

## Capital Markets Update

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With the stock market volatile, U.S. debt being downgraded and the EU seeming to face a new crisis every week, the financial markets have been stressed to say the least. In light of these events as we approach the end of summer, we thought it would be a good time to update you on the availability of financing for real estate deals from the various lending segments.

### **Banks**

Bank lending is still somewhat of a bifurcated market. Solid cash flowing properties in strong locations with quality sponsorship are attracting significant interest from the banks. On the other hand, properties with vacancy or inconsistent cash flows in weaker locations generate little enthusiasm from lenders. Most banks price loans off the FHLB or swap rates which have dropped 50-75 basis points in the past 60 days. This has resulted in attractive borrowing costs for property owners; low to mid 4's for 5 year deals and high 4's to mid 5's for 10 year fixed rate financing.

### **Conduits**

With the recent turmoil in financial markets, the conduit lending segment has been the most dramatically affected. As recently as 60 days ago, CMBS originators were pricing loans at spreads of 180 to 200 basis points over the 10 year swap rate and LTV's were consistently in the 70-75% range. Currently, those spreads have widened to 375-400 basis points over swaps and loan advances have generally been reduced to the 65-70% range. In late spring, the conduit lenders had a distinct pricing edge over banks but with both 5 and 10 year loans being priced in the high 5's to low 6's, that advantage has been reversed. Will conduit spreads tighten in the near future? Recent conversations with several CMBS lenders have yielded varied opinions; some predict lower spreads within 30-60 days, others are fearful that spreads will stay where they are for several months if not longer.

### **Insurance Companies**

Most of the insurance companies have plenty of money to lend and many are not finding enough quality deals to meet their budgets. They continue to prefer to compete on rate rather than stretching to lower caliber assets or locations. Pricing remains very attractive with 5 year rates in the mid 3's to mid 4's and 10 year deals being offered in the low 4's to mid 5's. In an effort to increase loan volume, many of the insurance companies are now pushing LTV's up to the 70-75% range.