

BOND STREET CAPITAL NEWS

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PREDICTIONS

All's Quiet on the Sales Front

The long predicted slow down on sales has finally hit on the commercial front for most property types. Lenders and sales brokers are reporting a very slow market with the exception of owner/users and TICS. The difference between the ask and bid has widened as higher interest rates severely impact cash flows and sellers have yet to lower their prices. Sellers keep hoping for the "5 Cap" days of last year and buyers are waiting for the sellers to get real. Few deals are getting done. **Prediction: I predict that the first properties to go will be land deals where seller/developers can't finance the project and look to cut their losses or banks start liquidating foreclosed properties. Income properties will follow suit when buyers and sellers gain confidence that interest rates have stabilized and that values can be predicted.**

They Come and They Go

It seems that we go through cycles where new lenders enter the market with supposedly a new way to play the game. About four years ago we saw the first group of small balance start commercial divisions grow out of large, residential mortgage bankers. Remember New Century, Impac, and Pinnacle? New Century and Pinnacle were successful residential shops that initially thought they could tap their residential brokers for commercial deals. Pinnacle and New Century were among the first to go. CBA, tied to some of these residential shops behind the scenes has also closed up shop (at least for now). Impac, by far the most successful and professional of the bunch, has also closed but not because they failed. Bill and Rick eschewed the residential broker market because they had a loyal customer base of commercial mortgage brokers. They are strong commercial guys who built a very successful business only to be done in by the problems of the parent company. *All of those companies are gone now in part because the thinly capitalized*

Turning 55: Part 2

First, thanks to the many folks that sent birthday greetings. I really appreciate it. However, my wife has demanded that I stop whining about my new body aches, the fact that I can't read anything smaller than a stop sign without glasses and that sleeping the night through is just a distant memory. She has reminded me more than once that the alternative to being 55 is not very attractive. So, I promise to eat better, exercise more and worry less. Those are my goals for year number 56!

- Joe Forman

Post Script on the Motel Deal: Our borrower from last week had a change of heart and closed the loan. I certainly feel he made the right decision. He is a very nice guy who is trying to make the right decisions for his business and his family. Every day I am reminded that our lives can change in the blink of an eye. Whether it's a problem in the industry (say a terrorist attack) or a personal problem, the more things we can put to rest, the better off we are. He now doesn't have to worry

model of the mortgage banker relying on lines of credit to close deals and then sell into securitizations has been decimated. **Prediction #1:** We have seen the end of the big time undercapitalized mortgage companies that rely on lines of credit to fund loans. Lines of credit can disappear in an instant and otherwise healthy companies can fail over-night. Successful companies will be connected to institutional, deep pocket parents to keep them in business when times get tough. **Prediction: #2** Bill and Rick, the Impac boys, will be back in business soon with a new, deeper platform. You can't keep the pros down.

Turning the Corner

The Capital Markets (conduit business) are starting to show signs of life. Samantha Rowan, Managing Editor of [Real Estate Finance & Investment](#) reported this week that spreads on commercial mortgage backed securities have tightened sharply indicating renewed confidence in the market. A recent deal sold at tighter spreads than what was predicted and that the Fed Reserve cut of two weeks ago has brought overall spreads in about 10 basis points. We have a long way to go before the conduit market really heats up but it appears the corner has been turned. **Prediction#1:** We will see a slowly improving conduit market through the rest of this year but volumes will be very, very low. **Prediction # 2:** We will see "normal" market conditions by March. "Normal" however, will bring multi-families priced at the 135 to 150 range and commercial at 150 to 165 over the ten year Treasury. This will put spreads about 50 basis points under the banks and small balance conduits; the standard pricing differential before the conduits started eating their young for business during the last few years.

Interest Rates	
Index	Current Rates
Prime	7.75%
2 Year T	4.095%
5 Year T	4.344%
10 yr. T	4.633%
30 yr. T	4.850%
1 Mo. Libor	5.12%
3 Mo. Libor	5.25%

about financing his property for a long time. That is a very good thing.

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