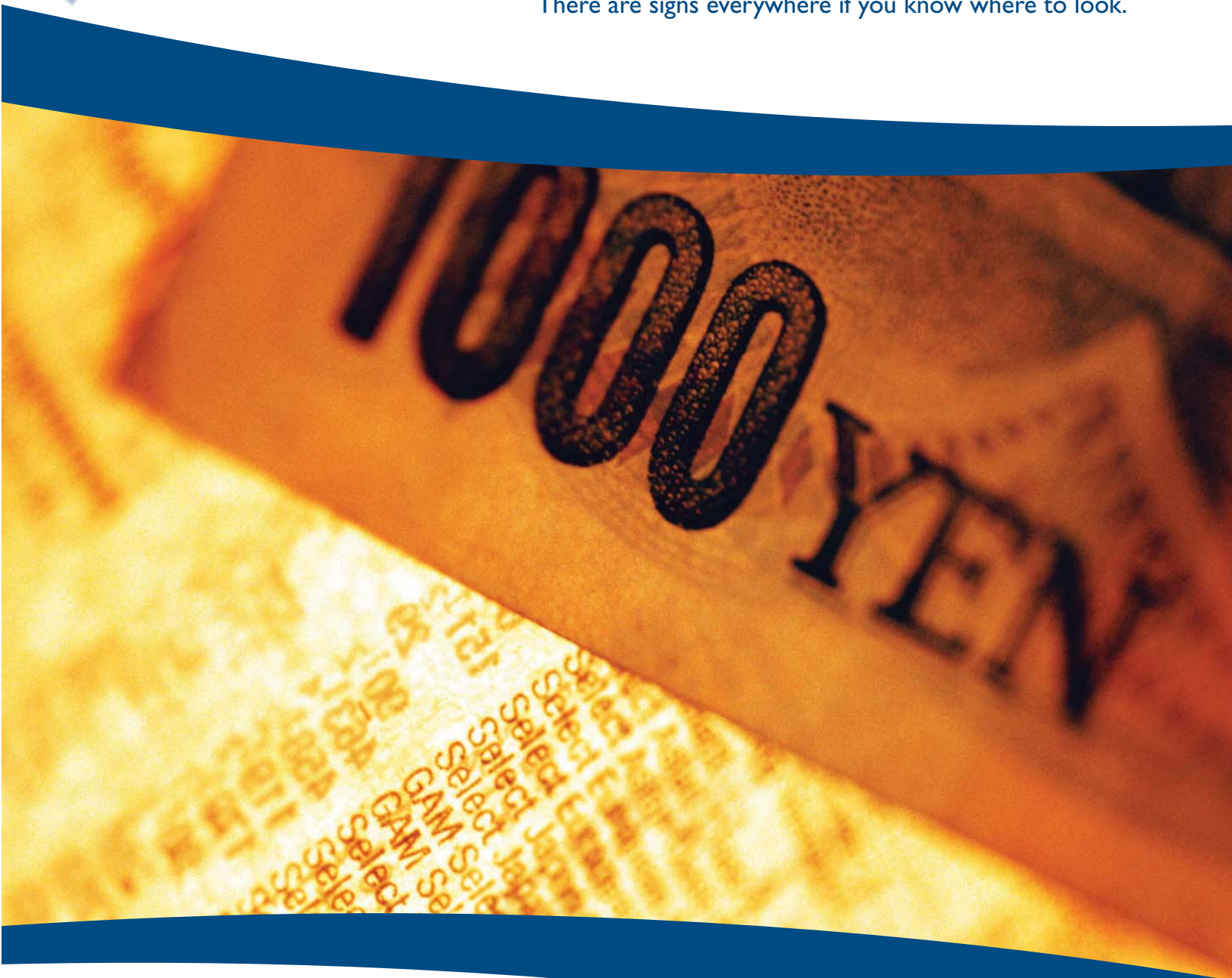




**2020**  
VISION

## Forecasting the future

Let us point you in the right direction -  
There are signs everywhere if you know where to look.



