

## Housing Bubble Pandemic?

**W**e have been forewarned about a possible Avian Flu Pandemic—the migration across continents of disease from bird flu. In the United States we keep a watchful eye and make preparations to do battle with any disease that reaches us. But, could another pandemic occur that is not health related, but economic? Is a housing bubble about to burst in foreign countries that could spread here as well? A sort of “pan-economic” malady?

### European housing market cools

The housing market in Europe is cooling and could become a drag on consumer demand there. In the 12-nation euro zone, interest rates have been low for five years. Now, the European Central Bank (ECB) has indicated it would “moderately augment” the historic low 2% rate (translation: raise the rate in several steps ala the U.S. Fed.) beginning with a quarter-point in December. ECB leaders are concerned about inflation, but ECB critics are concerned about the impact of a rate increase on the fragile economies in Europe.

Housing prices in the euro zone have been increasing less each year and the fear is that interest rate increases will result in prices not only pulling back, but falling in the future.

In Great Britain (not part of the euro zone) the economy has stumbled this year after increases in home prices slowed and heavily indebted consumers stopped spending so freely. The Bank of England raised interest rates steadily from late 2003 and housing is in slowdown mode. Britain’s economy is projected to rise only 1.8% this year after a 3.2% increase in 2004.

In Europe, economies have experienced painfully slow growth in this century. What will be the impact of rate increases on euro zone economies? While no crash in home prices is forecast, a slowing property market could be a drag on consumer spending, leading to stagnant growth throughout Europe.

### And, in the U.S.?

For several months we have heard warnings that housing prices were reaching lofty levels in many parts of the United States. A string of thirteen rate increases by the Federal Reserve has led

to prices of single-family homes pulling back from recent highs and the length of time that property is on the market beginning to increase. Prices in prime communities may not be dropping markedly yet, but the number of offers is less than earlier in 2005, the number of properties for sale is less, and year-to-year comparison of average prices is beginning to turn negative.

Some real estate executives speak of a falloff in home values in the near term, but fall short of predicting a serious collapse. Demand is still good for single-family residences in Southern California, especially in the more desirable communities.

At Venture West, we advise home-buying clients to exercise caution and careful market analysis before undertaking a higher-priced home and its concomitant mortgage. We also work with homeowners to develop the terms and rates most appropriate for their home, its location, and individual financial circumstances.

### But what about apartments and commercial properties?

According to the National Multi Housing Council’s (NMHC) survey of senior apartment executives, higher occupancy rates, rising rents, increased sales volume and increased equity availability have kept the market bullish. The survey has been positive for nine quarters despite the steady short-term rate increases by the Federal Reserve and the gradual rise in long-term mortgage rates.

Said NMHC Chief Economist Mark Obrinsky, “Even with record-level, single-family home sales, demand for apartment residences by individuals and families continues to strengthen virtually across the board. If the homeownership market should start to cool, demand for apartments could rise even further.”

Apartment rents increased in the third quarter of 2005 and vacancies fell throughout the U.S. The outlook for 2006 suggests these trends will continue.

*(continued)*

**A**s we close out 2005, Venture West is on pace for another successful year. Our reputation for handling complex loan packages—often on multiple properties—and for closing loans as quickly and efficiently as possible, has helped us reach our goals.

### Outlook for 2006

Long-term mortgage rates will continue to react to the increase in short-term rates. We expect to see mortgage rates increase in 2006 and the Federal Reserve will stop its upward cycle. The Fed has increased the short-term rate thirteen times, moving from 1% to 4.25%, and pressure is mounting to halt the increase cycle so that financial markets can pause and absorb the higher level.

We recognize that our clients have several options in choosing a company to handle their mortgage financing needs. Venture West will continue to seek the best prices and terms for our clients, whether on homes, apartments or commercial property financing. We continue to refine our systems to eliminate delays in processing all loans.

We appreciate the business you have given us in the past and wish you prosperity and good health in 2006.

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briefly

## Tips to Save on Utility Costs

The following tips apply to homes and apartment buildings.

