

# Commercial Real Estate Lending Trends

ServisFirst Bank

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# Topics

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- How Did We Get Here?
- Market Trends
- CRE Loan Types
- Regulatory Environment
- Challenges for 2011 and Beyond
- How to Get Banks to Lend to You



# SELF-DESTRUCTIVE BANK BEHAVIOR



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# Self Destructive Bank Behaviors

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- Little to No Equity
- Unsubstantiated Appraised Values
- Long or No Amortizations
- Poor Risk Analysis (ex: University Drive)



# How Did We Get Here?

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- ① “Losses associated with CRE, particularly residential construction and land development, were the dominant reason for the high number of bank failures since the beginning of 2008 and further CRE – related bank failures are expected over the next few years.”

Patrick Parkinson

Board of Governors – Federal Reserve

February 4, 2011



# The Facts

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- “Of the more than 300 commercial banks and thrifts that have failed since the beginning of 2008, more than three-fourths had CRE concentrations at year-end 2007”

Patrick Parkinson

Board of Governors – Federal Reserve

February 4, 2011



# Loan Originations

CRE Loan Origination Index (2001 quarterly avg. = 100)

Change Q309 vs. Q310

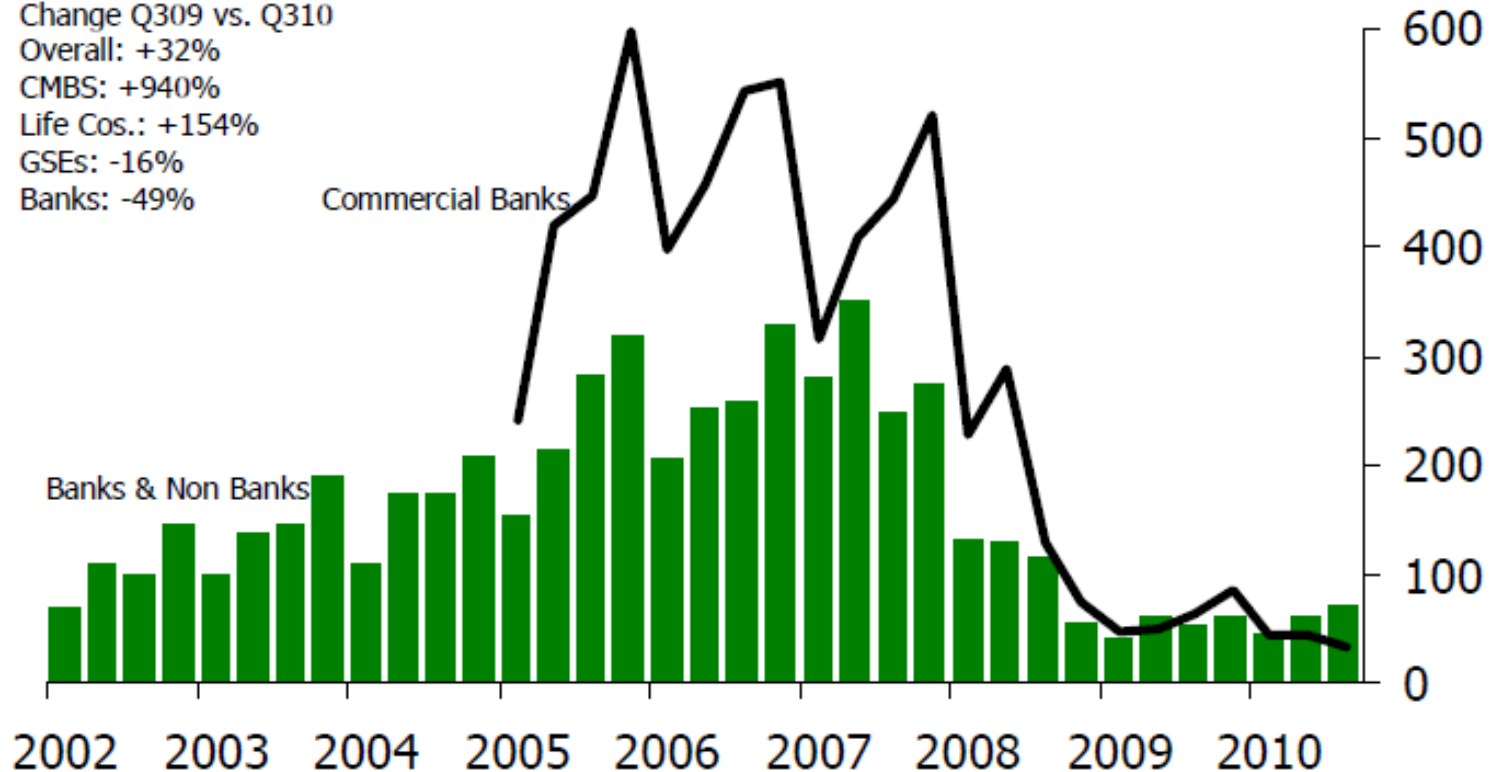
Overall: +32%

CMBS: +940%

Life Cos.: +154%

GSEs: -16%

Banks: -49%



Source: Mortgage Bankers Association Commercial/Multifamily Originations Index

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# Market Trends

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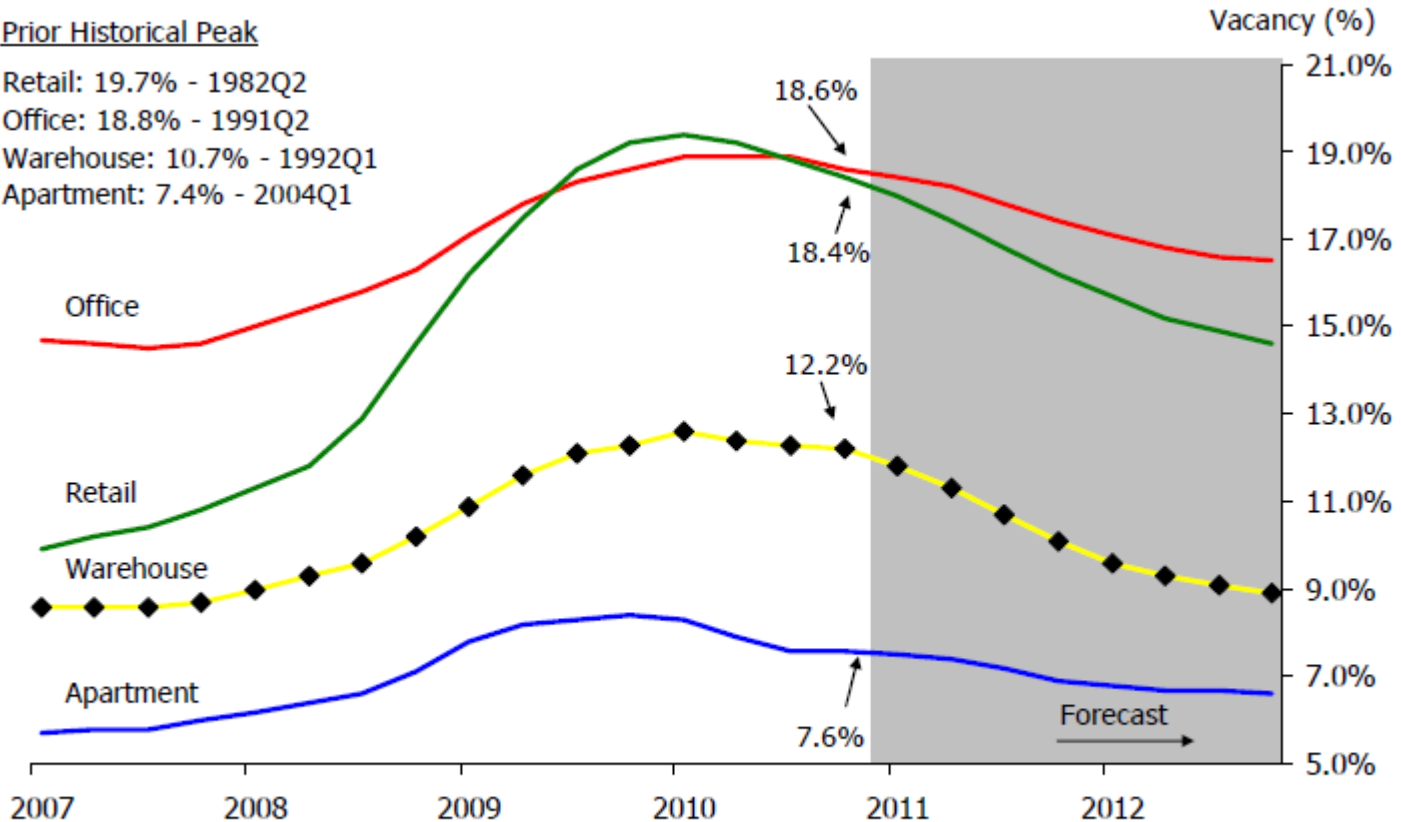
- ◉ Vacancy Rates Stabilizing
- ◉ Softening NOI
- ◉ CRE Sales Increase
- ◉ CRE Price Decline



