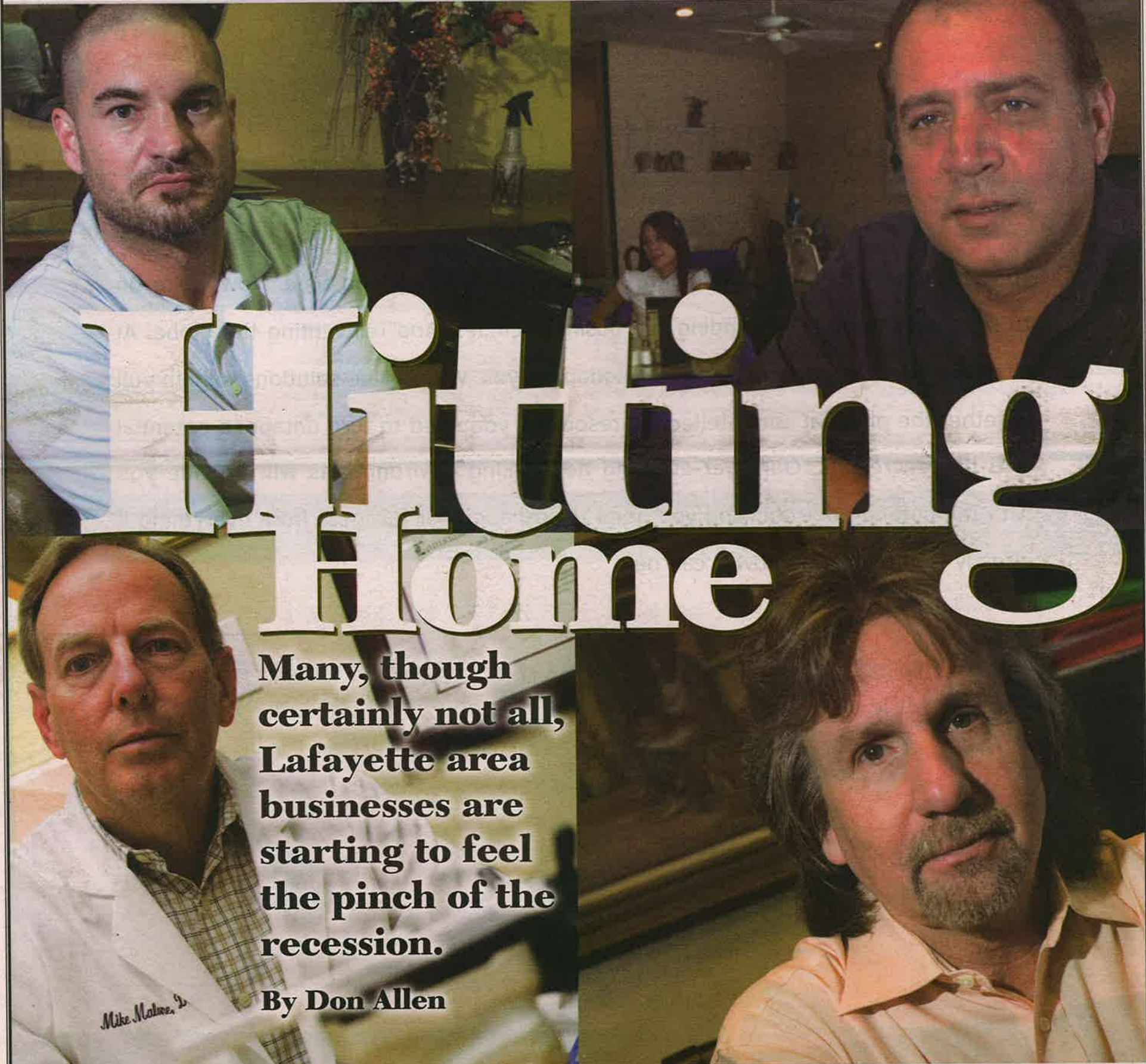


A C A D I A N A

BUSINESS

NEWS & ANALYSIS on COMMERCE in SOUTH LOUISIANA



Hitting Home

Many, though certainly not all, Lafayette area businesses are starting to feel the pinch of the recession.

