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NEW RULES ARE A SHOT IN THE ARM FOR SBA LENDING

Expect recent changes to the SBA loan program to generate record loan volumes nationwide, and **Fidelity Bank**, **Bank of the West**, **Ocean Capital** and **Webster Bank** are all revved up to join the party. The new standards allow around 98% of all businesses to be potentially eligible for SBA financing, which will provide critical resources to help small outfits continue to create jobs and drive economic recovery.

Anticipate the *Small Business Jobs Act* to drive new activity. The act instated new SBA rules including reducing fees for 504 loans, waiving fees for 7(a) until year's end, increasing loan limits from $2M to $5M for both programs, increasing the size standards to qualify as a small business, and giving green buildings and domestic manufacturers a higher $5.5M loan on SBA 504 projects. All together the funding created by the Jobs Act should allow for $14B in loans, a much-needed boost to help businesses get busy again. The general consensus is SBA programs have not kept pace with the price of commercial real estate over the years and this increased loan maximum allows companies that would not consider SBA financing before to take advantage of the available financing. The new fee waiver has brought a lot of borrowers off the sidelines and looking into their financing options. This also helps small business in a time when using credit cards and taking money out of their homes is not a practical option.

The SBA did $22B (54,833 loans) for fiscal 2010, which ended in September, and around 40% or $8.8B of that went to real estate. This was a 29% increase over 2009, when $17B (47,897 loans) went out, because of incentives and enhancements provided by the *Recovery Act* in February 2009. In May, weekly averages in terms of dollars were 90% higher than the few weeks prior the passing of the *Recovery Act*. Count on a spike in SBA lending in Q4 as some amendments run out at year's end, which should cause a mad rush by borrowers to get things done. One expiration is the SBA 90% loan guarantee that reverts back to 75% in January, which should lead to more aggressive lending in the next three months. BMC Capital President and CEO **Keith Van Arsdale** points out that some loans could go through where lenders were on the fence and right or wrong they will be more willing to take a risk since they only need to cover 10% if the loan falls through.

Many point to California and Arizona as the best places for SBA financing because of population and a better business environment. And with the recent maximum increase, more businesses will be able to participate since land/property is much more expensive in these markets. Also, bet on anything related to medical or specialty practices getting a lot of attention from SBA lenders as they have been close to recession proof. Couple this with more viable businesses that will need financing in 2011 and 2012, and the increase in SBA demand should lead to a domino effect in improving the economy. **Michael Stamler**, spokesman for the SBA, points out there is still a lot of work to do, and small business is still challenged in obtaining capital. As such, keep an eye on the November elections to have a huge effect in what happens next year for SBA financing. And President Obama might have to extend some of the stimulus programs until we are out of the economic situation. Watch out for additional programs such as a Dealer Floor Plan Pilot Extension to get in place early next year.

Look for Fidelity Bank to fund $100M in 2010, with approximately $80M originated so far. VP, Senior Account Manager **Anil James** expects a spike in volume over 2009 due to the higher loan limits and fee waivers. James anticipates a slight increase in 2011 volume but also points out that the overall market will need to improve in order for lenders to significantly increase funding volume. Also, the bank will remain conservative until small businesses can prove that they have recovered. Owner-occupied or owner-operated businesses are targeted. Fidelity's territories include Virginia, the Carolinas, Georgia, Louisiana, Kentucky and Texas.

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Look for Bank of the West to increase lending by 63% in 2010 from 2009, already originating $85M YTD. SBA National Sales Manager **Don Mercer** sees demand pick up compared to early this year and 2009. Territories include the 19 western states, and Mercer prefers to work with manufacturers, distributors and professionals such as doctors, dentists and vets. Actual implementation and the lender's appetite for a given loan amount will be determined by its credit group. Expect the increase in demand to continue into 2011. To support this, Bank of the West has added additional staff in sales and processing and works to make the application, underwriting and processing more efficient.