# National Vacancy Rates

## Prior Historical Peak

Retail: 19.7% - 1982Q2  
Office: 18.8% - 1991Q2  
Warehouse: 10.7% - 1992Q1  
Apartment: 7.4% - 2004Q1



Source: Property & Portfolio Research; 2010Q4 forecast

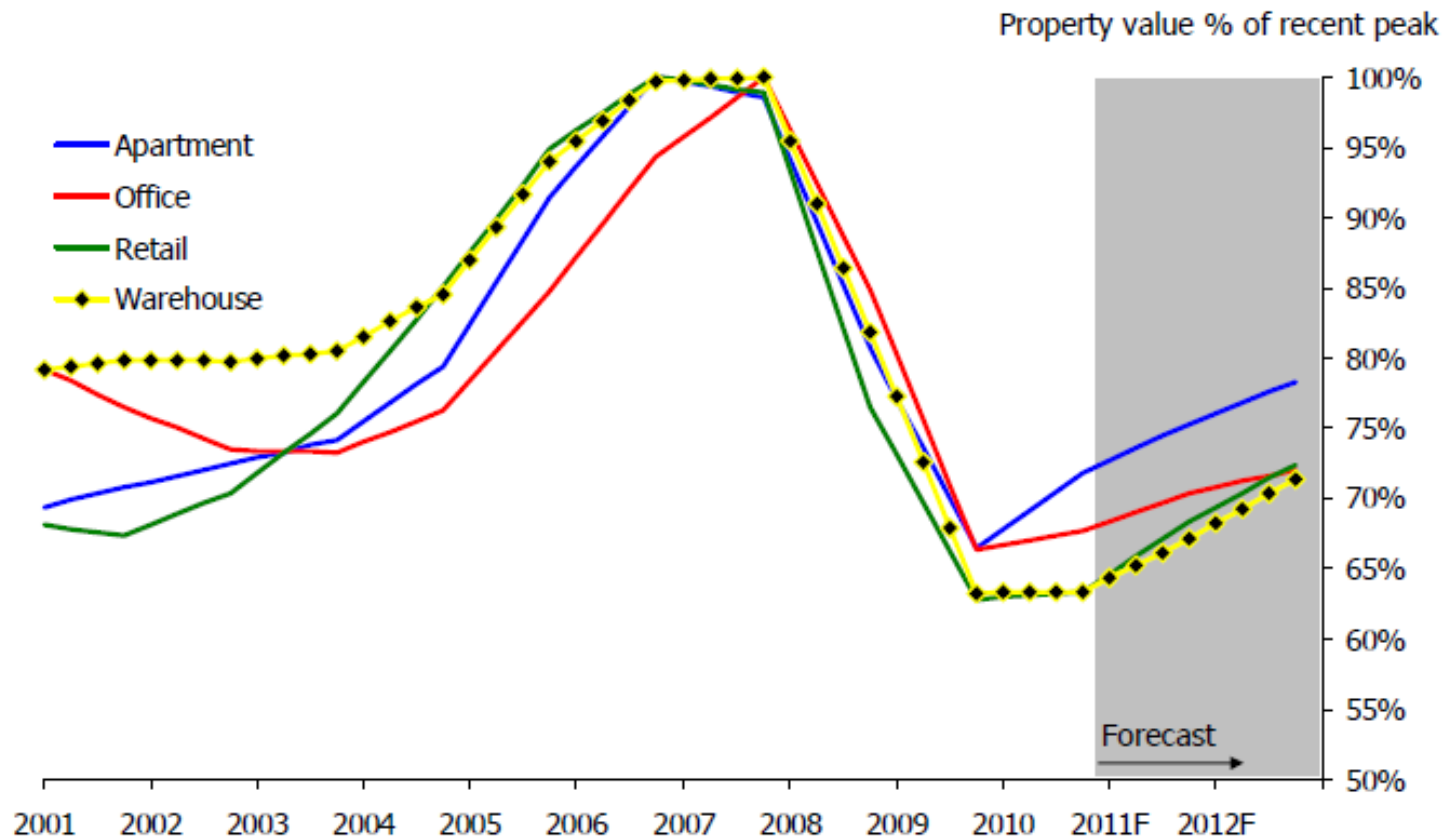
# Market Trends

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- ◉ Vacancy Rates Stabilizing
- ◉ Softening NOI
- ◉ CRE Sales Increase
- ◉ CRE Price Decline



