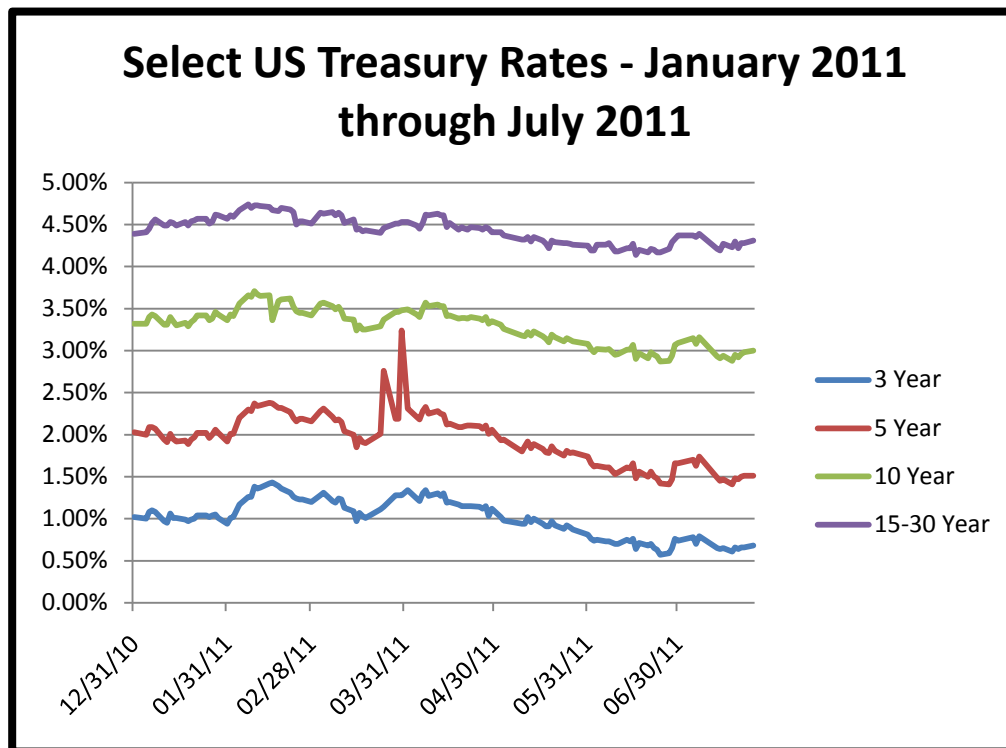




## REGIONAL COMMERCIAL MORTGAGE UPDATE NEWSLETTER July 2011

### Capital Markets Update

The US 10 Year treasury began the year at 3.32% and had declined to a low of 2.89% with a maximum so far of 3.71%. Current US 10 Year rate sits at approximately 3.00%.



In this time the spreads over treasuries for the commercial mortgage market have fluctuated widely as well. Life company debt remains competitive, but with the uncertainty in the market, most life company lenders are being very selective in choosing their targets. The current range of Life Company spreads are generally between 190 and 250 basis points over the treasury.

