

AN OVERVIEW OF COMMERCIAL REAL ESTATE FINANCE TRENDS IN REAL ESTATE 2005

Presented By
ANDREWS COMMERCIAL MORTGAGE, LLC
BRIAN S. ANDREWS, CMB
5420 Corporate Boulevard, Suite 106
Baton Rouge, LA, 70808
(225) 201-1201 / fax (225) 201-1201

Interest Rates

Conventional wisdom is that interest rates have bottomed out and are on the rise. Prime rate has increased significantly from an extended trough and is expected to increase steadily through a determined Fed program.

Real Estate Capital Markets Scorecard: "Prime" 10-Year Commercial Mortgages Versus Treasuries Yields as of February 29, 2004									
	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	2/28/05	YTD
Prime Mortgages	7.00%	8.45%	7.35%	7.33%	6.05%	5.80%	5.51%	5.51%	-0.30%
10-Year Treasuries	4.87%	6.52%	5.11%	5.05%	3.81%	4.25%	4.22%	4.31%	+0.09%
Spread	2.13%	1.93%	2.24%	2.28%	2.23%	1.65%	1.29%	1.20%	-0.09%

Source: Barron's/John B. Levy and Company Survey - reported in the ULI Capital Markets Update

Property Types

As indicated by loan volume in 2004, apartments are still the most preferred property type for permanent lenders, but other property types, including Hotels, are increasing in share of total volume.

Property Type	2004		2003	Change 2003 to 2004	
	Total	Percent of Total		Volume (\$Millions)	Percent
Multifamily	50,407	37.3%	48,873	1,534	3.1%
Office	33,204	24.5%	25,992	7,212	27.7%
Retail	24,752	18.3%	20,052	4,699	23.4%
Industrial	9,219	6.8%	7,429	1,789	24.1%
Hotel	3,617	2.7%	2,866	751	26.2%
Health Care	2,160	1.6%	2,534	-374	-14.8%
Other Properties	11,915	8.8%	9,474	2,442	25.8%

Source: MBA Commercial Mortgage Banker Origination Survey

Mezzanine Financing

Mezzanine financing bridges the gap between traditional debt sources and owner equity. Programs that increase leverage to 85% with a minimum 1.10x combined debt service coverage ratio are plentiful and some are available at higher levels. Rates range from the low teens for the 85% LTV range with good stories and exit strategies to the higher teens for higher leverage deals. Most mezzanine lenders require a minimum return and have a minimum investment level of \$3mm to \$5mm. Some programs are available with a \$1mm minimum investment level.

Fannie Mae recently rolled out its own mezzanine program for increasing leverage on multifamily properties. Other entities flush with cash are developing their own captive mezzanine programs to generate higher returns as well.

Government Sponsored Entities (GSEs)

Fannie Mae and Freddie Mac have been in the news a great deal recently for a host of reasons relating to single-family lending and accounting practices. The impact on commercial lending for multifamily properties will be that these GSEs will be hungrier for deals that satisfy their quotas for affordable housing. Baton Rouge will likely benefit from this situation since market economics already satisfy affordable criteria.

The Assumption Dilemma

Several properties are being listed for sale with the purchaser being asked to assume a loan balance and put down cash greater than the traditional 20%. For instance, an apartment complex is currently offered outside of Baton Rouge for \$14,000,000 with an existing \$8,600,000 conduit loan to be assumed and requirement for \$5,400,000 (39%) cash down. The dilemma facing purchasers is whether to put more cash up front and suffer lower cash-on-cash returns or to tackle an early prepayment of the loan with the attendant penalties, also negatively impacting returns on investment.