

**WREB  
 BANKS &  
 COMMERCIAL  
 LENDING  
 SURVEY**



**Wayne Brandt** is managing director at Newport Beach, California-based Buchanan Street Partners.



**Shelley Magoffin** is president & CEO at Q10|Dwyer-Curlett & Co. in Los Angeles.



**Rance Gregory** is CEO of NBS Real Estate Capital in Portland, Oregon.

1) How do you see the commercial lending/financial market in '08?

I do not see things settling down in 2008 or 2009. The banking and housing crisis likely will continue to drag on until the end of 2009 with a slow recovery beginning in 2010. The banks have not capitulated, therefore, liquidation of their risk positions cannot begin in earnest until they have recognized their losses. Once liquidation occurs, then we will have reached a bottom. Any economic recovery will have to lead through housing. Both banking and housing will take at least 2 years to heal.

There will be minimal capital for conventional debt in 2008 and possibly extending into 2009. Debt will be limited to portfolio lenders, primarily banks and life insurance companies with banks reducing their lending through the rest of 2008. I do not expect conditions to improve in 2008. Financial institutions need to clean up their balance sheets, and investor confidence needs to return before the market can significantly improve.

Given a generalized contraction of available credit, reduced job formation, over-leveraged consumers and weakening bank balance sheets, I can only assume conditions will get much worse before they get better. It is very hard to imagine a bottoming in 2008. We should see a bottom in 2009 or 2010 but we anticipate a slow recovery from that point. We've enjoyed a 15-year expansionary run in commercial real estate. It is only reasonable to assume that a correction will take some time.

2) Is there a sweet spot where you feel comfortable lending in today's environment? What criteria must deals hold today to garner your attention?

We are comfortable originating mezzanine loans up to 85 percent on high-quality real estate with strong sponsorship. We are actively pursuing mezzanine opportunities on most income-producing properties using a current pay/accrual structure.

Yes. Stabilized properties, preferably multi-tenant, at less than 65 percent loan-to-value ratios with financially strong sponsorship.

Since mid-2007, we have mainly focused on underwriting new loans (mezzanine, preferred equity and bridge) and acquiring loans. As a lender, we seek to provide capital to quality sponsors with defined business plans and properties that are capable of servicing debt on in-place income. As a loan buyer, we target performing loans that are being sold by banks and investment banks due to capital markets conditions and not underlying deficiencies in the real estate.

3) Do you find in this market that you are focusing more locally, regionally or nationally?

We are focusing locally where we understand the property markets best, which happens to be the West Coast.

We are focusing on local and regional markets.

As a lender, we have a bit of a broader platform but tend to focus on these same western markets (Colorado and all parts west). Certainly our lending footprint has expanded a bit geographically as we've acquired larger diversified loan portfolios.

4) What is the biggest concern or demand you're hearing now from commercial developer and investor clients?

The biggest concern from commercial developers is that they cannot find non-recourse, floating-rate first mortgage debt up to 75 percent. All of our clients can access the equity and mezzanine market, but are challenged to find conventional financing. This is the most problematic part of the capital stack today.

Some developers are finding it difficult to generate enough loan dollars in a bridge or permanent loan to pay off their construction loans. Lack of capital is also a concern as some properties are not finance-able in today's market.

Investor and developer concerns relate almost entirely to availability of debt financing... That said, the much bigger concern seems to be take-out financing. Western markets are characterized by an enormous tally of construction loans coming due in the next 6 to 12 months. With conduit lenders out of the market, we simply do not have a sufficient supply of permanent first mortgage debt to refinance all these maturing construction loans.

5) What property type should stand out the most during the rest of 2008?

Industrial in strong distribution markets with global reach. Retail and hotels are stressed due to consumer spending and business travel, respectively. Office will deteriorate due to the higher unemployment numbers.

Apartments, multi-tenant industrial and high-quality warehouse/distribution.

Like many investors, we currently rank the product types as follows: 1) multifamily; 2) industrial; 3) office; 4) retail. Multifamily product will benefit from demographic forces including Echo Boomers graduating from high school and college and a relative lack of new construction in recent years.