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LENDERS TURN THE LIGHT ON FOR HOTEL DEALS

Count on more hospitality loans in the new year as the industry returns and more trades bring better pricing, especially on well-located properties that have already rebounded. New hotel supply is not expected to pick up for another two to three years, so existing properties should recover, although many are still valued below replacement costs. This loosening of the strings should translate into more acquisition and refinance loans and possibly even some new construction money. Expect CMBS lenders to be some of the busiest in the space. Currently there are about 16 active CMBS originators with more planning to enter the market in 2011. Also, look for big national banks such as **Wells Fargo, Chase** and **Bank of America**, as well as a few private players, to keep business humming.

CMBS lenders have a strong appetite for hotel lending this year and target stabilized cash flow assets, although these loans take a bit longer to get done, at least 60 to 90 days. CMBS was completely out of the game early in 2010, but slowly crept back onto the scene in November. Bet on CMBS originations gradually increasing and coming out to about $35B by year's end, up from approximately $15B last year. These lenders usually look for $10M to $15M loan minimums and by default will only work with larger select-service and full-service hotels. Upper-end resorts could also be on the radar this year as they have made it through the worst part of the cycle and have locked in protection from new supply. As CMBS comes back to the lending scene, competition for capital will also increase and should keep spreads where they are. This marks a great time for borrowers to take advantage of the low 10-year treasury (which should be around 3.3%), good pricing and available liquidity.

Look for commercial banks such as Wells Fargo, Chase and BofA to dip their toes back into the hospitality pool and most likely go for transitional properties. However, many banks will be cautious since they still have hotel loans on the books, and until that pipeline is clear most will not add too many new loans in 2011. Rumor has it that Wells Fargo will become active in the CMBS market this year with a $2M small loan program expected to launch in February. Chase is forecasted to pick up on all commercial lending types in 2011 and become more aggressive on loan-to-value. Private lenders, foreign banks and a few life companies might also work on hotel loans this year. Private lenders look for yields and will get in on deals where the hotel is rebounding. Life companies got burned on hotel loans in the 90s and have since been very conservative on these deals and will only target major flags with an appealing track record. But, some outfits will start to entertain more hotel loans as a natural function and progression of their lending program.

Count on aggressive underwriting from all lenders in terms of debt yield and coverage and how they underwrite NOI, which has been tight over the last couple years. Typical hotel loans have DSC above 1.40x. The first thing lenders want to see is that the hotel has recovered or shown improvement over the last 12 to 24 months. Properties with continued declining RevPAR or NOI will not get lenders' attention.

Lending institutions are also attracted to major flags such as Hyatt, Hilton, Marriott or Starwood and most will primarily focus on the branded hotels. Properties with a solid location in high barrier-to-entry markets such as New York City, Boston, Los Angeles, Washington, D.C., and San Francisco should get a lot of lender interest. Hotels with good demand generators, strong cash flow, experienced operators and excellent sponsors should also have no problem obtaining financing. Don't expect lenders to work on lower-end franchises such as Best Western or Sleep Inn, and boutique hotels will also be difficult to finance. They will also keep their distance from high-leverage hotels in secondary and tertiary markets that have not yet bounced back. Smaller 100-room roadside or budget hotels will also not be on the radar this year since the loans are too small and there is no protection from new supply.

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CMBS lender **Goldman Sachs** originates $12.5M in refinancing for the 375-room Doubletree Hotel in Spokane, Wash. This is a five-year fixed-rate loan with a 25-year amortization schedule. The circa-1975 hotel was originally built as a Sheraton but was renovated and rebranded in 1997. DSC was over 1.40x. The lender liked the Class A location, with a sky bridge that connects it to the Spokane Convention Center.

Wells Fargo puts together a $75M acquisition loan for the 358-room Radisson Boston Hotel in Boston. Part of the loan will also go toward the renovation of this property into an independent hotel. The four-year adjustable to fixed-rate loan has a LTV of 52% of the purchase price. Wells was confident in the location as Boston is one of the most sought-after markets in lodging investment and has shown RevPAR and occupancy increases. The lack of recent construction in Boston means that no major supply will come for the next couple years, providing a strong platform for rate growth. Northwood Investors is the borrower.

