

## CAUTIOUS LENDERS COME BACK OVER THE BRIDGE

Although 2010 saw a decent amount of bridge activity, some lenders have been cooling their heels on bridge financing since 2008, especially the banks. But now, expect some to come back to the playing field as demand picks up. Count on some money center banks such as **Wells Fargo** and **Bank of America** to get in the space and fill the void, and even **GE** has joined the party recently. Regional and mid-market banks will be busy on mid-sized bridge money and **M&T Realty Capital Corporation** just launched a bridge loan program. Banks will be selective and will most likely look for high quality assets with experienced borrowers. Expect private money players that were busy in bridge last year, to pick up the deals that are too risky for banks. Hedge and private funds should also pick up the pace in coming months. Life companies (LCs) that want to enter the multifamily space have to be creative to compete with the GSEs that usually price them out. As a result, LCs can use bridge loans on Class B assets as a springboard to gain traction in the sector. CMBS players will most likely keep their distance since they usually require seven- to 10-year terms.

Bridge financing demand will escalate because maturing CMBS loans have dropped in value and without equity they are not preferred candidates for refinances. Borrowers also want to secure loans prior to any major interest rate increase that could be coming in the next few months. Bridge loan rates can range from 6% to 7.5%, which is lower from even six to eight months ago when full octane loans were around 7% to 9%. Leverage can be anywhere from 65% to 80% for all product types and recently lenders have been doing full term interest-only loans to help get borrowers out of the dumps. Most will have 12- to 36-month terms. These guys see an opportunity in bridge financing to place capital on products with good sponsorship as the market moves back to basics.

Anticipate multifamily properties to be the most sought after product type and most deals are getting anywhere from 10 to lending 12 options. There will also be an opportunity in office and industrial, with retail to follow shortly. Hospitality might start to pop up as well since hotel owners need to bring up their trailing 12 to a point where they can get perm financing and use bridge as a temporary cover. Healthcare properties could be busy with borrowers that want a HUD loan but do not want to wait. Construction financing is a good contender for bridge since developers/borrowers are willing to pay high prices for the quick execution. And with developers coming back to the market, especially in multifamily, there could be a need for fast construction money. A low rate can help the borrower get through a stabilization period and allow for cash flow, while getting historicals to help execute an exit strategy. Costs are higher on these loans and borrowers will have to be cognizant of interest rates. Unstabilized assets or those without cash flow will be good candidates for bridge products. But, on properties that do not have historical information the borrower will have to show the ability to execute.

**M&T Realty Capital Corporation** puts together \$12.18M in bridge money for the 114-unit **Bethany Summit Apartments** in Oceanside, Calif. This is the first loan done under M&T's new bridge loan program. It provided a non-recourse loan at 5.5% interest only that was 60% of cost. The borrower, **Village Investments**, needed the bridge to allow time to process an FHA 223(f) takeout.

**Bank of Arizona** doles out a \$8.9M bridge loan for **The Ridge at Sun Valley** apartments in Phoenix. Interest was sub-5% and is fixed for three years with two one-year options. LTC was 65% and DSC is north of 1.30x. The circa-2004 community had recently been foreclosed on and the new owner required a bridge loan to stabilize the property. The 265-unit property is a Class A asset in a submarket with a lot of potential job growth and a need for quality apartments. **Bank of Arizona** liked that that there was fairly low leverage, as well as the borrower's experience and qualifications. The loan was closed only 30 days of opening escrow.

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Private money lender **Commercial Capital Resource Group** has seen a pretty steady demand for bridge financing and will probably do around \$350M in bridge loans this year. It looks toward multifamily, hospitality and healthcare. Loans will be in the \$5M to \$10M range, although President **Fred Karl** would love to see some bigger deals and portfolios come to the market. LTV can go up to 80% on current values for these deals and 70% to 75% on future values. Karl wants properties with a strong exit strategy in a good time period, although Commercial Capital does offer six- to 12-month extensions for as low as a half a point. He will consider working with multifamily properties in second-tier markets but stays away from tertiary deals. Look for Commercial Capital to originate \$1.2B in commercial real estate loans this year, a 20% boost over last year.

