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Phoenix Business Journal

10.10.08

Financial crisis problematic for both new, existing lenders

Money available, but commercial developers scrambling for it

BY JAN BUCHHOLZ
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Today's commercial real estate lending landscape is a bit like negotiating obstacles such as distortion mirrors, clattering stairways and trapdoors in an amusement park funhouse. There's no telling what surprise is just around the corner, or if an exit sign will lead to a safer place.

So it is with the search for financing.

"Nobody knows what the rules are right now," said Dennis Desmond, senior vice president of commercial brokerage firm Transwestern in Phoenix. "The money isn't all dried up, but clearly there's a lot less."

The path to available financing is not clearly marked. Underwriting standards have become more strict, but not by any standard. The amount of equity required by borrowers has increased dramatically, but not by a set ratio. Interest rates vary widely, depending on the source.


Desmond

While many banks have stopped lending, called loans or pulled credit lines, others are upbeat about their status on the real estate lending plane.

"Actually, our real estate loans have grown consistently. Commercial real estate loans are one-third of our portfolio," said Candace Wiest, West Valley National Bank's president and CEO.

West Valley National has found success lending to doctors, attorneys and other professionals who want to own their work spaces, such

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New banks being pressured to provide business loans

BY CHRIS CASACCHIA
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Startup banks in Arizona are experiencing lengthy delays, added costs, and a push from federal regulators to provide more business loans and fewer for commercial real estate.

"The regulatory environment has changed, and the feds have raised the bar for de novo banks," said Michael Morano, president and CEO of Scottsdale Business Bank, which is scheduled to open in the fourth quarter.

"A combination of depressed real estate values, plummeting stock market prices and

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LOANS: Money is available, but lenders say it comes down to relationships

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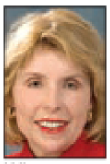
as office condos.

Typically, West Valley National will loan 75 percent of the property's appraised value. Average-size deals are about $2.5 million, Wiest said. Given that many lenders today are requiring up to 50 percent borrower equity to close a deal, West Valley's parameters appear fairly liberal.

At Alliance Bank of Arizona, the welcome mat is out — but with a caveat.

"We're getting calls from customers whose banks failed and they want to normalize their banking relationship. They ask us whether we'll consider refinancing them," said Ed Zito, executive vice president of Alliance. "If they're a current customer, we're favorably inclined to make it work. If they're on our prospective list, we'd also be inclined to make it work."


Wiest

Last week, Alliance Bank's parent company, Western Alliance Bancorp., raised $50 million through a private placement of 4.3 million shares.

Unlike many banks that are preoccupied with survival, Zito said, "We're open for business. We're liquid and strong."

There are other banks making deals happen for Valley companies.

"We've been able to get funding from community banks even from out-of-state," said Bill Hahn, managing director of Sperry Van Ness, a commercial brokerage firm.

Last week, a client closed on a 20-unit multifamily property in Scottsdale with financing provided by a community bank in North Dakota.

"We also did a deal with a community bank here for bridge funding on a fix-up property, and that one had quite a bit of leverage, too," Hahn said.

In both cases, the tipping points were personal relationships.

Stephen Traverse, shareholder and real estate expert with Shughart Thomson & Kilroy PC, spends much of his time shopping for money on behalf of his clients.

"UMB Bank doesn't require hard collateral. I sent a client to them, and they got approved for a $1.2 million line of credit," Traverse said. "I've got another client who is being considered for something similar."

He expects Bank of America, Wells Fargo and other banking giants to begin lending in significant measure given the actions in recent days by the Federal Reserve Bank to increase liquidity in larger financial institutions.

Fannie Mae and Freddie Mac, two quasi-government entities that were saved in recent weeks by extraordinary government intervention, also are a reliable source of funding in the multifamily real estate sector.


Churney

"Fannie Mae and Freddie Mac are actively doing apartment lines," said Brandon Harrington, vice president of Cohen Financial. "That's a good business line for them that has a low amount of defaults."

Geoffrey Harris and Neal Churney, who run Mark One Capital, said they are finding money to refinance properties.

> 'If you're in the middle of the fairway ... if the property is strong and the price is right, then there's money.'
>
> **Geoffrey Harris**
> Mark One Capital

"Interest rates are still low," Churney said.

"If you're in the middle of the fairway... if the property is strong and the price is right, then there's money," Harris said.

Some industry observers say U.S. Small Business Administration loans are readily available for purchasing owner-occupied real estate, but Bob McGee, president of Southwest Business Financing Corp., an SBA lender, said it's not that simple.

Local banks that normally partner with SBFC aren't willing to do so now, he said.

"We can't find a bank for the deals because their deposits have shrunk dramatically," McGee said. "It's very quiet, and I'm very worried."

At the other end of the spectrum, business is strong for David Crantz, president and CEO of Landmarc Capital & Investment Co., a Scottsdale private equity firm. Dozens of developers have sought money as banks fail to fully fund construction loans.

"They're lined up at the door, and some of them are very strong projects," Crantz said.

What's good news for Crantz, however, is not so upbeat for applicants who can't make the cut. There are still plenty of folks who want money, but can't find it. Larger deals are particularly hard to pull together, according to some of the more prominent players in large investment transactions.

Chris Toci, executive director of Cushman & Wakefield of Arizona Inc., and Bruce Francis, vice chairman of CB Richard Ellis Capital Markets, both believe Phoenix is in trouble for the foreseeable future, with few large deals taking place.

"When people say there is liquidity sitting on the sidelines, I'm not so sure. Phoenix is not on the 'A' list for a lot of lenders," Toci said.

"There may be some liquidity in this market, but it's minimal," Francis said. "Most institutions are trying to service existing premier clients, and some banks are telling clients to find new sources. They're deciding whether those clients will make for meaningful relationships in the future."

The federal government's extraordinary $700 billion bailout plan and actions by the Federal Reserve Bank haven't unleashed much confidence or enthusiasm, either.

"I'm glad to see our government act, although it's unfortunate that they had to act so hastily," Desmond said. "I pray to God they know what they're doing."