## COHEN FINANCIAL | CAPITAL MARKETS

Micro-Area-Partnerships (MAPS)

**GREGORY K. MISKOVSKY**  
Managing Director  
Capital Markets  
Cohen Financial  
866.315.6507

**DON C. TROSSMAN**  
Managing Director  
Capital Markets  
Cohen Financial  
312.803.5724

**BRANDON HARRINGTON**  
Vice President  
Capital Markets  
Cohen Financial  
866.315.6506



*Our Knowledge is your Property*



## FAST FACTS

### ▶ WHO WE ARE

Cohen Financial is a national real estate capital services firm offering debt and equity placement, investment brokerage, loan administration and advisory services. The company is recognized as one of the nation's largest originators of commercial real estate financing with offices nationwide.

### ▶ DEBT AND EQUITY

Underwriting has become more conservative and requires sponsors to have more equity in their investments. Cohen Financial can facilitate financing solutions that include a permanent loan, bridge loan, mezzanine debt and/or an equity partner.

### ▶ LENDING OPTIONS

With today's changed lending environment, now, more than ever, it is imperative that you partner with an intermediary that is knowledgeable and who has strong relationships with active/key capital providers—opportunity funds, life companies, conduits and banks (national, regional and local).

### ▶ NEW REALITY OF DEBT UNDERWRITING

- Back to basics
- 75% LTV Maximum
- 25-35% Equity Needed
- 1.20 – 1.30 Debt Coverage Ratio
- No Interest Only (generally)
- 30-year Amortization
- No proforma

Construction and bridge lending for well-capitalized properties is still available.

*A strong and knowledgeable financial intermediary can play a critical role in providing a capital markets solution.*

## CAPITAL MARKETS PERSPECTIVE

### FEAR—NOT FUNDAMENTALS—SLOWING DOWN CMBS PIPELINE

#### CHANGES IN CMBS LENDING

How do dealers effectively price bonds when there are no bonds trading in the primary or secondary sectors of the market? One might argue that researching historical default patterns among previously issued bonds would be the place to start. Analysis of those historical trends could lead to a reasonable prediction of future loss levels allowing the bonds to be rated and priced based on that risk. Unfortunately this is not the case in the currently bumpy world of Commercial Mortgage-Backed Securities (CMBS). With the CMBS market recently non-existent, dealers have looked to the CMBX, a synthetic index for trading CMBS-linked default swaps, for pricing.

CMBX was created to allow investors to buy protection against potential defaults within different rating classes and vintages of bonds. However, the creation of this index also allowed investors to take a macro level position on how commercial mortgages will perform. If you believe commercial mortgages will have high default rates you would buy protection. On the other hand, if you believe default rates will be low, you would sell protection. The former case is essentially shorting commercial mortgages, while the latter is taking a long position.

Unfortunately for the CMBS market, an in vogue investment strategy is to take a negative view and short CMBX. This shorting of CMBS implies the negative opinion of higher default rates, which increases the demand for protection on what is considered a less valuable CMBS market. Higher demand for protection translates into higher pricing for new loan transactions. The increased perceived risk conversely drives down the price on the current inventory of loans making it nearly impossible for lenders to sell that inventory. Lenders now would rather continue to clip the coupons on these loans than take the cash losses of selling them off at deep discounts to securitizations.

Hedge funds appear to be the main players taking this short position. During the last year, hedge funds were able to take the same position on sub-prime mortgages and make sizable profits as default rates on these loans climbed to around 35 percent. So there is certainly an issue of sub-prime contagion affecting the CMBS world. However, commercial mortgages are very different from residential mortgages mainly in that commercial mortgages are typically paid by rental income paid by tenants, while residential mortgages are paid by personal income.