Ocean Capital looks for loan originations to reach between $30M and $60M this year, compared to $54M in 2009. After doing some prudent underwriting, the lender discovered that the lack of cash flow has crippled small business, and VP of Commercial Lending **Daniel Murphy** is finding new clients as other banks turn their backs on them. He also notices that small businesses are not planning to fail; they are failing to plan and going with any source of capital they can get that could hurt the business. Originally, Ocean Capital targeted cities nationwide, but Murphy discovered in the last 12 to 24 months that target is too difficult. So, in January it was changed to east of the Mississippi, north to south. He likes that a lot of money is going toward industrial and manufacturing businesses because it shows that the U.S. is going back to being producers. Do not count on Ocean Capital to work with hotels because they were overdeveloped. He also believes the banks need to get involved in SBA because sitting on the sidelines is only hurting borrowers.

Webster Bank sets a goal of $40M in SBA loans for fiscal 2010, and expectations are it will be near that with $28M already originated and a strong pipeline of accepted loans waiting to close soon. This is compared to $24M that went out in 2009. SVP and Director of Government Guaranteed Lending **Robert Polito Jr.** notes that demand is huge and Webster had strong summer closings, the best he has seen in 17 years at the bank. He believes these amendments now open up options to borrowers with larger needs, and another important change is what the SBA now considers a small business. Count on Webster to work with all types of professionals including manufacturers, wholesalers, restaurants and retail businesses. Webster stays within its brand footprint of Southern New England and New York. The lender also recently hired an SBA professional to help close loans,3 and Polito is very optimistic for 2011 and beyond.

LAND DEALS RECEIVE LITTLE LENDER ATTENTION

Expect land deals to struggle with debt options throughout the end of the year and well into 2011. Most transactions will be executed on an all-cash basis, as lenders are still very vigilant on the construction market in its entirety. Only a few financial institutions will flex their muscles in this niche in upcoming quarters, including hard money lenders, mortgage REITs and equity funds, while conventional banks opt for safer and more predictable territories such as refinancing and acquisitions of existing assets. However, word is **Wells Fargo** and **Bank of America** may be sniffing around for some opportunities. Overall, sluggish financing volumes for land will last until at least the end of 2011 as borrowers find the main issues facing these transactions are demonstrating to capital sources that there is sufficient return on their investment with reasonable risk and getting sellers to sell for market prices. The cost associated with these deals also tends to be very expensive because fundamentals are not strong enough to offset low DSCs and values. On the upside, investor demand for land will be humming.

The construction market is far from equilibrium, but the good news is a correction is in the works and despite dwindling return prospects (which was 15% to 25% about 18 months ago), there are plenty of opportunities for lenders that want to secure their piece of the construction pie. Fully or partially entitled projects will get more attention as they pose a lower risk. From a lender's perspective, apartments are first in the pecking order, considering the industry is projected to have a shortage of housing beginning 2012. This shortage and pending demand can be attributed to anemic construction pipelines over the past 12 to 24 months, and the growing renter pool that will largely be comprised of aging baby boomers and the 24- to 35-year-old population group. However, despite increased demand for financing, lenders remain guarded and there have been fewer transactions over the last six to 12 months across the board.

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STRAIGHT FROM THE MARKET
(Deals done within the past 90 days.)

Type of Loan	Property/ Location	Lender	Loan Amount	Rate	Fee	Term	Amortization	Loan to Cost/Value
Acquisition	Multifamily	Bank	$19.4M	5.25%	N/A	5 Years	30 Years	75%

Details: Aspen Riverpark Apartments, a 258-unit multi-housing complex in Newark, N.J., gets $19.4 M in debt and equity for the acquisition and capital improvements. Treetop Development was the borrower and got $14.48M, five-year fixed-rate loan with Investors Savings Bank and $4.94M in joint venture equity through Latus Partners. Aspen Riverpark Apartments was constructed in 1930 and is 94% occupied. It has 12 six-story buildings with five ground-floor retail spaces. Of the units, 100 are income restricted for seniors. The entire complex is subject to a Section 8 Housing Assistance Program contract.

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While debt options will be limited for several quarters to come, transaction volume should see a notable uptick in 2011, spurred by developers reloading their 2013 to 2014 delivery pipelines. Capitalized buyers realize now is an excellent time to buy land, assuming the numbers line up and sellers (banks still in most cases) agree to sell for market value. The goal is to buy parcels and get a jumpstart on time-consuming approvals and permits, because when the market improves, demand could quickly outstrip supply due to the time element to get to the approval stage and dirt moving. Discounted land is especially in favor and gives companies access to high barrier-to-entry markets that were out of their reach before the recession. Secondary markets experiencing population growth are also on the radar for many. Think locales outside MSAs such as Washington, D.C., and Atlanta.