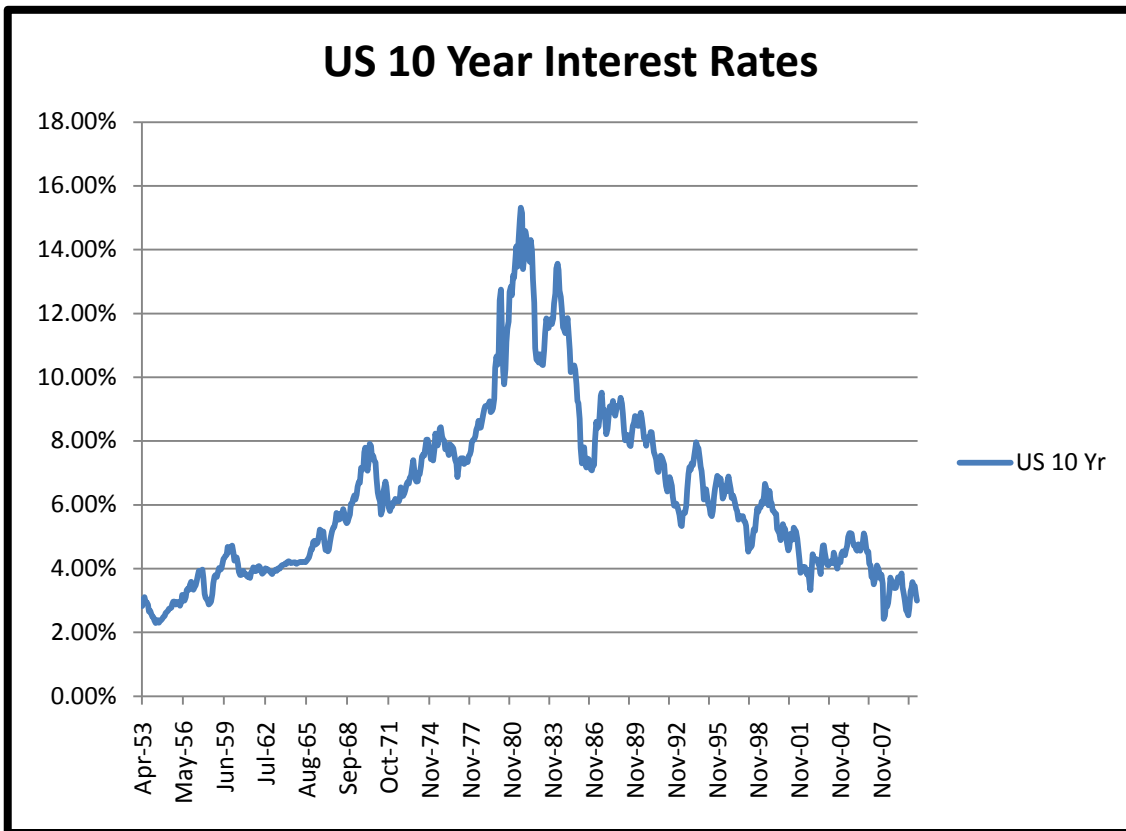
This year we have seen attempts from Wall Street to re-emerge from the ashes and come to market with CMBS 2.0. There are many firms involved and the model is still evolving as the bond buyers' grapple with macroeconomic issues. There are a multitude of assets currently in special servicing and many more to work their way through the system.

The market needs CMBS to make a comeback, as they fulfill a need in the market that commercial banks and life companies cannot meet. The permanent loan market has many players and a seat for all. However, as competition for business eroded underwriting in 2006-2008, many properties were overleveraged. In today's climate that means that many CMBS borrowers will have to sell or give back property at maturity or pay hefty fees to extend a year or a quarter at a time. When a borrower obtains an 80% LTV based on projected income and a minimal vacancy, that borrower quickly learns that a 25% drop in rents to retain the few tenants they have left equals needing new equity or relinquishing the property via sale or foreclosure.

We have a few years to work through this process, but for those investors who kept their powder dry, there should be plenty of opportunity.