# Price Declines



Source: Property & Portfolio Research; 2010Q4 forecast

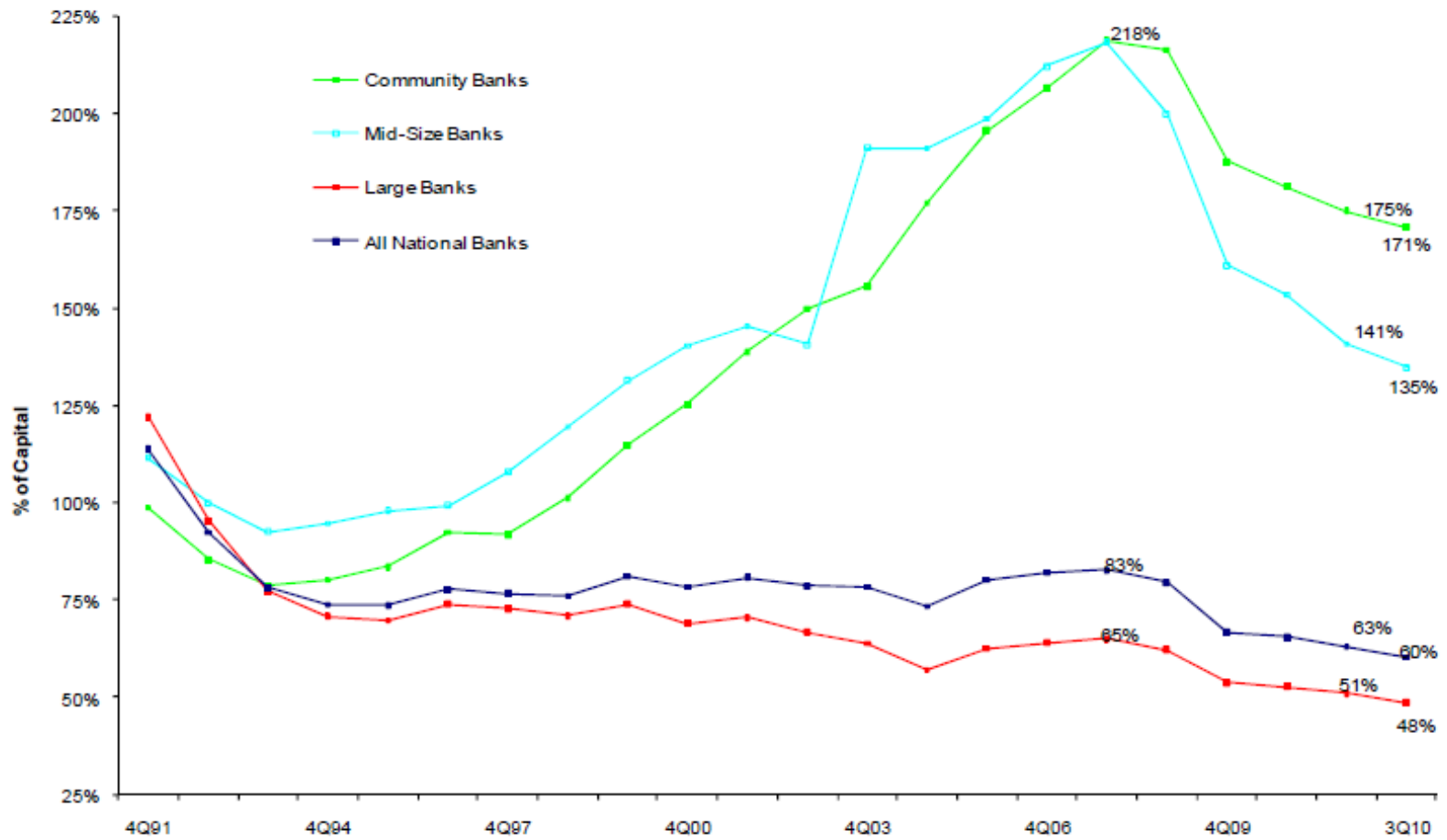
# CRE Loan Types

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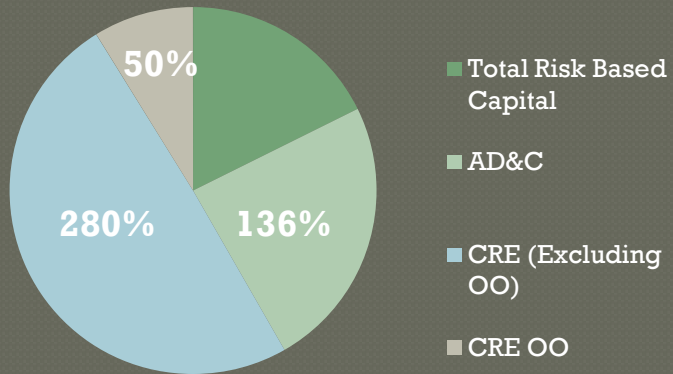
- ◉ What are “Buckets”?
- ◉ What makes up CRE?
- ◉ What makes up Acquisition, Development & Construction (AD&C)?
- ◉ What constitutes a CRE Concentration?
- ◉ What makes “Owner Occupied” Different?