Steve Relth, senior land advisor at Whittlesey Doyle, maintains demand is very strong for residential land, especially for finished lots versus undeveloped due to the downshift in values, and these are disappearing, particularly in areas like San Diego County. Today, buyers can pick up fully entitled and improved lots for less than what has already been spent on the entitlements and improvements. Additionally, there are less inherent threats as far as entitlement, development and market goes, as many of the unknowns are taken out of the equation. This is good news for developers that do not have to forecast what the market might be 12 to 24 months from now but can use today's market values to determine home sale pricing.

There will be plenty of demand for acquisitions of land parcels in the foreseeable future, however, don't count on a flurry of lenders vying for a stake, including **Builders Bank**. Local governments can often make it extremely difficult to get a project entitled and off the ground, and it can be a risky bet for land lenders standing by to collect mortgage payments. As such, Builders Bank long ago saw the risks associated with land financing, and opted for a less risky route of doing construction financing once the land is entitled. Loans range from $2M to $7M, 65% of cost/value, with a prime rate plus one with a floor of 7.5%. It targets smaller and mid-size borrowers across the country, however, its portfolio is dominant in Los Angeles and New York. Deals are typically apartments and condos, with some potential for retail and office. The latter two are more difficult to execute because of substantial lender prelease requirements of about 70%. Assistant Vice President **Jeremy Cramer** suspects the company will do about $150M across its entire lending platform next year.

THE END OF THE RECESSION: WHAT'S NEXT?

The recession may technically be over, but cynicism echoes throughout the marketplace. This is directly impacted by the slow rate of private-sector job growth, which hinders consumer spending and the capacity for sustainable economic growth. And while recovery is expected to be stronger next year and pick up in subsequent years, the general consensus is we're in a mini-bubble, suggesting another shoe will drop, possibly CRE. Others feel the U.S. is headed for a Japanese-style stagnation and could lose decades before full recovery is reached. And until then, bet on lenders and investors maintaining a vigilant stance, careful not to overextend on what appear to be opportunistic deals in today's discounted market.

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THE END OF THE RECESSION: WHAT'S NEXT? …

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Q1 was marked by a sense of optimism because the rate of recovery was stronger than projected. However, this optimism was short-lived when Q2 showed signs of deterioration again. In Q3, the market continued to find its footing, and with no clear answer in sight, SVP, Chief Economist for Grubb & Ellis Company **Robert Bach** suspects Q4 will be marked by a time of acceptance and patience. From the lending perspective, players will keep origination pipelines liquid, slowly ramping up originations and will focus on more economic resilient assets types, including multifamily anything healthcare related. **Amalgamated Bank** and **NYS Teachers' Retirement Systems** are already at work.

Employment is the main economic driver, but it is difficult to bet on where unemployment will stand in 12 months, let alone five years from now. Having said that, expect a number of investors and lenders taking a "wait and see" attitude, which will further prolong an economic recovery. On a positive note, the end of the recession did yield a notable uptick in transactional volume resulting from historically low interest rates. With so much capital on the sidelines, prolific sectors like multifamily are seeing buyers make the arbitrage between a 6.5% cap rate and 4.5% agency financing at 75%/80% LTV. The risk inherent in this thinking concerns exit caps, and in order to model a relatively high yield, investors have to assume a low cap rate at exit. However, some execs feel it is foolish to buy a property in a potentially deflationary environment. The other wrinkle that will hinder recovery is new construction. And even though construction came to a halt when the recession first hit, the fact is once things pickup and new inventory is delivered to the market, older assets will either face downward rent pressure or will be battling upwind to increase rent, and this could lead to additional unsuspected market distress.

