April 11, 2008

Clients and Colleagues,

Recession appears to be upon us, and with it comes the plethora of daily negative economic news that has a tendency to increase collective fear, and possibly contribute to a self-fulfilling slowdown in economic activity.

So, to counter that trend, I've been searching for positive economic tidbits. Here's what I found:

- Baltimore Sun today reports that the CEOs of Lehman Brothers, Goldman Sachs and Morgan Stanley believe the worst of the credit crunch is over, and that credit markets have started to ease.
- Treasury yields have remained relatively stable over the past 3 months, with the 10 year Treasury yielding between 3.40% and 3.70%, which is well below the 4.73% rate 1 year ago
- LIBOR yields, like Prime, have steadily dropped, with 30 day LIBOR at 2.72% today versus 4.23% 3 months ago, and 5.32% 1 year ago.
- The most recent CMBS pool sold on Wall Street had the shorter duration AAA classes oversubscribed. This is news – CMBS has been suffering from a dearth of demand. And the spread to swap rates on existing 10 year CMBS AAA rated bonds is now about 2.15%, down from 3.0% one month ago. Could this be the beginnings of greed overcoming fear among CMBS investors?
- Industrial production in the last month rose .3% following a .7% drop in February (OK, it's miniscule, but I'll take it!)
- Industrial capacity utilization in the last month rose to 80.5%, slightly higher than expectations. This statistic measures the percentage of actual output against potential output from installed equipment. Higher percentages indicate stronger demand. Inflation picks up when capacity utilization rises somewhere between 82% and 85%
- In a presentation on buying foreclosed properties by BethJo Zeitzer of ROI Properties at AZCREW yesterday, she stated that metro Phoenix may be at or near bottom for affordable homes priced below $250,000 – in her words, "homes priced below $250,000 are selling like hotcakes"
- Tesco, a British grocer who is a recent entrant to the metro Phoenix grocery market, reported a 12% jump in annual profits, and plans to open 150 more Fresh & Easy stores in the US this year. This welcome bit of news is a good antidote to altogether too many recent retailer bankruptcies.
- Arizona unemployment dropped from 4.3% to 4.0% in February, well below the U.S. rate of 4.8%

In commercial mortgage news, I am pleased to report:

- Our lender Advantus has committed an industrial property loan, low leverage, on a non-recourse basis, with a rate in the mid 5% range. Advantus is actively lending *without interest rate floors!*

- Among our 10 life company correspondents, only 1 is now out of the market. Expect leverage of 65% LTV maximum, with rates between 5.5% and 6.25%. We lend for Advantus, Aegon, AIG, Allstate, Assurant, Guardian, ING, John Hancock, RiverSource (formerly known as American Express), Southern Farm Bureau and Teacher's Insurance & Annuity Association
- Among our numerous banking relationships, higher leverage is available, often with recourse, and many are very active with attractive terms
- Our Fannie Mae and FHA lender, ARCS was recently acquired by PNC, allowing it to continue as a leading Fannie DUS lender, while also providing FHA, Freddie Mac, bridge and mezzanine financing, and conduit (when that sector revives). Current rates range from 5.58% to 6.32% for a 10 year fixed rate loan ranging from 55% LTV to 80% LTV.

We are looking for business. If you or a colleague is in need of commercial financing, please contact one of our producers, who are:

- Me, 602-748-1501
- George O'Connell, 602-748-1502
- Betsy Ganz, 602-748-1508
- Tom Ryan, 602-748-1506
- Michael Doyle, 602-748-1509.

Feel free to contact any of us for updates on current credit conditions, or to underwrite a potential loan. We're here to help.

Best regards,
Cindy Hammond, CMB
President
Churchill Commercial Capital, Inc.