Michael Franks
Companies

Economic News – The Trouble with Financing

By Tara Tague, Acquisitions Analyst

The good news is that buyers are coming off the sidelines in a vote of confidence that the industry is rebounding. Whether or not they will achieve the results they desire is another matter. In fact, there seems to be a disconnect between investors' expectations and market reality.

The primary disconnects include the lack of financing, the gap between the seller's price tag and the buyer's wallet, and the anticipated volume of distressed assets entering the market.

Financing has gone from one extreme to the other, with such a conservative stance right now that it is almost impossible for even investors with a perfect credit score to receive approval.

Secondly, buyers have become more conservative and are looking for the "perfect" deals, which are few and far between, if available at all. They have pulled back from riskier deals and are almost solely focused on deals that under-promise and fit well with a conservative acquisition strategy.

Thirdly, buyers are eager to see how the distressed real estate market will shake out. What type of volume will occur, when and at what prices? There is "stiff competition" for these properties, especially those with returns in the high teens. Build up among lenders is on the rise, but investors are waiting for government intervention before they take the plunge.

Finally, the apartment sector is the only property type where owners can expect to see a slight increase in value. Amid declining rents and additional concessions landlords have to make, apartment complexes are struggling to meet investor payments. Appreciation is slow, and underwriting scarce for new projects.

As usual, there is no "quick fix" for these financial woes. Slow, steady growth, insurance company re-investments, and a narrowing gap between sell and buy prices are anticipated by the end of 2010. In the meantime, investors have realized they can't "time" the market, and so they are jumping back in.

800 E. Northwest Highway, Suite 201, Palatine, IL 60074
P: 1-847-241-2321 F: 1-847-241-2303 www.michaelfranksllc.com