

## **Gui Orliac**

Market Commentary

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### **Obtaining a Commercial Loan Current Market Conditions**

For the past 6 months financial capital markets have been in turmoil and based on most signs they are going to continue to be in distress for the next 12 to 24 months. Most commercial and residential loans were, until October, traded and re-sold on secondary capital markets, however, trading stopped. Today, only very limited amount of commercial loans are being funded, most banks are keeping them as part of their portfolio, thus limiting the range of options once available. Capital is not being reused. The other players in the markets are private banks, regional and community banks and life insurances companies with real estate arms.

Private banks will consider making loans but will ask for deposit relationships. Regional and Community banks will consider making loans in areas that are not covered by national lenders, however loan programs may be limited. Working with Private, Regional and Community Banks has some advantages in that they could be flexible in how they underwrite loans. Working with life insurance companies is a different issue, they are more complicated and require more time. Life insurance companies who are still lending require loan amount minimum of \$2 M and above in most cases. The primary value is that they offer longer terms 10 years, 15 years etc.. fixed 20 years amortization etc... However, due to losses a lot of companies have limited or no capital to lend.

Another challenge that we are facing, today, is that the commercial real estate market is starting to suffer from the downturn in the economy. As a rule of thumb commercial real estate will experience difficulties 12 to 18 months after residential real estate. With the contraction in the economy, tenants are starting to either go out of business, stop paying rent, ask for temporally relief in monthly payments. The financial difficulties they are experiencing are making the life of property owners difficult, in some cases it forces owner to default on commercial loans.

The role of the federal government has influenced lenders in opposite ways since the beginning of the year. The Federal Reserve has been encouraging lending through the TARP program. Numerous institutions have borrowed money to be able to lend to property owners, thus slightly increasing liquidity in the market place. However, based on initial numbers it appears that only a limited amount of capital has been distributed. On the other side the FDIC and other regulators have encouraged banks to re-balance their portfolios. Thus a lender known for its multi units apartment lending programs will now most likely stop lending to multi units borrowers because it has too much concentration in that area. Most likely this lender will focus on owner user commercial property, or not lend at all.

### **Conclusion**

As you can imagine these different influences are making it difficult to know when and to what level capital will be made available. As more default are anticipated and with no clear outcome for the economy, most banks, funds, capital markets will fund only short terms loan programs. Owner of retail commercial real estate will most likely be most affected by restrictive lending conditions, as retail businesses are suffering more directly from the economic downturn.