

**SPECIAL SURVEY ON AD&C FINANCING
MULTIFAMILY BUILDERS
(Based on 33 responses from Multifamily Builders)**

RESPONDENT PROFILE

- ❖ The Acquisition, Development and Construction (A,D&C) financing survey is based on 309 responses covering 178 single family builders, 33 multifamily builders and 68 land developers and 26 “others” (classified by their most important line of business).
- ❖ Twenty percent of the multifamily builders had 2007 revenue of less than \$1 million, 37 percent had revenue of \$1 million to \$5 million, 13 percent had revenue of \$5 million to \$10 million and 29 percent had revenue of \$10 million or more. Multifamily builders responding to the survey had median revenue of \$7.6 million during 2007 and expect revenue of \$4.5 million during 2008.

PRIMARY SOURCES OF CREDIT FOR MULTIFAMILY BUILDERS

- ❖ About one-third (39%) of the multifamily respondents sought credit for land acquisition during June-August 2008. The main source of credit for land acquisition among multifamily respondents was commercial banks (80 percent) followed by thrift institutions (20%).
- ❖ Thirty six percent of multifamily respondents sought credit for land development during June-August 2008. The main source of credit for land development among multifamily respondents was commercial banks (90%) followed by thrift institutions (10%).
- ❖ About one-fifth (28%) of multifamily respondents sought credit for single-family construction during June-August 2008. The main source of credit for single family construction among multifamily respondents was commercial banks (86%) followed by thrift institutions (14%).
- ❖ About 48 percent of the multifamily respondents sought credit for multifamily condo construction during June-August 2008. The main source of credit for multifamily condo construction was commercial banks (86%) followed by thrift institutions and mortgage companies, at 7 percent each.
- ❖ About 48 percent of the multifamily respondents sought credit for multifamily rental construction during June-August 2008. The main source of credit for multifamily rental construction was commercial banks (71%) followed by bonds (14%).

RATING OF AVAILABILITY OF NEW CREDIT DURING 2008 FOR MULTIFAMILY BUILDERS

- ❖ Availability of new credit for land acquisition and land development was reported to be worse during June-August 2008, compared to the second quarter of 2008, by 100 percent and 90 percent respectively, of multifamily builders responding to the survey. None of the multifamily builders reported credit availability to be about the same for land acquisition and 10 percent did so for land development. None of the multifamily respondents reported credit

availability to be better, for either land acquisition or land development during June-August 2008 compared to 2nd quarter of 2008.

- ❖ Availability of new credit for single-family construction was reported to be worse during June-August 2008, compared to the second quarter of 2008, by 57 percent of multifamily builders responding to the survey. Twenty-nine percent said credit availability was about the same and fourteen percent said availability was better during June-August 2008 compared to 2nd quarter of 2008.
- ❖ Availability of new credit for multifamily condo construction was reported to be worse by 79 percent of the multifamily respondents, about the same by 14 percent, and better by 7 percent during June-August 2008 compared to 2nd quarter of 2008.
- ❖ Availability of new credit for multifamily rental construction was reported to be worse by 79 percent of the multifamily respondents, about the same by 14 percent, and worse by 7 percent during June-August 2008 compared to 2nd quarter of 2008.

Among multifamily respondents who said that availability of new loans for land acquisition, or land development, or single-family construction, or multifamily condo construction, or multifamily rental construction was “worse” during the June 2008 – August 2008 period compared to the 2nd quarter of 2008, the nature of the change was reported as follows:

- 81 percent reported that “lenders are reducing amount willing to lend”,
- 81 percent reported that “lenders are lowering the allowable LTV (or loan to cost) ratio”,
- 77 percent reported that “lenders are not making new loans”,
- 58 percent reported that “lenders are requiring personal guarantees or collateral not related to the project”,
- 42 percent reported that “lenders are increasing documentation requirements”,
- 38 percent reported that “lenders are requiring out-of-pocket payment of interest or borrower funding of interest reserve”,
- 38 percent reported that “lenders are increasing the interest rates”,
- 35 percent reported that “lenders are refusing to make ‘relationship’ loans”,
- 35 percent reported that “lenders are increasing pre-sale/pre-lease requirements”,
- 46 percent reported that “lenders are increasing the spread of interest rate over index”,
- 15 percent reported that “lenders are increasing points in loan”,
- 12 percent reported that “lenders are increasing other fees”,

In response to the question “Are you putting projects on hold, until the financing climate gets better?” the following responses were received from multifamily builders.