Bank of America Merrill Lynch does a $92.5M loan for the Hilton Times Square in New York City. The 10-year fixed rate loan had interest below 5% and will be used to pay off an existing loan that was set to mature last December. The existing debt balance was $81M and carried an interest rate of 5.95%. BofA liked that the 460-room full-service trophy hotel had cash flow, is well located, had branding and a solid sponsorship in Sunstone Hotel Investors. These attractive attributes brought in a lot of interest from lenders looking to put money in the sector.

Private lender **Prime Finance** doles out a $35M bridge loan for the 272-room Embassy Suites Glendale in Southern California. This is a 36-month adjustable rate loan and the borrower, Kam Sang Company, which also manages the property, will be able to negotiate the rate once it meets certain occupancy hurdles. LTV is 67% based on underwriting valuation, although it is probably at the most 60% leverage today. The Class A full-service hotel was built in 2008 and did not reach stabilized occupancy as quickly as anticipated, so, the borrower wanted to get refinanced to pay off an existing construction loan.

WHAT LIES AHEAD FOR FREDDIE MAC, FANNIE MAE?

The future of Freddie Mac and Fannie Mae is high on the priority list for Congress this year as the housing industry eagerly looks to the end of the month for the Obama administration to articulate a financial reform plan. However, any reorganization will be a slow process considering there are about $5.4T in Freddie and Fannie securities in the market that will take years to resolve. Many are pushing for a financial plan this year as the 2012 presidential election will bump the GSE discussion to 2013, further prolonging a recovery.

While the recession has shown the need for an entity like Freddie or Fannie to support the residential market, everyone seems to evade the responsibility for their liabilities. Many also feel a reform will be nearly impossible as liberals want a full nationalization and conservatives are pushing for a complete privatization. However, neither of these options seems practical. Instead, because Freddie and Fannie's capital structures are projected to turn profitable in 2011 and 2013, respectively, and thus hold significant opportunities (multifamily is already profitable for the GSEs), execs such as **Adam Klingher**, director of **Johnson Capital** feel the most likely outcome is some sort of semi-privatization or slow privatization that will have a degree of government bond support (not general corporate liabilities) in the event of a crisis. Other thinkers, including **Michael Berman**, chairman of the Mortgage Bankers Association, feel it is best to create some kind of "good bank, bad bank" scenario. Berman deems at least three new mortgage grantors are necessary to stimulate competition and speed up recovery. It should be noted, however, that any reform would likely not affect the multifamily space to a large extent. Klingher bases this on the fact that he thinks the real GSE issue is still on the single-family side, and not multifamily.

Despite the uncertain political landscape, Klingher expects 2011 be a better year for the GSEs than 2010. Last year started slow for the agencies because of limited sales activity, and most of their 2010 business was actually done in the second half of the year. However, deal flow has come down about 50% since September due to increased Treasury rates. The decrease in demand can also be attributed to borrowers taking a hiatus from the transaction market until the new year. Overall, Klingher feels the lending giants' 2011 origination pace will likely be that of the speed they have been on for the back half of 2010.

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In addition to a political change, this year could also see some changes in underwriting. Klingher expects GSE lenders to get slightly more aggressive in this area. This is especially true for the markets that have been most affected by the recession and have had more stringent underwriting criteria. Also, look for greater underwriting capacity, as Freddie has hired more staff and could be increasing its lending volumes by at least 15% this year. Bet on loan spreads to continue at slightly lower levels, comparable to 2010. Fannie Mae is expected to out produce Freddie this year, and conduits should become more active in general but they may not compete for many apartment deals as the GSEs are still the most competitive players and dominate at least 80% of the market.

Properties are starting to trade now and Freddie anticipates its 2011 volume will be a little higher than it was in 2010 as the markets show signs of recovery. For 2011 expect the agency to continue its focus on mortgage securitization (its K Certificates multifamily mortgage backed securities). About 70% of its business volume is headed toward securitzation. From January 2010 to October 2010, Freddie's multifamily lending was $9B, and while specifics cannot be released, the giant expects its total 2010 multifamily volume to be lower than the $16.6B it did in 2009. That is due to the fact that there weren't many deals in the market the first half of 2010. However, its volume was way up in the fourth quarter and should continue this journey well into 2011.

