

WHAT WILL 2007 BRING IN WAY OF COMMERCIAL LENDING?

A large amount of loan capital will stay in the apartment market this year. Lenders will have to get creative to secure loans and give borrowers more leverage. Demographics continue to be favorable for apartments with projections of new household formations pegged to increase. A steady flow of relatively cheap money is expected as most observers won't look for much movement by the Fed until the second half of the year. Problems could arise for the apartment market as single-family market plummets. With a glut of houses on the market and single-family prices falling, renters who might qualify for loans will be tempted to make the leap into single-family.

Self-storage gets more popular with lenders due to it having the lowest default rate among commercial property types. The top five publicly traded self-storage companies represent roughly 10% of the estimated 41,000 to 46,000 facilities nationwide. About two facilities are being built each day. Lenders are getting ready with perm rates in the low 1% range over the 10-year Treasury. New construction should stay moderate, but rehabs of older properties in growing markets could increase later in the year as investors try to eek out greater returns during cap rate compression. The Mortgage Bankers Association noted that when self-storage premiums triple, the DSC ratio drops below 1.2

More and more lenders are becoming open to special purpose properties. Parking lots are one special purpose niche that has attracted a slew of lenders. Busy metropolitan areas such as Midtown Manhattan provides a healthy income stream with fees going up \$500 or more a month.