Taking a look at specific segments, office, retail and apartments will all maintain current trends over the next 12 to 24 months. Office will continue to operate at lower levels until more jobs are added to the pot. Apartments benefit from the housing meltdown as an alternative housing option, while retail finds its a little footing. However, the bottom line is real estate is not worth more than three years ago and will take several years before regaining most of the lost value. Yet it is true that operations have increased slightly, suggesting a tangible bottom may in fact have been reached, exec **Jack Ehrman** with Post Investment Group expects another blow to the economy before things actually start to increase. He attributes this to the fact that improvement up to this point is due consumer confidence and the availability of capital. And in order to move forward and values to reach equilibrium, the economy has to see consumer spending go up, not confidence.

All eyes are also on the November elections. There is plenty of speculation that a Republican victory would make businesses more confident and have a salutary effect on spending because it would, presumably, give them some cover from tax and regulatory increases, but skepticism looms with the realization that monetary policies are like supertankers that take time to change direction. So any government intervention and changes will take quite some time before they are felt.

Amalgamated Bank feels good about the state of the economy and has about $4.5B in assets, of which commercial real estate accounts for nearly $1.3B. It looks for robust growth ahead and **Gardner Semet**, EVP Director of Commercial Real Estate Finance, notes the bank is on target to do about $150M in originations in Q4, and he hopes to step it up to $180M per quarter thereafter. Bet on Amalgamated to expand between New York and Washington, D.C. The lender is very confident in its existing markets. Its loans are typically under $15M and the bank prefers to do the lower-risk profile of loans under $7M. Semet will do deals up to 75% but looks to lower the leverage to about 55%. Overall, he sees a great deal of demand for loan options, especially as interest rates are low, and he aims to increase lending velocities across all of its markets, which also include Las Vegas, New Jersey and Los Angeles County. All property types are up for grabs, however, Amalgamated is a little "full" on office space, which comprises about 36% of its current portfolio. Ideally, Semet would like to keep it at 30%. Low to moderate income multifamily and mixed-use is especially favored at this stage.

NYS Teachers' Retirement Systems plans to keep business churning as much as possible in the recovery and maintains its focus on first mortgage loans for high-quality institutional commercial assets in primary U.S. markets. It typically looks for loans of $35M or more with LTVs in the 50% to 65% range. It typically seeks to originate $500M and $1B of loans each year, and its preference is to work with co-lending partners for deals in excess of $200M.

DEALMAKER DATABANK™

Institution/Address	Phone/Fax/Contact Name	Lending Activity
A10 Capital 950 W. Bannock St. Boise, ID 83702	(208) 577-5010 Jerry Dunn jdunn@a10capital.com	Lender actively looking to deploy debt to office, retail, industrial and apartments. Will do both fixed and floating rate loans in the $1M to $10M range.
Amalgamated Bank 275 Seventh Ave. New York, NY 10001	(212) 255-6200 Gardner Semet gardnersemet@amalgamatedbank.com	Lender with a presence in New York, Washington, D.C., Las Vegas and Los Angeles. It is the only union-owned bank in the nation.
Bank of the West 180 Montgomery St. San Francisco, CA 94104	(800) 488-2265 Don Mercer dmercer@bankofthewest.com	Bank that has generated $85M in SBA loans year to date and targets the 19 western states.
BMC Capital 3100 Monticello Ave. Suite 400 Dallas, TX 75205	(214) 526-7178 E Fax: (888) 298-1029 Keith Van Arsdale kvanarsdale@bmccapital.com	Lender that will do loans in the $5M to $10M or under range and will work with the four major food groups with a emphasis on single-tenant retail and apartment properties.
Builders Bank 1999 Avenue of the Stars Suite 2340 Los Angeles, CA 90067	(310) 556-7732 Fax: (310) 556-5677 Jeremy Cramer jcramer@buildersbank.com	Offers construction and acquisition loans for income properties. In the process of working on a fixed-rate product for apartments.
Fidelity Bank P.O. Box 105075 Atlanta, GA 30348	(919) 264-8988 Anil James anil.james@lionbank.com	Lender that will originate $100M in SBA financing this year on any owner-occupied or owner-operated small business real estate transaction.
Grubb & Ellis Company 500 W. Monroe St. Suite 2900 Chicago, IL 60661	(312) 698-6700 Robert Bach bob.bach@grubb-ellis.com	Commercial real estate services and investment company sponsoring programs related to the investment of real estate investment vehicles, REITs, mutual funds and other funds.
FundCore Finance Group One World Financial Center 30th Floor New York, NY 10281	(212) 909-5860 Scott Stein sstein@fundcorefinance.com	Commercial real estate lending for hospitality, industrial, office, multifamily, retail and self storage, nationwide.
Ocean Capital 2 Altieri Way Warwick, RI 02886	(877) 337-3757 Daniel Murphy dmurphy@oceancapitalonline.com	Specializes in providing commercial loans for owner-occupied small business. Focuses on both SBA and USDA loans.
PPM Finance Inc. 225 W. Wacker Drive Suite 1200 Chicago, IL 60606	(312) 634-2555 Fax: (312) 634-0903 David L. Henderson dave.henderson@ppmamerica.com	Jackson National Life Insurance Co.'s real estate investment affiliate, lending on the four food groups, with a big focus on apartments this year.
U.S. Small Business Administration 409 Third St. S.W. Seventh Floor Washington, DC 20416	(202) 205-6533 Fax: (202) 205-6928 Michael Stamler	Aids, councils, assists and protects the interest of small business concerns. Sets standards for lenders wanting to loan to small business.
Webster Bank 436 Slater Road New Britain, CT 06053	(800) 612-5433 Robert F. Polito Jr. rpolito@websterbank.com	Lender that has originated $28M in SBA loans this year with a focus on its brand footprint in New England. Named Connecticut's number one SBA lender.