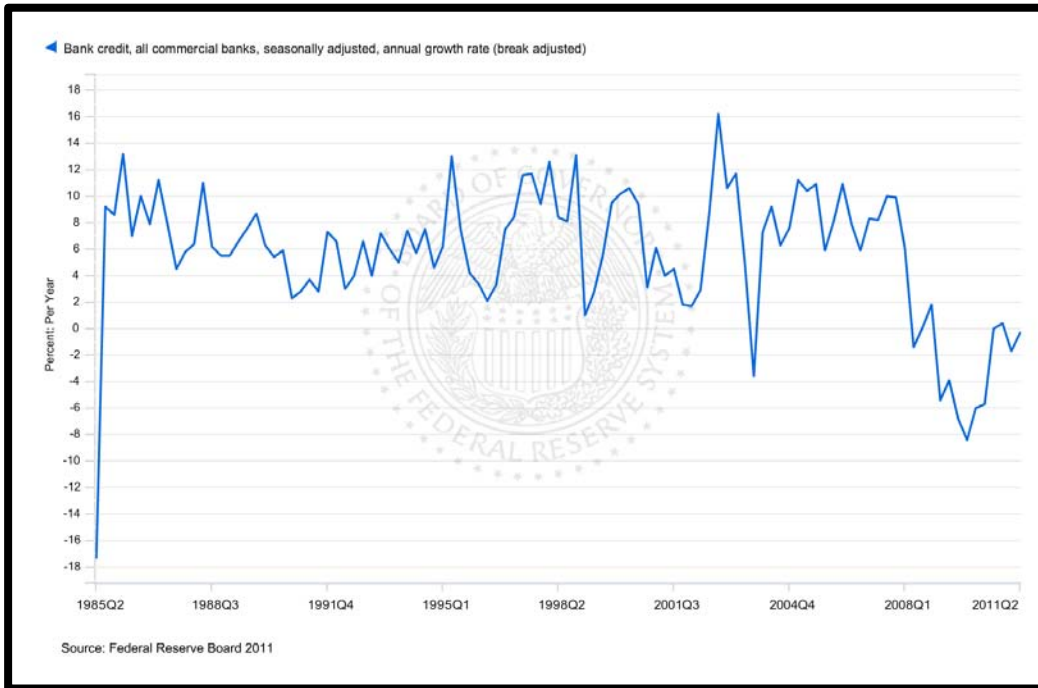
In summary, the market should stabilize to a new equilibrium, but along with that comes a new shift in understanding the financing tool utilized by developers. Most lenders will want some skin left in the deal and unless the property is leased to a rated credit tenant or is multifamily, expect tighter amortizations and more conservative underwriting. The lenders active and closing their deals as applied for are underwriting actual in place rents and expenses with realistic capitalization rates.

US 10 Year Nominal Interest Rates – April 1953-June 2011:

