

Trends in Lends – *Permanent Financing Commercial Real Estate Long Term Fixed-Rate Mortgages*



Fortunately long term interest rates for Income Producing Properties the past year have stayed down in the sub 6% range, so it's still an excellent time for investors to lock-in fixed rate debt for up to 10 to 15 years, with 30 year amortizations.

What has helped this is the 10 year treasury yield staying in the mid 4% range, which is the base rate used (plus a spread) for determining the overall interest rate. And with long-term interest rates determined by various spreads above these treasury rates, it's a good bet that we're in for another year of favorable permanent financing for qualified properties. Needless to say, the refinancing volume taking place around the country is probably going to be at an all time high if history repeats itself. But there is no reason to believe that history is going to repeat itself as far as what occurred during the late 80's and early 90's.



For the time being, the Conduits (CMBS-Lenders), Life Insurance Companies and Pension Funds are assertively closing loans on qualified properties of all types that are being bought and sold and well underwritten. The property types and the underwriting criteria listed in the following schedule is typical of the types of transactions that are either being refinanced out of the banking industry's mini-perm portfolio or other lenders loan portfolio's because of loan maturities.

INCOME PRODUCING & OWNER OCCUPIED PROPERTIES

Financing Types:	Permanent, Mezzanine, Joint Venture & Equity Transactions			
Lending Sources:	Conduits, Life Insurance Companies and Pension Funds			
Loan Amount:	All Ranges			
Property Types:	Anchored Shopping Centers	Retail Properties		
	Office Buildings	Multi-Family Properties		
	Industrial Properties	Mini-Storage Warehouses		
	Mobile Home Parks	Hotels/Motels (Flagged)		
	Parking Garages	Leasehold		
	Build to Suit and Owner/Occupied Properties			
	Credit Tenant Leased (CTL) Properties			
Term & Amort:	5/20; 10/20; 10/25; 10/30; 15/15; 20/20			
Loan to Value:	Up to 80% (+ mezzanine financing) subject to underwriting and DCR Up to 97%, depending on (CTL Bond Rating) and DCR			
Debt Coverage:	1.2 to 1 and lower on (CTL) financing			
Interest Rates:	Priced at a spread over the Corresponding Treasury			
Examples:	4.50%	4.50%	4.50%	Ten Year Treasury Yield
	1.00%	1.15%	1.25%	Spread (varies per transaction)
	5.50%	5.65%	5.75%	Overall Rate
	NOTE: INTEREST RATE VARIES DEPENDING ON 10 YEAR BOND YIELD AND SPREAD			
Prepayment:	Defeasance or Yield Maintenance			
Recourse:	Typically none, except for standard carve outs			
Lender's Fee:	Typically none, except for an inspection fee			
Origination Fee:	Typically 1%			
Closing Costs:	Standard "Out of Pocket" Plus Appraisal, Environmental, Property Inspection Fees and Survey.			

Because of the stabilized 10 year Treasury bond during the last twenty four months, the life insurance companies, conduits and pension funds have narrowed their spreads in many instances in order to stay competitive and meet market demand. And most of the permanent lenders are willing to "Lock-in" the interest rate at the time of application (with a 1% to 2% refundable deposit) in order to mitigate interest rate risk for the borrower.

The prudent investor should work closely with his mortgage banker or broker in an effort to determine exactly which type of financing technique is best suited for each transaction.



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