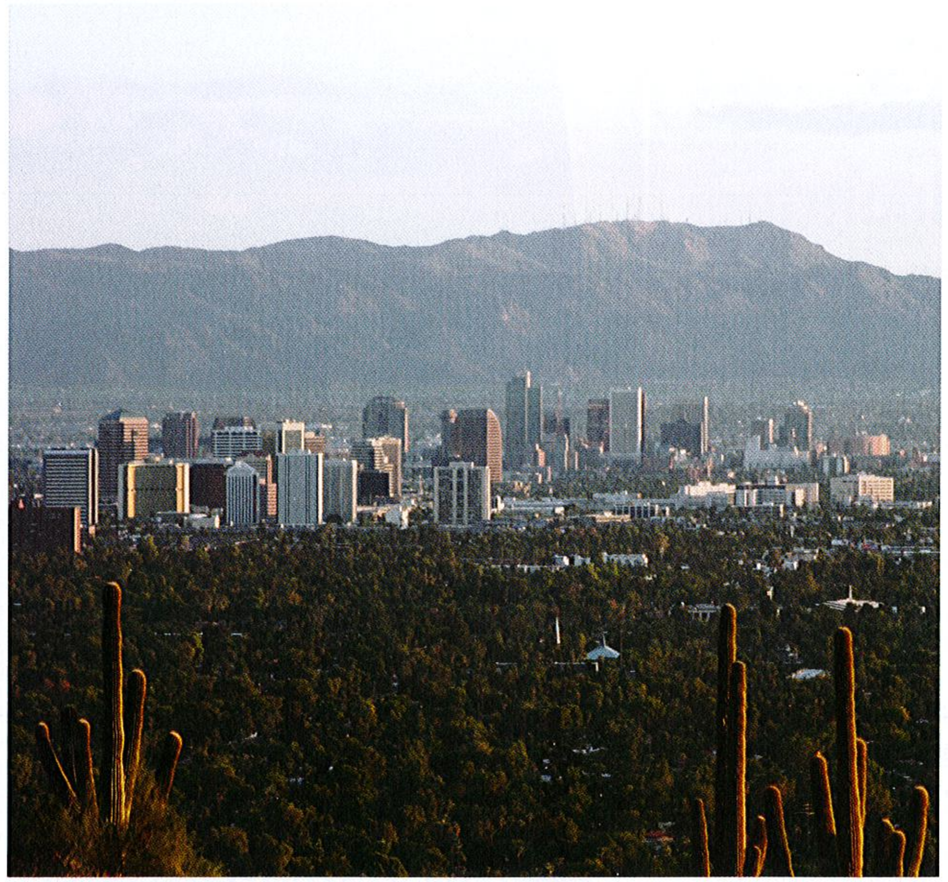
BY PETER MADRID



A DIVERSITY OF DOLLARS

Whether it's back-to-basics financing sources or owner equity, development community seeing a rise in commercial lending

In order for the development community to thrive, financial institutions need to fund commercial real estate projects on a consistent basis, and with varying sources.

Valley Partnership partners who practice real estate law say they are seeing not only "back-to-basics" financing sources, but also owner equity and some foreign investment.

"We are really back to the basics on financing sources now that there is more confidence and pricing stability in the commercial property sector," says Carolyn Obelholtzer, a partner/attorney at Rose Law Group. "There has been an influx of private money that has been sitting on the sidelines, and you are seeing many out-of-state and Canadian sources."

Lesa Storey, shareholder at Greenberg Traurig, says the primary funding source that she is seeing right now is owner equity, often in the form of a joint venture between the end user and the owner/developer.

"End users are making significant long-term equity investments in projects at a level that didn't exist in prior market cycles," she says. "This speaks to two very positive signs: (1) large amounts of cash being held on the balance sheets of U.S. companies, and (2) confidence in the Arizona real estate market as a long-term investment prospect."

When asked if she was seeing any type of creative financing in the market, Storey no; although she added that long-standing financing techniques are often being used in new ways or among different types of players that historically have not engaged in these transactions.

Is the private money that's been sitting on the sidelines available now?

"Yes, absolutely," Storey says. "It started breaking loose over the last year or so, and I think that trend will continue." Storey, however, says she is seeing little to no foreign investment.

"Again, I think this speaks to the availability of cash in U.S. companies and, to a lesser extent, the relative degree of turmoil in foreign markets such as the European Union as compared to the U.S."

She says she is also seeing partnerships involving a combination of both land and development money via private equity sources.

According to Don Miner, director, Fennemore Craig, commercial real estate development is relatively slow at the present time and tends to focus on markets where a proven need has been demonstrated, such as multi-family and specific area industrial projects.

He adds it is perceived that the market is gathering strength, is poised for slow but steady growth, and that timing is relatively good for investing to see appreciation over the next three to six years or so.

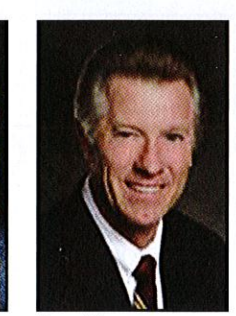
"Credit requirements are considerably more stringent today than in times past and greater equity contribution is often required," Miner says.

As a result, project developers are seeking less traditional financing sources such as private investment groups, real estate investment funds, hedge funds and foreign investors who believe the commercial market is poised for growth.

Foreign investors, Miner adds, have included Canadians who see future value in investing in a neighboring country with a similar culture as opposed to competing investment opportunities much farther away.

"However, today's investors can be more expensive to developers in that they are more keenly aware of risk and have a tendency to demand greater returns with a higher priority than returns being allocated to developers," he says. "Contribution of land to the deal, in lieu of cash, has had less appeal than in past years because of lessons learned from the recent economic downturn in which land values plummeted to the point of no longer contributing value to the project."


Carolyn Obelholtzer


Don Miner


Lesa Storey