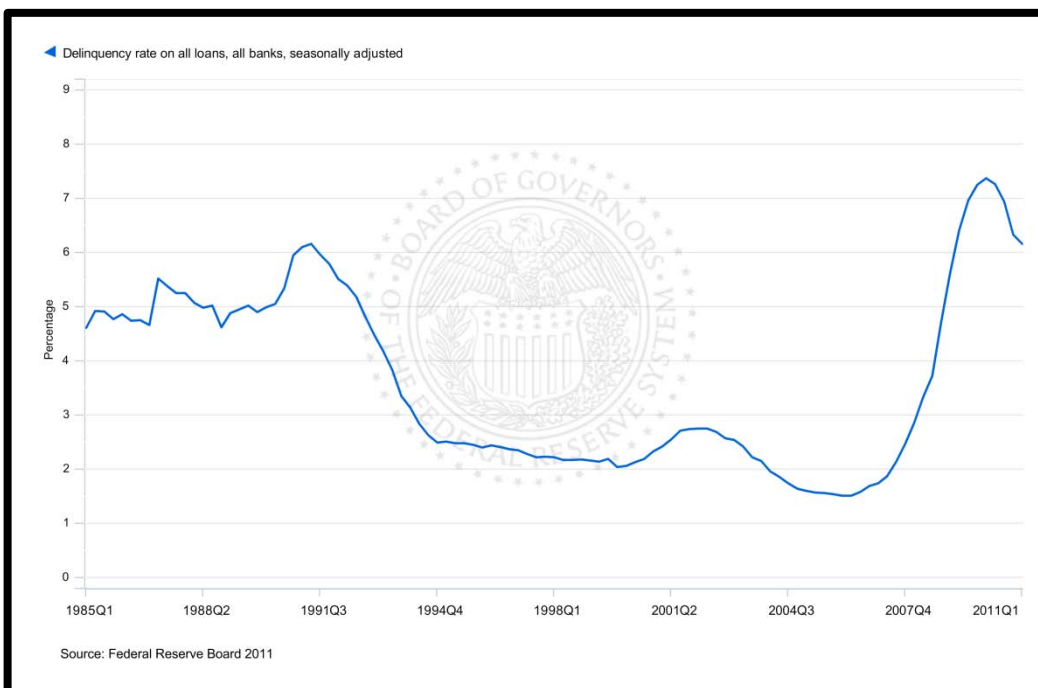


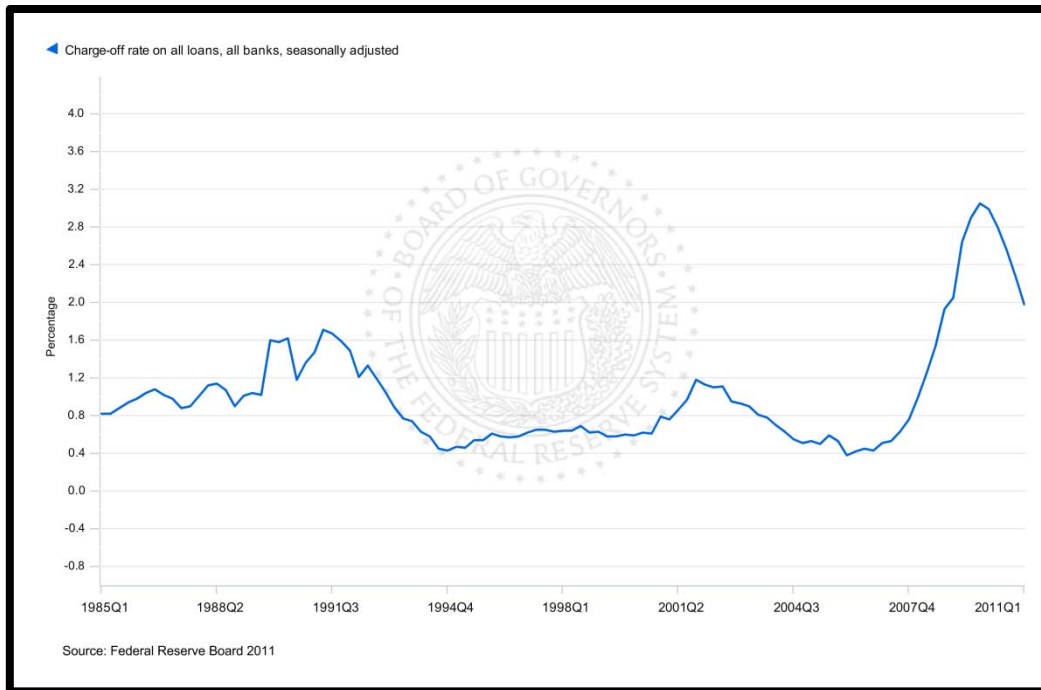
The good news is interest rates have not been this low since the last time a Kennedy occupied the White House. For those who use the debt wisely, now is the time to lock your permanent loans in place before the rates increase.

Lastly, I would like to leave some nugget of insight into the commercial banking world in the US today; the current annual growth rate of all US commercial banks is approximately 0%.



By looking further into the data in the following two charts, we can see why the banking industry is having such issues. The first chart is the delinquency rates of all banks from 1985 to present and the second is the actual charge-off rates for the same time period.





## Sales and Capitalization Rates

US National sales and capitalization rate data below is published from the Mortgage Bankers Association via Real Capital Analytics which reflects data compiled from across the country. As a result, the figures are skewed from data on both coasts. The data should be used for informational purposes only.

### US NATIONAL QUARTERLY SALES PRICES OF LARGER (\$5 MILLION+) COMMERCIAL/MULTIFAMILY PROPERTIES Properties and portfolios \$5 million and greater

Year	<u>Price Per Unit or SF</u>				Q1 - year over year chg	<u>Capitalization Rate</u>				Q1 - year over year chg
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
2006	\$107	\$ 93	\$102	\$121	22%	5.90%	6.10%	6.10%	6.20%	-8%
2007	\$100	\$ 100	\$110	\$101	-6%	6.10%	6.10%	6.20%	6.20%	4%
2008	\$ 97	\$ 94	\$114	\$ 86	-3%	6.20%	6.40%	6.50%	7.00%	1%
2009	\$ 85	\$ 87	\$ 81	\$ 86	-12%	6.90%	7.00%	7.10%	7.00%	11%
2010	\$120	\$ 97	\$116	\$109	41%	6.90%	6.80%	6.60%	6.50%	0%
2011	\$104				-13%	6.70%				-3%

- Please note these figures are averages over the entire US. The results are generally reported in major population centers with greater than 1 million in the MSA. Cap Rates in smaller markets tend to be 50-100 basis points higher with correspondingly lower price per unit or square foot.