LOW RATES SLOWDOWN FLOATER REQUESTS

Historically low rates spur more borrowers to turn toward fixed-rate assets right now, but count on increased demand for floating rate on the over $20M deals and those looking to flip a property. Floaters are still originated on highly structured million dollar transactions in big markets such as New York City and Los Angeles. **Bank of America** recently did $80M in adjustable-rate first mortgage financing for a historic office and retail building in the Big Apple.

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Typically a floater would be more popular with a borrower that is a short-term owner and wants flexibility. If the borrower plans a property turnaround and sell in a few years with the lowest possible rate, then floating could be the better option. Also, there is no prepayment penalty on a floater. But there is the risk of interest rates going up just as quickly as they dropped, and owners that plan to hold onto a property for 10-plus years want those locked-in rates. Most economists are not predicting any increase in rates for the next six to nine months, so expect a continued push for fixed rates loans by long-term owners.

Banks are the big players for floating rate loans and the normal spreads range from 250 bps to 450 bps over the index, usually LIBOR. Expect lenders to cap floaters at a floor of 5.5% to 6%, and count on them to continue to offer a significant amount of floating rate loans, especially on construction financing and bridge loans. Life company (LC) spreads are usually 2.5% to 4.5% over LIBOR with a floor that could be 0% to 2%. Fannie and Freddie have float options for multifamily, but with deals below 4% at 10-year fixed many borrowers are not even considering floating. SBA floating rate loans are also competitive with some as low as 4.5%.

LC **PPM America**, the real estate investment affiliate of **Jackson National Life Insurance Co.**, counts on 30% of it $1.1B in loan originations to be floating rate. **Dave Henderson**, senior managing director, notes there was better demand earlier this year but the decline in treasury rates has caused fixed to go down. But, there are still some inquiries for floating rates for those that want prepayment flexibility. Many borrowers want to flip and sell their properties in a few years because of the better exit strategy. Henderson believes there might be a bit less of these next year since rates are not expected to go up.

Around 50% of **FundCore Finance Group**'s loans going out this year will be floaters. Managing Director **Scott Stein** sees demand from sponsors whose strategy is to recapitalize or sell within two to four years. Given the lender's shorter-term loan options, it does get a lot of floating requests on all major property types. Terms are usually a three-year tenure with typically two, one-year extension options, and spreads vary by deal. Stein anticipates a continued request for these loans next year, especially from sponsors that anticipate value appreciation of their property over the next two- to four-year time horizon.

A10 Capital sees equal demand for floating and fixed rates since its loans tend to be shorter term in nature, usually two to four years. CEO **Jerry Dunn** expects an equal mix of both going forward. Overall, he is experiencing a significant increase in loan requests because there are more unstabilized properties starting to transact in the size range that fits his senior lending focus of $1M to $10M. And A10 is one of the few lenders that will provide non-recourse loans on these deals.

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