By Don Allen

LA. AG'S CRIMINAL PROBE OF STANFORD

by Leslie Turk

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WHO WANTS TO WIN A BMW?

by Bo Billeaud

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FINANCIAL ADVISERS ON STANFORD SCAM

by Leslie Turk and Don Allen

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Money Matters

There's an elephant in the developer's room, and it's going to take absolute teamwork to get him out the door.

Despite a downturn in the economy, development continues, especially in the somewhat insulated areas in the Gulf South, but there is one common hurdle all projects must overcome: financing. Following the residential crash of the not too distant past, the financial markets effectively dried up overnight — halting projects under construction, creating huge refinancing issues as loans came to maturity, or simply shelving planned projects all together. The days of 100 percent financing, interest only, non-recourse, or slim debt coverage ratios are gone for the foreseeable future, which sidelined some developments that were in the works. It might be for the better that many of these marginal projects are not being developed, but the collateral damage has affected legitimate projects much more than many of us anticipated.

Without digging too far into the technical specifics, the larger national Collateralized Mortgage Backed Securities market blew up last fall leaving a gaping hole for short term lenders (typically banks) that made loans anticipating the high leverage CMBS (aka conduit loans) to pay them off. Buyers of the riskiest pieces in the CMBS market were being slaughtered by all of the defaults that were taking place because of the dicey loans that had been offered in years past. As

bank loans matured, their borrower did not have another source of capital to pay off the banks, resulting in a large number of defaults and lender write downs on the ensuing bad loans. As a result, these short term lenders became more conservative, requiring higher interest rates and more collateral. This combination kills deals with marginal returns and makes strong deals that much tighter — and sometimes simply not feasible. There is evidence these market transactions that happened unannounced to the everyday consumer are slowly coming back, but many think that market will never quite resemble itself again.

This inability for lenders to sell loans on the open market has trickled down to banks at all levels. Luckily for the Lafayette area, the regional lending institutions in this area did not have near as many of these defaulted risky loans on their books, which meant they still had some monies to lend. This has allowed development to continue in our area while many other parts of the country are at almost a standstill. Even with some financing available, the products currently being offered are much more conservative and the individual deals are being scrutinized with a fine tooth comb.

With consumer confidence down (but slightly on the rise as of late) the average person across the country is spending less

on goods, leading to weaker sales for the nation's retailers. Because of this drop in sales, there has been a massive pullback in store expansion. In addition, the few retailers still looking at new deals are demanding lower rents to mitigate the risk of the current conditions. These lower rents combined with the higher loan-to-value requirements and interest rates are the principal reason for the slowdown in development we've all witnessed.

One financing vehicle that can help new projects come to fruition, mainly as it relates to larger developments, is commonly known as a TIF or Tax Increment Financing district. TIFs must be combined with traditional financing for all facets of the project to be funded, but they can take a large burden of what would be borrowed, making the project much more feasible. In simple terms, a TIF uses future tax revenues that will be created by the new development when consumers spend their money on goods in the district. This new tax income stream is used to pay back the bonds that funded the infrastructure required for the development to take place. For example, the new Target and JC Penney anchored center on Louisiana Avenue and I-10 was the first TIF project in Lafayette. Consumers pay 1 percent in additional taxes on purchases there, which the state matches (by returning 1 percent of

the state sales tax) until the bonds issued for the infrastructure are paid off; at that point it reverts to the standard taxing structure. The TIF funding is only used for the infrastructure required for the development to take place, such as roads, water supply, sewer, power. Without this infrastructure being funded through the TIF, that specific development could never have taken place.

I fully believe that smarter minds will prevail and the country will work its way out of the mess some greedy folks got us into. Deals moving forward will have to be more creative with absolute teamwork required between the lender, developer, tenant and government. Building will continue at a measured pace, as overall safer investments are being made in an attempt to thwart the upheaval of the financial markets we are currently dealing with. I'll be the first to admit that I'm grateful to work in a region that was forward thinking enough to limit the hazards that have choked the growth and new business development elsewhere in the country.

Ryan Pécot is a commercial broker with Stirling Properties. Since 2001 he has worked out of the firm's Lafayette and New Orleans offices, specializing in retail brokerage, with a focus in tenant representation. He also covers the Lake Charles, Alexandria and Houma markets.

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