The average price per unit in 2006 was \$106,000 with an average cap rate of 6.08%. The low was 5.90% in first quarter 2006 with the high point reaching 7.10% in the third quarter of 2009.

The difference between the low and high points is 120 basis points. The average price per unit nationally for 2010 was \$111,000 with an average cap rate of about 6.70%.

**US NATIONAL QUARTERLY SALES PRICES OF LARGER (\$5 MILLION+)  
COMMERCIAL/MULTIFAMILY PROPERTIES**  
Properties and portfolios \$5 million and greater

Year	<u>Price Per Unit or SF</u>				Q1 - year <u>over year</u> chg	<u>Capitalization Rate</u>				Q1 - year <u>over year</u> chg
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
<b>Industrial</b>	(\$/SF)									
<b>2006</b>	\$ 76	\$ 75	\$ 69	\$ 72	22%	7.10%	7.40%	7.20%	7.10%	-13%
<b>2007</b>	\$ 74	\$ 75	\$ 78	\$ 75	-3%	6.90%	6.80%	6.90%	7.20%	-3%
<b>2008</b>	\$ 71	\$ 71	\$ 71	\$ 71	-4%	7.20%	7.30%	7.50%	7.90%	4%
<b>2009</b>	\$ 74	\$ 64	\$ 61	\$ 52	5%	8.30%	8.30%	8.60%	8.70%	15%
<b>2010</b>	\$ 52	\$ 66	\$ 69	\$ 55	-29%	8.70%	8.10%	8.50%	8.20%	5%
<b>2011</b>	\$ 55				5%	7.70%				-11%

- Please note these figures are averages over the entire US. The results are generally reported in major population centers with greater than 1 million in the MSA. Cap Rates in smaller markets tend to be 50-100 basis points higher with correspondingly lower price per unit or square foot.

The average price per square foot nationally for industrial property in 2006 was \$73 with an average cap rate of 7.20%. This moved to an average of \$61 per square foot and an average cap rate of 8.38% in 2010. This change represents a 118 basis point increase, but the low and high during the interim was as high as 180 basis points.

**US NATIONAL QUARTERLY SALES PRICES OF LARGER (\$5 MILLION+)  
COMMERCIAL/MULTIFAMILY PROPERTIES**  
Properties and portfolios \$5 million and greater

Year	<u>Price Per Unit or SF</u>				Q1 - year <u>over year</u> chg	<u>Capitalization Rate</u>				Q1 - year <u>over year</u> chg
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
<b>Office</b>	(\$/SF)									
<b>2006</b>	\$214	\$ 217	\$234	\$222	16%	7.00%	7.10%	6.80%	6.80%	-7%
<b>2007</b>	\$270	\$ 295	\$254	\$265	26%	6.50%	6.30%	6.50%	6.50%	-7%
<b>2008</b>	\$240	\$ 286	\$276	\$213	-11%	6.90%	7%	7.20%	7.30%	5%
<b>2009</b>	\$265	\$ 137	\$192	\$176	11%	7.90%	8.00%	8.20%	8.90%	15%
<b>2010</b>	\$144	\$ 202	\$218	\$231	-46%	8.20%	8.00%	7.40%	7.10%	4%
<b>2011</b>	\$228				58%	7.30%				-12%

- Please note these figures are averages over the entire US. The results are generally reported in major population centers with greater than 1 million in the MSA. Cap Rates in smaller markets tend to be 50-100 basis points higher with correspondingly lower price per unit or square foot.

The average price per SF for office space nationally in 2006 was \$222 with an average cap rate of 6.93%. This moved to \$199 per foot and an average cap rate of 7.68% in 2010. However, during this time period, we saw swings as high as 260 basis points in cap rates.