Fundamentals are still strong in commercial real estate. Historical default rates for securitized commercial loans are nowhere near the 25 percent to 35 percent level that current spreads in CMBS imply. The actual default rate is currently less than 1 percent and the record high was 18 percent in the early 1990s. Few would argue that default rates will not increase in the future due to the lax underwriting and heavy competition of 2006 and the first half of 2007, but will securitized mortgages start defaulting at rates 25 to 30 times greater than right now? This does not seem very realistic.

## CAPITAL SOURCES FOR DEBT AND EQUITY FINANCINGS

With the origination of new CMBS loans all but halted, where can one look for available capital? Life insurance companies, the other main source for permanent debt, are still originating long-term fixed-rate loans. In addition, local, regional, and national banks are stepping up to take market share and lend with their balance sheets. Your best option may be to accept a shorter-term bank loan with generous pre-payment penalties and wait for the CMBS market to bring back liquidity to the permanent debt market. And for apartment owners, do not forget about Fannie Mae, Freddie Mac and the other government agencies that have numerous programs available for multi-family financing needs.

At Cohen Financial, we are not deterred and do have the relationships that can get attention to your financing needs. Today, transactions require a thorough brick and mortar discussion between parties about risks and negotiated risk mitigants, which are then completely explained as part of a recommendation as to why a capital source should participate in the transaction. A strong and knowledgeable financial intermediary can play a critical role in providing a capital markets solution.



► **GREGORY K. MISKOVSKY**  
 Managing Director  
 Capital Markets  
 Cohen Financial  
 866.315.6507  
 GMiskovsky@cohenfinancial.com



► **DON C. TROSSMAN**  
 Managing Director  
 Capital Markets  
 Cohen Financial  
 312.803.5724  
 DTrossman@cohenfinancial.com



► **BRANDON HARRINGTON**  
 Vice President  
 Capital Markets  
 Cohen Financial  
 866.315.6506  
 BHarrington@cohenfinancial.com

### ► 10-YEAR COMMERCIAL MORTGAGE RATES



### ► RECENT INDEX RATES

| 2008  | Prime Rate | 30-Day LIBOR | 90-Day LIBOR | 1-Year LIBOR | 10-Year Treasury Securities | 10-Year Swap Spreads |
|-------|------------|--------------|--------------|--------------|-----------------------------|----------------------|
| Jan 4 | 7.25       | 4.54000      | 4.64600      | 4.04100      | 3.90                        | 0.6420               |
| 11    | 7.25       | 4.31900      | 4.37600      | 3.81200      | 3.89                        | 0.6050               |
| 18    | 7.25       | 3.95875      | 3.92625      | 3.48000      | 3.64                        | 0.6060               |
| 25    | 6.50       | 3.28500      | 3.24375      | 2.86250      | 3.64                        | 0.6390               |
| Feb 1 | 6.00       | 3.14375      | 3.11188      | 2.84938      | 3.64                        | 0.6170               |
| 8     | 6.00       | 3.16500      | 3.09625      | 2.73000      | 3.73                        | 0.6320               |
| 15    | 6.00       | 3.11625      | 3.06500      | 2.74875      | 3.83                        | 0.7470               |
| 22    | 6.00       | 3.13500      | 3.09250      | 2.95550      | 3.78                        | 0.7020               |
| 29    | 6.00       | 3.11938      | 3.07563      | 2.77500      | 3.72                        | 0.7210               |
| Mar 7 | 6.00       | 3.05813      | 3.99000      | 2.62563      | 3.63                        | 0.8430               |

These rates are researched and posted daily at [www.cohenfinancial.com](http://www.cohenfinancial.com)—under Industry Resources, click on “Credit Market Report”.

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2390 E. Camelback Rd, Suite 100  
Phoenix, Arizona 85016  
Phone: 602.222.5000  
[www.colliers.com/phoenix](http://www.colliers.com/phoenix)

14080 N. Northsight Blvd.  
Scottsdale, Arizona 85260  
Phone: 480.596.9000  
[www.colliers.com/scottsdale](http://www.colliers.com/scottsdale)



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