- 80 percent of the respondents reported putting “land acquisition” projects on hold,
- 86 percent of the respondents reported putting “land development” projects on hold,
- 60 percent of the respondents reported putting “single-family construction” projects on hold,
- 73 percent of the respondents reported putting “multifamily condo construction” projects on hold,
- 50 percent of the respondents reported putting “multifamily rental construction” projects on hold,

REPAYMENT/PROBLEMS/ADJUSTMENTS TO OUTSTANDING LOANS

In response to the question, “Are you having problems repaying any of your outstanding loans”, 14 percent respondents said “yes” on land acquisition loans, 26 percent on land development loans, 19 percent on single-family construction loans, 42 percent on multifamily condo construction loans, and none on multifamily rental construction loans.

Multifamily builders who are having problems repaying any of the outstanding loans have reported the following steps to resolve the situation:

- 62 percent reported “use company/personal resources to repay”,
- 54 percent reported “seek a workout with current lender”,
- 38 percent reported “seek another lender to take over the loan”,
- 31 percent reported “allow current lender to foreclose”

Among respondents who reported either seeking a workout with their current lender or seeking a new lender to take over the loan, 60 percent reported a successful resolution.

In response to the question, “Is your lender tightening the terms or conditions on outstanding loans prior to maturity”, 20 percent of the respondents said “yes” on outstanding land acquisition loans, 35 percent on land development loans, 24 percent on single-family construction loans, 45 percent on multifamily condo construction loans, and 25 percent on multifamily rental construction loans.

Among multifamily respondents who indicated that lenders are tightening the terms or conditions on outstanding loans prior to maturity, the ways in which they are tightening was reported as follows:

- About half (50%) reported that lenders are “demanding additional assets as collateral” during June-August 2008, compared to 36 percent during the 2nd quarter of 2008
- 57 percent reported the lenders are “requiring partial pay down based on reappraisal” during June-August 2008, compared to 27 percent during the 2nd quarter of 2008
- 57 percent reported that lenders are “refusing to allow additional draws” during June-August 2008, compared to 36 percent during the 2nd quarter of 2008
- 29 percent reported that lenders are “terminating lender-funded interest reserve and requiring out-of-pocket interest payment” during June-August 2008, compared to 45 percent during the 2nd quarter of 2008
- 21 percent reported that lenders are “calling the loans” during June-August 2008, compared to 27 percent during the 2nd quarter of 2008

REASONS LENDERS HAVE GIVEN FOR RESTRICTING THE AVAILABILITY OF NEW LOANS OR FOR TIGHTENING THE TERMS AND CONDITIONS ON OUTSTANDING LOANS PRIOR TO MATURITY

Multifamily builders responding to the survey reported that their lenders have given them the following reasons for restricting new loans or for tightening the terms of outstanding loans:

For Restricting Availability of New Loans

- 63 percent reported because “Regulators are forcing lenders to do it” during June-August 2008, compared to 57percent during the 2nd quarter of 2008
- 42percent reported because “Lender’s Board of Directors is demanding it” during June-August 2008, compared to 47percent during the 2nd quarter of 2008
- 38 percent reported because of “Regulatory or accounting rules” during June-August 2008, compared to 27 percent during the 2nd quarter of 2008
- 33 percent reported because of an “Internal Decision” during June-August 2008, compared to 27 percent during the 2nd quarter of 2008
- 38 percent reported because “Lender is concerned about loan performance” during June-August 2008, compared to 37 percent during the 2nd quarter of 2008
- 21 percent reported because “Property is located in declining market” during June-August 2008, compared to 27 percent during the 2nd quarter of 2008
- 8 percent reported “No reason given” during June-August 2008, compared to 10 percent during the 2nd quarter of 2008

For Tightening the Terms and Conditions on Outstanding New Loans

- 50 percent reported because “Regulators are forcing lenders to do it” during June-August 2008, compared to 40 percent during the 2nd quarter of 2008
- 29 percent reported because “Lender’s Board of Directors is demanding it” during June-August 2008, compared to 43 percent during the 2nd quarter of 2008
- 33 percent reported because “Lender is concerned about loan performance” during June-August 2008, compared to 37 percent during the 2nd quarter of 2008
- 42 percent reported because of “Regulatory or accounting rules” during June-August 2008, compared to 17 percent during the 2nd quarter of 2008
- 29 percent reported because of an “Internal Decision” during June-August 2008, compared to 20 percent during the 2nd quarter of 2008
- 17 percent reported because “Property is located in declining market” during June-August 2008, compared to 17 percent during the 2nd quarter of 2008
- 21 percent reported “No reason given” during June-August 2008, compared to 33 percent during the 2nd quarter of 2008