**US NATIONAL QUARTERLY SALES PRICES OF LARGER (\$5 MILLION+)  
COMMERCIAL/MULTIFAMILY PROPERTIES**  
Properties and portfolios \$5 million and greater

Year	<u>Price Per Unit or SF</u>				Q1 - year <u>over year</u> chg	<u>Capitalization Rate</u>				Q1 - year <u>over year</u> chg
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
<b>Retail</b>	(\$/SF)									
<b>2006</b>	\$163	\$ 158	\$171	\$185	10%	6.80%	7.10%	6.90%	6.70%	-7%
<b>2007</b>	\$195	\$ 191	\$181	\$169	20%	6.60%	6.50%	6.60%	6.70%	-3%
<b>2008</b>	\$190	\$ 208	\$185	\$180	-3%	6.90%	6.80%	6.80%	7.20%	3%
<b>2009</b>	\$148	\$ 159	\$145	\$136	-22%	7.30%	7.70%	8.10%	8.20%	7%
<b>2010</b>	\$136	\$ 131	\$151	\$174	-8%	8.20%	8.00%	7.70%	7.60%	12%
<b>2011</b>	\$180				32%	7.60%				-8%

- Please note these figures are averages over the entire US. The results are generally reported in major population centers with greater than 1 million in the MSA. Cap Rates in smaller markets tend to be 50-100 basis points higher with correspondingly lower price per unit or square foot.

The average sales price in 2006 was \$169 per square foot with an average cap rate of 6.88%. These figures moved to an average of \$148 per foot and an average cap rate of 7.88% in 2010. The increase of 100 basis points in cap rate is deceiving as the market saw it swing as high as 170 basis points. Additionally, keep in mind that much of the data may be skewed towards credit or grocery anchored type properties. I would venture to guess that neighborhood unanchored strip centers saw much higher cap rates and larger differences in the basis point swings.

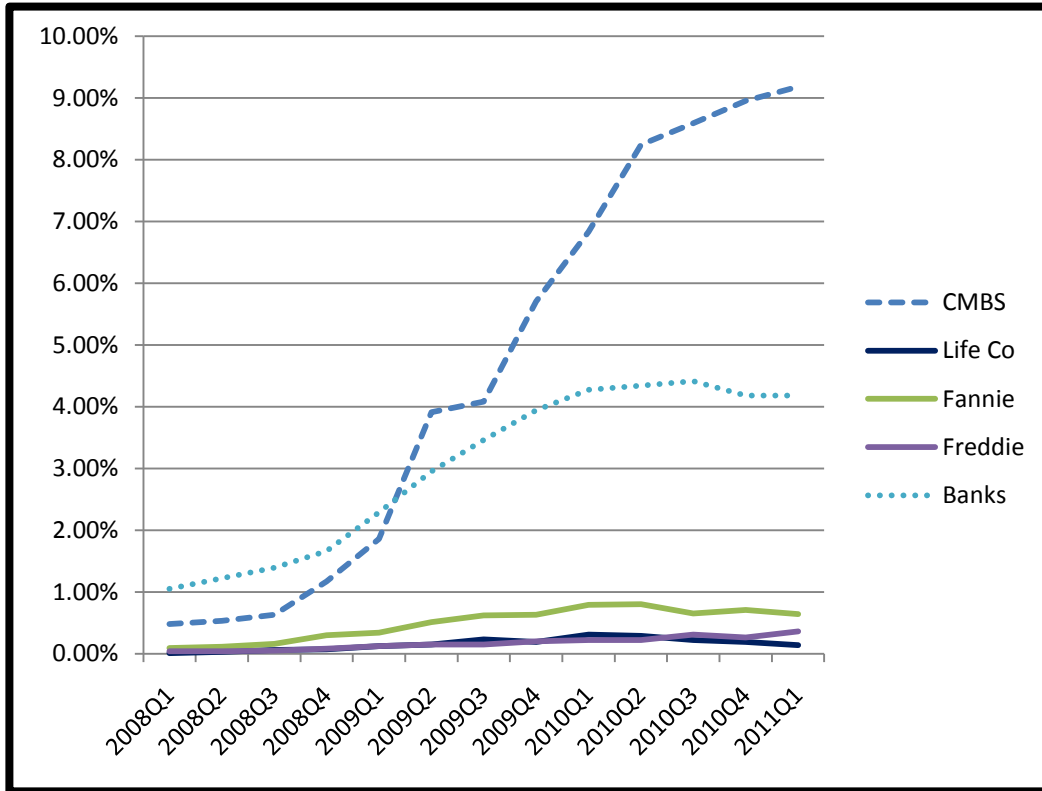
## **Delinquency Rates**

As published in the 1Q2011 MBA data:

