Multi-Family Loan Update

October 1, 2010

Lender Update

As the third quarter ends we can look back at the year with some perspective. While I would not say things are going well they are not too bad either, at least for some of us and for all of us its better than at the beginning of the year. Someone recently told me the current market is a tale of two cities, but I see it more as the good, the bad and the ugly.

If you are a financially strong owner who has experience and you own or are buying a large (over $10 million) class A or B+ property in a major market it's pretty good. Freddie and Fannie are there to support you and they are actively competing with life companies for some deals. Rates you are being offered are better than they have ever been and leverage is not bad either. This also can be said for owners of smaller apartment properties in good parts of the top cities. Loans are available, rates are low and leverage is 75%-80%. You have options.

For borrowers in those same strong markets or with class A properties who are not financially strong things are bad, but survivable. You may not be able to get a loan or you may need to get a more conservative loan than you would like. However, your property probably has some value. Your existing lender is probably willing to work with you to restructure the deal if you can't find a new lender for the property. You also have the option of selling because there are buyers for your well located and well maintained property and pricing is not bad.

For everyone who is not in one of the categories mentioned above it's still ugly. Tertiary and secondary markets, weak submarkets, class B-, C or D properties and owners with limited financial resources (probably because it's all in the real estate) are still having problems getting loans. Your existing lender may work with you on a workout, but more because they don't have any options. If they do foreclose they can't find a buyer except at distressed prices. More likely they are trying to sell your note to someone who will either restructure it or is looking for the loan to own option. Owners of larger properties in these markets may have options but they are limited and owners of small properties are left with whatever the local bank will offer, assuming the local bank is still in business. We hear a lot about things coming back, but it's only for a select group of owners/properties. For the rest of the market there is still a long way to go.

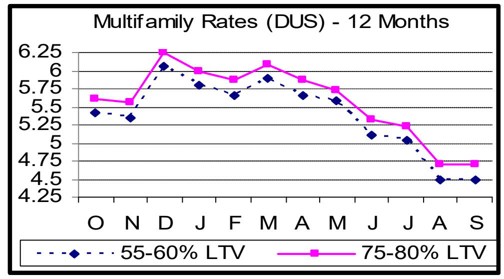
While I am preaching some gloom and doom there are some lights at the end of the tunnel. CMBS is looking a little more active than it was and in the end is needed to be strong for there to be a solution. Freddie and Fannie are getting slightly more aggressive in some markets. You are hearing about loans in the 70%, 75% and even 80% LTV range in some impacted markets that were previously only getting 65% loans, max. Some large small loan lenders are moving their LTV's from 60%-60% range up to 70% -75% and sometimes 80%. While this is only happening in some market/submarkets it is positive and while these are baby steps they are the beginning of a positive trend.

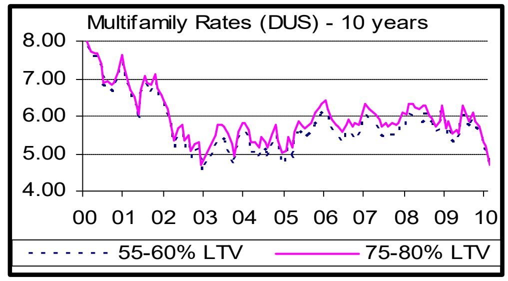
Rate Update

Looking at the last 12 month chart it looks like we have some stability in the last month. It's just a coincidence that the 10 year rate for last day of August and September both have the same rate, but there is some stability. For once in the last few months there were no wild swings in Treasury securities and agency spreads stayed flat. Banks I spoke with seem to be keeping rates steady, but the range in rates is wide with some lenders having aggressive rates and others not.

The real question is what does the future hold. While my predictions over the last year have not been good (I had thought rates would be higher by now) I am willing to go out on a limb. Rates will be steady through October and the election in early November. However, after that there will probably be some sort of swing. We will probably see a 25-50 Bps swing one way or the other depending on the outcome of the election and what new policies are adopted. Will we are more fiscally conservative, will there be growth or deflation, will protectionism increase and will relations with the Chinese and other bond buyers remain positive. It's both the reality and perception of these issues we need to watch.

Whatever my prediction or your belief you know that rates are low now. Pigs get fat and hogs get slaughtered so, if you can, take advantage of these rates now





Key Rate Indices

	Current	Last Month	Change
6-mo. Libor	0.46%	0.49%	-3 Bps
1- yr Libor	0.78%	0.84%	- 7 Bps
Prime	3.25%	3.25%	-
Fed Funds	0.25%	0.25%	-
1 year CMT	0.27%	0.26%	+1 Bps
5-Yr Treasury	1.27%	1.33%	- 6 Bps
10-Yr Treasury	2.51%	2.51%	-

Current Apartment Rates

	5-Year	10-Year
Freddie Mac	3.75%-4.75%	4.00%-4.75%
Fannie Mae	3.60%-4.25%	4.00%-5.25%
FHA/HUD	3.75% - 5.00%	
Life Co's	3.75%-4.75%	4.25%-6.00%
Banks	4.25%-6.25%	N/A

Recent Blog Post:

You Tube, the new place for market research - I usually don't take a look at you tube videos, but this one caught my eye. MPF research is providing a video

Financing for Broken Condos - A couple of owners recently asked me if I know anyone doing fractured condo lending. That was a big topic about a year ago and at that time the pickings were very