- Install a programmable thermostat to regulate a home or apartment's temperature automatically.
- Be sure your heating system has had its annual checkup. Even cleaning or changing the filter can save 2% on your bills.
- Lower the setting on your water heater thermostat to "low" or below 120 degrees F. Could save 10-15%.
- Have you reduced your watering schedule for landscaping? Less often and for fewer minutes?
- Have all outdoor timer clocks been changed for Daylight Savings time? After that, consider turning lights off by 10:30 p.m.
- Wear a sweater indoors and lower the thermostat. Take shorter and cooler showers. Use cool or cold water when washing clothes.

*Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.*

– Ronald Reagan (1986)

*Initiative is to success what a match is to a candle.*

– Orlando A. Battista

*The difference between failure and success is doing a thing nearly right and doing it exactly right.*

– Edward C. Simmons

## Selected Indices Comparison

	11/03	11/04	11/05
30-yr. T-bond	5.060	4.880	4.692
10-yr. T-Notes	4.310	4.120	4.477
12 MTA	1.256	1.677	3.326
COFI	1.821	1.931	2.972
1-yr. CMT	1.350	2.510	4.320

## We're Lending in a Big Way (A Small Sampling)

- \$11.455 million purchase loan on a 172,657 SF (sq. ft.) retail center in San Antonio, TX
- \$10 million refinance/cash-out loan of 185,265 SF retail center in Woodland Hills, CA
- \$4.485 million 80% loan-to-cost/value purchase loan on 42-unit condo conversion in Modesto, CA
- \$4.063 million construction loan on 16,330 SF single-family residence in Encinitas, CA
- \$3.329 million purchase loan, one-year interest only, on 45-unit apartment building in North Hills, CA
- \$3.55 million purchase loan on 13,842 SF Walgreens retail building in Newport News, VA
- \$24.9 million package loan on 18 apartment buildings in Los Angeles, CA

## Venture West Wrapping Big Packages

Complex loan packages involving multiple properties have become the norm at Venture West Funding. A recent \$24.9 million package involved 18 apartment buildings in Los Angeles. Loan officer Pete Collins noted that two loans were purchase loans and 16 were refinances. "Our challenge is to find a lender who is willing to take a large number and amount of loans from one borrower because of the lender's loans-to-one-borrower limit," said Collins. "By grouping these separate properties into one deal we make the package attractive to the lender, especially when it contains both cash-out refinances and purchases," added Collins.

According to Matt Douglas, a Venture West principal, "We often have a combination of short-term, long-term, or adjustable-rate loans in the same package as a hedge against interest rate fluctuations. There are an infinite number of variables that can be included in one package and this requires focused efforts by the loan officer and support staff involved. We have handled package loans ranging from \$10-15 million up to a \$35.4 million package on 10 West Los Angeles apartment buildings by loan officer Larry Cole."

Lenders recognize that Venture West delivers well-processed and qualified packages that are easy to underwrite and approve. Handling these complex loan packages with speed and efficiency has become a hallmark of our firm's capabilities.

Among the savings for customers when dealing with multiple properties is Venture West's ability to negotiate special rates from third parties such as property appraisers and inspectors. At the end, customers appreciate making one payment to one lender rather than several. Significant economies of scale are possible from grouping several loans into a package—savings for the property owner, the lending institution and for Venture West.

## Housing Bubble Pandemic?... (continued)

In the retail and commercial property market, development continues, financing is available, and demand for properties continues to be strong.

### Fed to Slow Rate Increases?

After 13 straight increases by the Federal Reserve, some analysts found hope that the Fed will make only one more rate increase early in 2006. When the Fed stops the cycle, real estate markets can pause and plan accordingly.

We see no European-influenced, "pan-economic" disease giving U.S. real estate markets "the flu." There will be pockets of strength and weakness in housing, but no housing flu epidemic. At Venture West Funding, we are very confident that investment in multifamily, commercial office, retail and single-family residential properties will continue to provide long-term rewards.

[www.venturewestfunding.com](http://www.venturewestfunding.com)