Fannie does not anticipate significant changes to its multifamily lending platform in 2011. Regarding last year's volume, Fannie's multifamily loan volume was $10.4B through Q3 2010. Its third quarter 10-Q filed on Nov. 5, 2010, stated that it expected these trends, combined with an expected decline in total originations in 2010, will result in lower business volume as compared with 2009. The vast majority of Fannie's loan volume was securitized using its DUS MBS execution.

William Ross, EVP, regional manager of **NorthMarq Capital** suspects the company will grow its Fannie Mae business between 15% and 20% in 2011, as it looks to expand its Fannie Mae Amerisphere Multifamily Finance platform. NorthMarq could see about $900M in Fannie Mae productions this year. About 80% of the loan volume will likely be in acquisitions with the balance in refinance. As for its Freddie Mac business, don't be surprised to see the lender do $2.4B to $2.5B in loans in 2011. This will mainly be driven by Freddie Mac's own expansion plans. Like its Fannie Mae platform, its Freddie Mac workload will also be dominated by acquisitions, as NorthMarq does not have a huge flood of maturing loans until about 2014. In addition to expanding its lending capacity, the lender also looks to expand its market footprint and selectively looks for potentials on both coasts. It will maintain its focus on student and conventional housing.

NorthMarq's 2010 appetite for commercial real estate came in around $4.2B to $4.3B, of which nearly $3B was in agency financing. Its Freddie Mac originations totaled around $2B, followed by FHA at $1B and Fannie Mae with close to $700M. Last year, acquisitions accounted for about 80% and refinances and development 20%. The lender's commercial loans typically fall in a range of 65% to 75% LTV with DSCs in excess of 1.25x.

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MultiFamily

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Berkadia Commercial EVP, **John Cannon,** forecasts the lender's Freddie and Fannie origination volume to pick up this year as values continue to stabilize. Acquisition volumes will account for about 30% to 50% of its GSE originations in 2011. Berkadia's 2010 Fannie Mae volume came in around $750M and should see an increase this year. On the Freddie Mac side it did about $2B in deals in 2010, of which the majority were refinances. Acquisitions picked up in the second half of the year. Overall, close to 80% of the

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Institution/Address	Phone/Fax/Contact Name	Lending Activity
Bank of America 100 N. Tryon St. 18th Floor Charlotte, NC 28255	(704) 386-5681 David Darnell commercialrealestate@bankofamerica.com	Commercial bank that lends to the four food groups including single-tenant retail.
Berkadia Commercial Mortgage LLC 118 Welsh Road Horsham, PA 19044	(215) 328-3866 Michael Lipson michael.lipson@berkadia.com	Private lender of Fannie Mae, Freddie Mac and HUD/FHA. Also a correspondent for insurance companies.
Cohen Financial 50 California St. Suite 1900 San Francisco, CA 94111	(415) 591-3111 Kenneth M. Fox kfox@cohenfinancial.com	National real estate capital services company and originator of commercial real estate debt and equity.
Fannie Mae 3900 Wisconsin Ave., N.W. Washington, DC 20016	(202) 752-6629 Heather B. Hoke heather_baker_hoke@fanniemae.com	Government-sponsored enterprise that provides funding for various residential types including student housing.
Freddie Mac 8200 Jones Branch Drive McLean, VA 22102	(703) 905-2445 Patti Boerger patricia_boerger@freddiemac.com	Government-sponsored enterprise that buys home mortgages to provide funding for rental and single family.
CWCapital 1 Charles River Place 63 Kendrick St. Needham, MA 02494	(781) 707-9494 Donald King dking@cwcapital.com	Fannie Mae DUS, Freddie Mac and FHA lender of apartments nationwide.
Goldman Sachs 200 W. St. 29th Floor New York, NY 10282	(212) 902-0300 Lloyd C. Blankfein	Leading global investment banking, securities and investment management firm that offers a wide range of financial services.
Holliday Fenoglio Fowler 10100 Santa Monica Blvd. Suite 1400 Angeles, CA 90067	(310) 407-2175 Tina Derderian tderderian@hfflp.com	(Embassy Suites Glendale deal) Leading provider of commercial real estate capital markets services including debt placement, investment sales, advisory, structured Los finance, private equity, loan sales and loan servicing.
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JPMorgan Chase Bank 270 Park Ave. New York, NY 10017	(212) 270-7325 James Dimon jpminvestorrelations@jpmchase.com	Bank financing all types of commercial properties and syndicating credit facilities.
NorthMarq Capital 3500 W. American Blvd. Bloomington, MN 55431	(952) 356-0100 William Ross connie@thedoziercompany.com	National commercial real estate lender.
Prime Finance 50 California St. Suite 3240 San Francisco, CA 94111	(415) 445-7474 Scott D. Douglass sdouglass@prime-finance.com	Commercial real estate finance company that provides mortgage, mezzanine and preferred equity financing.
Q10 Capital 1113 Meadow Bridge Lane Arrington, TN 37014	(615) 395-9999 Fax: (615) 395-9991 Robert M. Stout	National leader in commercial real estate capital and first firm to be owned by leading independent mortgage bankers across the U.S.
StanCorp Mortgage Investors LLC 19225 N.W. Tanasbourne Drive Hillsboro, OR 97124	(503) 321-7785 J. Greg Ness.	A subsidiary of StanCorp Financial Group Inc.
Thomas D. Wood and Company 7349 Professional Parkway E. Suite B Sarasota, FL 34240	(941) 552-9731 Fax: (941) 761-5795 Brad Cox bcox@tdwood.com	Commercial mortgage banking firm in the Southeast with correspondent relationships with 14 major life companies.
Walker & Dunlop 7501 Wisconsin Ave. Suite 1200 Bethesda, MD 20814	(301) 215-5510 Fax: (301) 634-2151 Will Baker wbaker@walkerdunlop.com	One of the largest multifamily lenders focused on lending to property owners, investors and developers of multifamily properties across the U.S.
Wells Fargo 420 Montgomery St. San Francisco, CA 94103	(866) 249-3302 Fax: (651) 450-4033 John Stumpf	The fourth largest bank in the U.S. by assets and the third largest bank by market capitalization.

