher levels of activity causing the overall balances to continue to decline. As commercial vacancy rates continue to rise, Fifth Third said it continues to monitor the CRE portfolios and continues to suspend lending on new non-owner occupied properties and on new homebuilder and developer projects in order to manage existing portfolio positions.

"We feel this is prudent given that we do not believe added exposure in those sectors is warranted given our expectations for continued elevated loss trends in the performance of those portfolios," Fifth Third reported.

Other Banks Follow Lead

What is happening among the majors also seems to be the route other banks say they will be more willing to take this year. According to findings from Jones Lang LaSalle's annual 2010 Lenders' Production Expectations Survey, bankers are predicting that loan production will increase this year.

The number of respondents that said they expect their loan production to range from \$2 billion to \$4 billion in 2010 doubled from last year to 43%. Showing even more future optimism, nearly 70% of respondents said their loan production will ramp up to \$2 billion to 4 billion in 2011. In another encouraging metric, the number of lenders that expect to lend more than \$4 billion jumped up 6% from 9.3% in 2009 to 15.2% in 2010.

"Lenders we spoke with say they'll be giving borrowers 24+ month extensions in order to avoid foreclosure on high quality, well-located assets," said Bart Steinfeld, Jones Lang LaSalle's managing director of the real estate investment banking practice. "With more than \$1 trillion worth of commercial real estate loans expected to mature between now and 2013, it's no surprise that a majority of borrowers are placing significant importance on restructuring those loans. However, many financial institutions don't want to hold on to assets and now are coming to terms with the fact that they can no longer 'extend and pretend.' They're now realizing it makes good sense to move these assets off their balance sheets to create greater ability to originate loans this year."

The number of lenders willing to lend greater sums toward single-asset acquisitions is also shifting. In 2009, the majority of respondents indicated they would lend only \$10 to 25 million on a single asset acquisition. In 2010, the greatest percentage of respondents was split evenly at 28% each among those willing to lend \$50 million to \$100 million and \$100+ million (hence 56% will lend \$50 million and more for single-asset purchases). In 2011, the number of lenders willing to lend \$50 to \$100+ million rises by 8% to 64% of respondents.

"A few life companies and investment banks we spoke with indicated that they're willing to lend \$150 [million] to \$500 million on large, single-asset acquisitions in 2010," said David Hendrickson, managing director of Jones Lang LaSalle's real estate investment banking practice.

Approaching maturities will continue to share the stage in 2010, with more than 67% of life company respondents acknowledging 40% to 60% of their portfolios will be allocated to the refinancing of maturing loans.

While liquidity within the capital markets is expected to turn from a trickle to a slow-but-steady flow in 2010, borrowers can expect the same tightened underwriting standards they experienced from life company lenders in 2009.

Loan to value ratios in 2010 will fall predominantly in the 50% to 70% range, according to more than 74% of life company respondents, and that number is expected to remain steady in 2011.

As for new conventional commercial real estate loans in 2010, 59% say most loan terms will range five years or greater, with an additional 28% indicating a preference for three to five year terms.

As for the sectors that lenders would most prefer to lend, a majority of respondents (27%) said they would single out multifamily for their loan dollars, while another 21% said they would focus on the office sector in 2010. The hotel sector stood out as the sector to which lenders are least likely to lend.

There was a significant increase in the number of lenders who said they are selling performing and non-performing loans. In addition, these lenders said they are prepared to accept significant discounts in 2010 to create liquidity and to rid themselves of these non-core or problem assets. For performing loans, 29% of respondents indicated they are selling performing notes at 90 cents on the dollar and another 24% are selling performing loans between 70 cents and 80 cents on the dollar.

"There is also increased interest in selling sub-performing, or "scratch and dent" loans," said Noble Carpenter, managing director of Jones Lang LaSalle's real estate investment banking practice. "Depending on the remaining term, interest rate, property type and market, over 45% of survey respondents indicated a willingness to sell these loans below 0.60 cents on the dollar.

Many lenders also said they have started or are considering asset, REO and loan sales.

"We're definitely seeing the bid-ask spread between buyer and seller narrow, and in many cases reach equilibrium. That alignment should be the impetus many lenders need to bring large and small balance loans and REO to market," added Wes Boatwright, managing director of Jones Lang LaSalle's real estate investment banking team.