

Phoenix Financiers: | Credit Continues To Be Tight |

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PHOENIX — As the U.S. enters its second year of the recession, credit continues all but non-existent. Local experts tell GlobeSt.com that, furthermore, it's uncertain when the markets will thaw and things start moving again.

Bruce Francis, senior director with CB Richard Ellis Capital Markets in Phoenix says those seeking financing for acquisition and development had better put their plans off for awhile. Few lenders, he says, are willing to issue debt for those types of projects.

But what about financing for projects that are zoned, entitled and pre-leased? "We're seeing some of that type of lending activity, but it's sparse," Francis says. "They want a high level of pre-leasing, probably around 65% to 75% pre-leased and a lower loan-to-cost with good sponsorship is mandatory."

Craig Johnson says he handled a recent loan for a client that had bought a multifamily property in Texas using all cash, and rehabbed the asset with his own funds. The property was 95% occupied and the owner had a sterling reputation as an owner. But when he tried to find financing for around \$1 million, 14 banks rejected him.

"**We finally found one**, but it was tough," says Johnson, who is vice president and chief operating officer with Aries Capital's Phoenix office. "It just shows how difficult things are out there."



Downtown Phoenix

Though a much has been reported about life companies jumping into the lending game, Francis says this is true, but only to a point. The majority of the life allocation in 2009 is dedicated to rollovers of their own existing loans. "What we're hearing is that a lot of the majority of what the life companies have is going to refinancing their existing rollover. There's not a lot of liquidity there for others," Francis adds.

On the multifamily side, Fannie Mae, Freddie Mac and the Federal Housing Administration are quoting loans. But these three institutions aren't a slam-dunk for funds either. Jones says Fannie is tightening restrictions and is lending mainly to experienced borrowers that have great track records.

"**The guy** who owns a gas station and who is building a 20-unit apartment complex behind it won't get financing," Johnson says. "They're also not going into tertiary markets much. They want big cities. Infill locations in big cities."

Francis says the three institutions prefers borrowers from cities that haven't been overly exposed to the recession. "If you're in an area like Phoenix or Las Vegas, the debt

coverage and loan-to-value would be more stringent than in a market less impacted by the current economic situation," Francis says.

Other players continue to be the regional and local banks. Francis says they have programs and they are lending, but they want solid sponsorship and properties with no stories attached.

"**It needs to be clean** and they're taking a careful look at tenant roll and how the rent negotiations are trending," he adds. "Then they'll consider it, with a LTV in the 60% to 65% range, with a cap rate of 8% and above."

Neither Francis nor Johnson was ready to predict any kind of turnaround. In fact, Johnson points out, with some CMBS loans starting to come due, more people will be seeking more loans, and likely coming up empty-handed.

Francis adds that there are many unknowns in the current economy. Until results from the stimulus plan are noticed and until the market hits bottom, the situation will likely be status quo.

"**If we could see the bottom**, even if we're at that bottom for awhile, that'd be okay," he said. "It would give us something to build on. We're getting close. But I'd feel better if there were some more signs that we were getting there."