

JULY 2009

Deals:	LTV	Rate:	Fee:	Amount:	Term:	Amort:
Apartment	68%	5.57%	1.0%	\$2,000,000.	10yr.	30
Bus Park	40%	5.75%	1.0%	\$ 200,000.	20	20 SBA
“ “	50%	6.5%	1.0%	\$ 250,000.	5 fixed	20 Bank
Office	40%	6.00%	1.0%	\$2,400,000	5 Fixed	25
Medical	70%	5.875%	1.0%	\$5,000,000	5 Fixed	25

Interest Rates: The mood out there has been ugly. The Banks are all afraid of the Bank Examiners. CRE = Commercial Real Estate is the new bugaboo for the examiners. I am sure that they all went to the same seminar to get their marching orders. The theory is as follows:

	<u>Purchased 2006:</u>	<u>1-10-2010 Refinance:</u>
Sq. Ft	30,000	30,000
Vacancy	5.0%	12%
Rental Rate	\$20.00 NNN	\$16.00NNN
Net Income	\$570,000.00	\$422,400.00
Cap Rate	6.5%	8.00%
Value	\$8,769,000.00	\$5,280,000.00
75% loan	\$6,576,000.00	\$3,960,000.00
Debt Service		
@ 6.00%	\$473,000.00 (30yr amort)	
@6.25%		(25yr amort) \$313,500.00

Obviously, the concern is that with movement in the vacancy, cap rate, interest rate, rental rate; and, amortization, a property can lose 45% of its value. The owner, above, might need to come to the table with over \$2,000,000.00 just to refinance a balloon. Plus; there are increased expenses for leasing and tenant improvements.

Insurance companies are using 8.00%++ cap rates and effectively cutting loans to 50% to 65% of “value”. Amazingly; the insurance companies are busy as can be with loan requests under these terms. Some of this is taking “cash back” out of one property to pay down another.

Current Facts: (1) The rental of vacant homes has driven up apartment vacancies. (2) the Apartment conversion business is dead; (3) Retail is in big trouble as tenants fold; (4) 400 of the largest 2000 Malls in the country have failed. (5) Owner occupied is the big item this year; (6) SBA loans are the best deal in the country; (7) Negotiating with tenants is the new art form; (8) Ten year fixed rates are up to 1.0% higher than 5 year rates(as lenders hedge against future inflation).

Outlook Going Forward?? Owner occupied is the byword. For investor properties, there will be *INTENSE* scrutiny of financials; and, the businesses themselves. Even with that, no loans will be available to borrowers with weak financial statements.

WHAT TO DO NEXT!! (1) Convince doctors to buy their offices = SBA loans are GREAT deals today. (2) Go into the LEASE RENEGOTIATION business = Get paid by owners to keep the tenants they have. (3) Apartments are DOABLE with FNMA/FHLMC loans to 80% - with rates below 6.0% = What’s wrong with that??

I WANT YOUR EMAIL ADDRESS FOR FUTURE PLETTERS. PLEASE EMAIL ME AT paul@paladin-financial.com. STARBUCKS Gift card to the one who can guess the weight of the fish!!