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PORTFOLIOS ON THE MOVE

The lending environment will continue to thaw this year and many lenders will eagerly look at financing commercial real estate portfolios, albeit cautiously. Portfolios offer an upside because cross collateralization and geographic diversification in a pool of assets generally adds support to the credit of the deal, especially if there are multifamily properties involved. A crossed pool of assets can help spread out rollover leases across various properties, and stronger performing assets can support weaker properties. These factors generally allow lenders more comfort with a portfolio transaction compared to a single-asset deal. However, this is still contingent on the quality of the real estate in the portfolio pool.

A recovery is now underway in all five major property types: apartment, industrial, office, retail and hotels. In fact, almost all of the commercial property types are said to have reached the bottom of the cycle in Q3 2010 or were already in recovery. This provides good portfolio prospects to lenders, especially where diversification of assets are involved. Multifamily continues to outperform its counterparts, followed by industrial, in terms of occupancy improvements. Spreads between commercial loan rates and U.S. Treasuries have also narrowed in recent quarters, and while this does not necessarily mean there is more capital in the market, it does suggest that the worst may actually be over. However, eager lenders and borrowers are still cautioned to keep an eye on note defaults, distressed properties and low valuations stemming from those who bought real estate at inflated prices during 2005 and 2007, as these factors will take some time to settle down.

An eight-property Walgreens portfolio in Louisiana receives $27.16M from **Goldman Sachs Commercial Capital LP**. The transaction is a 4.92% fixed-rate securitized CMBS loan, on behalf of borrower Stirling Properties Inc. Loan proceeds will be used to retire the existing construction loans on the properties. The portfolio gained a lot of attention from various capital sources due to the credit quality of the tenant and the strength of the sponsorship. The Walgreens portfolio was built between 2007 and 2010 and contains a total of 116,070 s.f. or an average of 14,509 s.f./store. They are located in Lafayette, Denham, Ruston, Abita, Dutchtown, Gonzales, Broussard and Meraux.

Newmark Realty Capital Inc. arranged the refinancing of three-property retail and office portfolio in Northern California. **StanCorp Mortgage Investors LLC** is the correspondent lender. The same borrower owns all the buildings where occupancies varied from 80% to 100%. The refinancing efforts allowed the borrower to reduce the interest rates by more than 1.5%.

Storage Deluxe secures a $36.5M refinance deal for four storage properties in Queens and Bronx, N.Y. The loan is a 10-year fixed-rate through a national bank. The portfolio consists of 4,981 units or 257,884 net rentable square feet of space that is about 90% occupied. The properties are located in high-density urban infill residential areas where there is a limited supply of self-storage.

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