Based on the unpaid principal balance of loans (UPB), delinquency rates for each group at the end of the first quarter were as follows:

- CMBS: 9.18 percent (30+ days delinquent or in REO);
- Life company portfolios: 0.14 percent (60+days delinquent);
- Fannie Mae: 0.64 percent (60 or more days delinquent)
- Freddie Mac: 0.36 percent (60 or more days delinquent);
- Banks and thrifts: 4.18 percent (90 or more days delinquent or in nonaccrual)

## COMMERCIAL/MULTIFAMILY MORTGAGE DELINQUENCY RATES AMONG MAJOR INVESTOR GROUPS



### Local Market News

Omaha, NE –

From the Omaha Chamber of Commerce....1Q2011 Quarterly Update

[http://www.selectgreateromaha.com/News\\_Center\\_Quarterly\\_Update.aspx](http://www.selectgreateromaha.com/News_Center_Quarterly_Update.aspx)

#### **Data Center Expansions Demonstrate Region's Positive Environment**

Greater Omaha is a long-proven location for technology companies. ....CoSentry, Yahoo! and the Scott Technology Center are thriving in this community.

<http://www.selectgreateromaha.com/omaha/media/docs/news%20center/Omaha%20Data%20Centers.pdf>

#### **Innovative Start-up ePower Gains National Attention**

Local start-up, ePower, obtained funds for a new manufacturing facility for its innovative diesel/electric drive train for large semi-trailer trucks. ....

<http://www.selectgreateromaha.com/News-Center-News-Releases-ePower.aspx>

Get all the facts about the new [TD Ameritrade Park Omaha](#)

Lincoln, NE –

From the Lincoln Journal Star:

**Historic preservation, urban design, mayor talk Haymarket arena**

Read more: [http://journalstar.com/news/local/article\\_f5457b96-2628-58c9-b386-f8cfa8ff7b45.html#ixzz1TEpieaxi](http://journalstar.com/news/local/article_f5457b96-2628-58c9-b386-f8cfa8ff7b45.html#ixzz1TEpieaxi)

Des Moines, IA –

From the Des Moines Register:

**Ladco risks over 100 foreclosures in Des Moines area**

<http://www.desmoinesregister.com/apps/pbcs.dll/article?AID=2011107250308>

**Feds order Liberty Bank to raise capital**

<http://www.desmoinesregister.com/apps/pbcs.dll/article?AID=2011107240306>

From the Des Moines Chamber of Commerce:

**Entrepreneurs Can Win \$10,000 for Best Tech-based Business Idea**

<http://www.desmoinesmetro.com/partnership-newsroom/displayArticle.asp?idNewsroomArticle=1439&idNewsroomWebsiteSection=14>

Sioux Falls, SD –

From the Sioux Falls Chamber of Commerce:

**A strong vision can pay off dividends** – Chair of the Board, Michael Bender, discusses the progress of Forward Sioux Falls, an investment initiative for the community.

<http://www.chambernews.com/CurrentIssue/chairColumn.cfm>

**Q10 Daisley Ruff Notes**

With the amount of currency that has been issued/printed over the last 18-24 months, the market will at some point need to extract it from circulation. At the current moment, the bulk of this is in the hands of the government or sitting as reserves at the commercial banks.

However, once the spigot is opened up and too many dollars begin to chase the same amount of goods, inflation will rear its head. The time to act to shield your interest rate risk is sooner rather than later. For our valued clients who have a history with our firm and for those we have not had the pleasure of serving, please do not hesitate to call with any questions regarding permanent financing for your commercial real estate needs. We look forward to serving your needs for the next 20 years as much as we have enjoyed serving you the last 22.