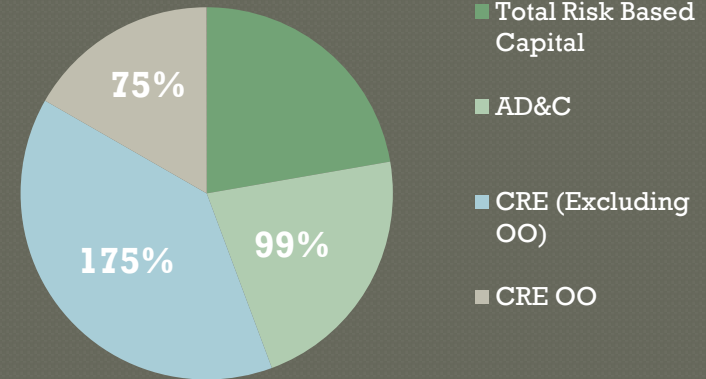
# CRE Concentrations



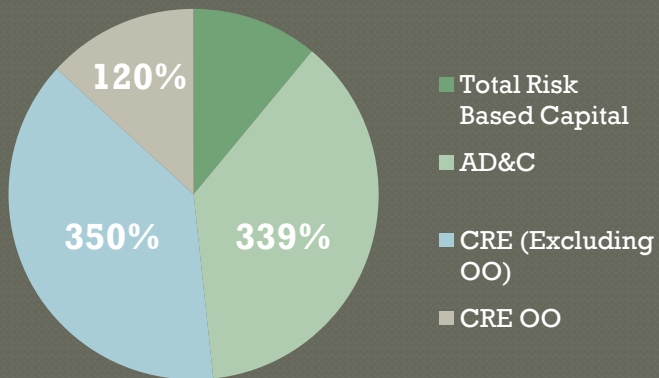
## Bank A



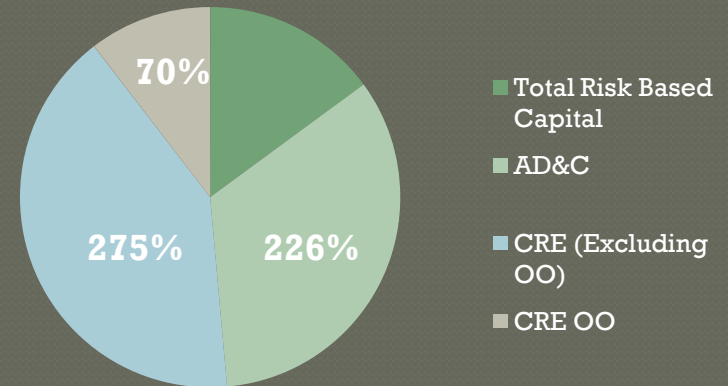
## Bank B



## Bank C



## Bank D





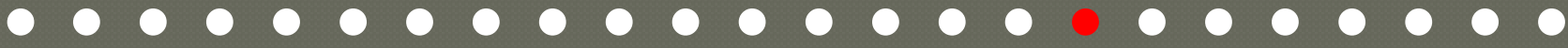
PIECE OF CAKE!

**How bank  
Stress tests  
were done...**

**TAX-PAYER**

**Bank**

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# Regulatory Environment

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- Emphasis in regulatory exams by the OCC.
  - CRE Concentrations
  - Risk Exposures – i.e. Sensitivity Analysis
  - Problem Loan Workouts



**Sensitivity Analysis (for loan below only)**

<b>Loan Amount</b>	\$685,565	<b>Months until Balloon or Teaser Rate Ends</b>					
<b>Amortization Mo.</b>	240	<b>Loan/Sq.ft.</b>		\$16,721.10			
<b>Interest Rates</b>							
<b>Vacancy Rates</b>	<b>5.000%</b>	<b>5.500%</b>	<b>6.000%</b>	<b>6.500%</b>	<b>7.000%</b>	<b>7.500%</b>	<b>8.000%</b>
0.0%	1.44	1.38	1.33	1.27	1.23	1.18	1.14
5.0%	1.36	1.30	1.25	1.20	1.16	1.11	1.07
10.0%	1.28	1.22	1.17	1.13	1.09	1.04	1.01
15.0%	1.19	1.14	1.10	1.06	1.02	0.98	0.94
20.0%	1.11	1.06	1.02	0.98	0.94	0.91	0.88



# Challenges for 2011 and Beyond

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Interest rates are currently low



