

Marabella Commercial Finance, Inc.

Newsletter

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The Current Financing Market For Net Lease Properties

With less available financing, buyers of Net Lease transactions are having to put down more money to satisfy direct lender's requirements. At this time the average loan to value for a standard Bank / Life Company loan underwriting is between 50% to 70%. Interest rates are across the board depending on credit quality of the tenant, loan term, amortization, amount of money down, and other factors. Rates are hovering in a range between 5.00% to 7.25% depending on the previously mentioned factors. Non-Recourse loans are scarce above 50% loan to value. Walgreens, CVS, Home Depot, Costco, Wal-Mart and other large Net Leased Properties that are Investment Grade are receiving superior pricing and loan terms at this point in the cycle. Smaller transactions such as Fast Food, Auto Stores, and Franchisee transactions are more difficult to finance.

We had an opportunity to interview some of the agents / developers / investors and others that specialize in Net Lease Properties to see what they have found when seeking permanent and construction financing for their Net Lease transactions at this time. The following are some of the responses they gave us;

Robert Miller of Millco Investments indicates that there is much more Red Tape at this time when applying for permanent and construction financing for a Net Lease transaction. Direct lender's are scrutinizing Robert's transactions more thoroughly and are requiring more underwriting and due diligence for each loan transaction. Several of his transactions have been re-priced on both loan terms and rate. Currently his firm is developing six Dollar General Stores and they received a loan to value and loan to cost of approximately 75% for the construction loan of the Dollar General Properties. Robert indicated that direct lenders are seeking relationships more than transactional business. As Robert indicates direct lenders are seeking relationships with their borrowers more than the last cycle from 1995 to 2005, when transactional business was the norm. Direct Lenders want to deal with Borrowers where the property is located. With Net Lease properties this is proving to be difficult since a Borrower may be located in California and own a property in Texas since it is NNN and the Landlord has no Landlord Obligations if it is a true NNN Lease. Direct lenders want to see that they

have a Borrower that has real estate experience and is an operator not a passive investor. They would like to see that the Borrower has a Net Worth equal to or greater than the loan amount and liquid assets that are 10% to 20% of the loan amount. Thus, for a loan of \$5,000,000 a Borrower would need a Net Worth of \$5,000,000 or greater with liquidity of \$500,000 to \$1,000,000. For construction loans banks are in some cases asking for depository relationships. For a \$5,000,000 loan they may ask for \$500,000 to \$1,000,000 in deposits. Banks have found that with additional deposits the chance of default goes down exponentially. Banks as a condition of getting a construction loan are also requiring developers open up operating checking accounts with their prospective construction Lenders. Most developers are not excited to have to put additional money in a bank account or to open up operating checking accounts for every Net Lease property they are developing. Most developers feel this equates to more money down in a transaction.

Brandon Duff who is with the firm Marcus & Millichap Chicago, IL states that he is typically seeing his lender's requiring 25% to 30% down depending on borrower / tenant credit quality. He states that the standard loan structure he is seeing at this time is a 25 year amortization that is full recourse and is fixed for 10 years in a range of 6.35% to 6.50%.

Brandon says that it is taking



longer to get loans funded. Most recently Brandon utilized Marabella Commercial Finance, to arrange financing for a Tractor Supply transaction that he was involved with in the 1st quarter of 2009. Brandon indicates that he is still working on several Walgreen and CVS transactions as well. He states that CTL financing for Walgreens has become very popular in the last six months due to the lack of high leverage loans.

Seeking financing today is like finding gold you just need to work hard at it and utilize outside loan brokerages to assist you such as Marabella Commercial Finance.

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If you have a Net Lease transaction that requires financing please contact us at (760) 479-0800. For current estimated rates for Net Lease Properties, Letters of Reference and other information visit our website at <http://www.marabellafinance.com>. Our email is nnn@marabellafinance.com