Rental rates are soft

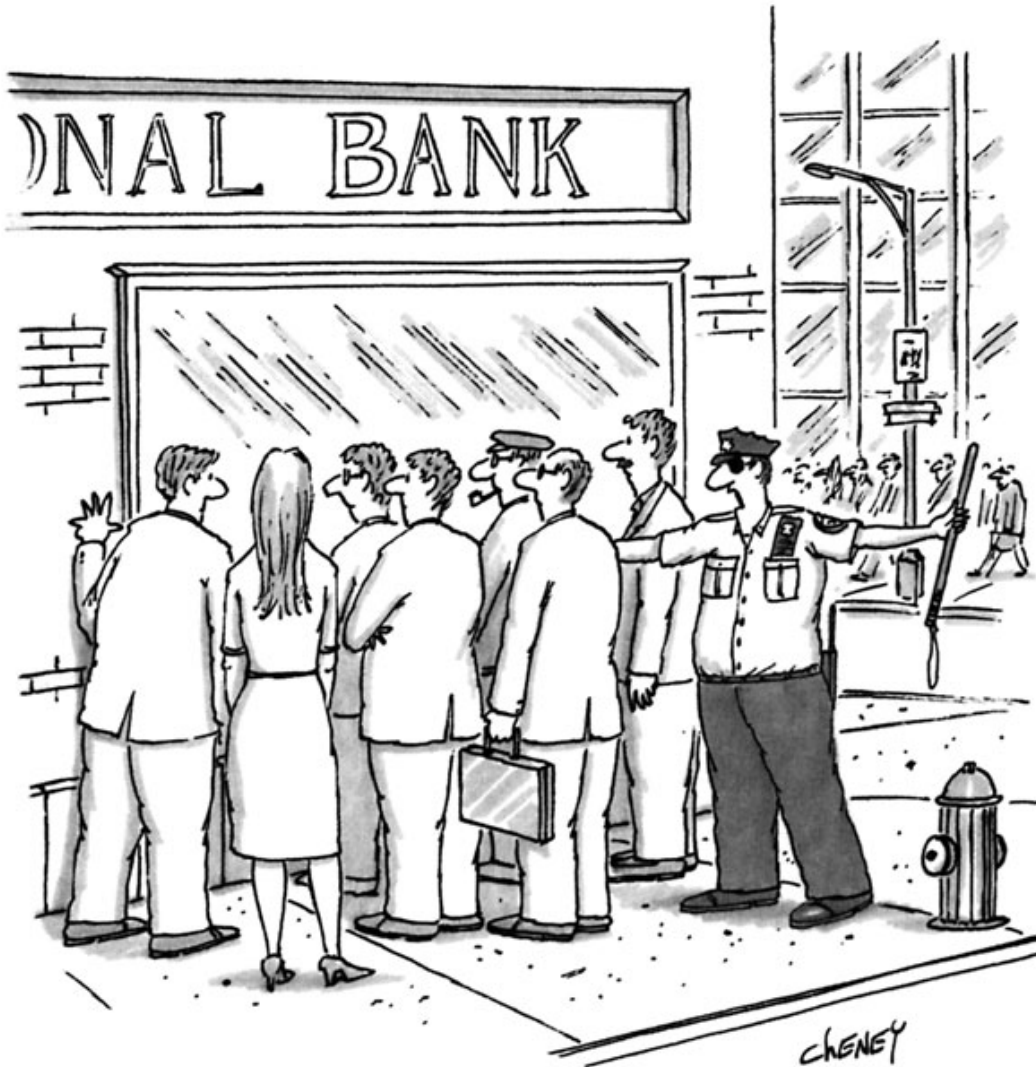


Loans are maturing in the future



Interest rates will go up





*"O.K., folks, let's move along. I'm sure you've all seen  
someone qualify for a loan before."*

# How To Get Banks to Lend to You

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- Owner Occupied
- Equity
- Cash Flow
- Equity
- Availability of Credit vs. Price
- Equity
- Creative Negotiating (Give to Get)



# Questions?

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