**Red Capital Group** will actively pursue bridge loan opportunities in 2011. Count on the lender to increase its senior housing and long-term care property lending this year. Senior Managing Director **James Sherman** thinks there will be significant increases in bridge lending for assisted living and Alzheimer's properties because borrowers often cannot wait for FHA loans, which can take up to 12 months, and need an interim loan. LTV is typically 75% and DSC can be anywhere from 1.35x to 1.45x depending on the property type. Red was not active in balance sheet lending during 2010 and has been working to re-establish lending programs and services since May, when it changed ownership. The company provides loans for a range of real estate asset types including most multifamily properties nationwide. Many recent requests have been for assisted and long-term care properties.

## SENIOR HOUSING TO GET BOOST FROM ALTERNATIVE SOURCES

Lay odds on the private sector to drum up capital for lending to the senior housing sector this year. Commercial real estate finance companies such as **GE Capital Healthcare Finance** and commercial banks, including **BBVA Compass**, step up their offerings for senior housing products, a field that has been primarily dominated by the GSEs and HUD for the past few years. While most of the loans in recent years revolved around refinancings, many lenders aim to beef up acquisition and construction lending as well going forward. Commercial lenders will also increase financing and refinancing activities for credit facilities of major healthcare REITs, which have been raising money on the public market for a while now, most of which are senior, unsecured debt for a period of five to 12 years. Interest rates are attractive, ranging from 4% to high 6%.

Senior housing continues to be one of the most favorable products for lenders these days as it has survived the downfall in the CRE sector and performed better than its counterparts such as office and retail. Typical occupancy of various levels of senior housing and care runs from 87% to 89% today, which may be lower than the average 92% in 2008, but is certainly better than the 80% to 85% occupancy in the office space. Rents are steadier and have posted gains of at least 100 to 200 basis points. Revenue growth has averaged 3% over the past 20 years, and a lot of that comes from occupancy growth and value addition, as well as limited expansions in phases. Also, average IRR hovers in the 16% to 20% range.

Lenders like the stability of senior housing products and aim to increase their holdings in skilled nursing and assisted living facilities in 2011 and 2012. Both types of senior housing care are need-based and are expected to perform well even though there are some preliminary concerns about reimbursement shortages. When selecting a skilled nursing facility for lending, firms typically look at location parameters such as the history and consistency of reimbursement changes in the state, the political climate, how the state balances its budget and the existing and anticipated number of older people in the state. For assisted living and Alzheimer's, occupancy and rent growth are important parameters.

GE has been serious about the senior housing and skilled nursing sector for about 12 years now and has been especially active in the past two years when there has been a lack of unsecured senior debt. Most of its deals are for skilled nursing and assisted living, which will be the focus going forward. Budget cuts for

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GE is only looking at providing debt right now and isn't actively investing on the equity side of things. Minimum transaction size is \$8M to \$10M and could go up to \$250M to \$300M. Typical deals average about \$40M, with loan terms of three to seven years and 25-year amortization. Depending on collateral and leverage, rates could range from LIBOR plus 4% on a floating basis or LIBOR plus 5.25% on fixed. Borrowers are mostly owners/operators. The firm sticks to 65% to 80% LTV. GE led the debt side of

## REGIONAL LENDERS SET TO MAKE THEIR MARK

Regional lenders are poised for robust activity in 2011 that will continue well into 2012. Most have been busy resolving legacy portfolio issues and maintaining abstemious origination pipelines during the recession. Now that the dust has settled to some extent, these lenders have plenty of capital in their coffers to dish out, especially on the refinancing front. It's been estimated that more than \$130B of CMBS notes will need refinancing in the next two years, presenting a key opportunity for regional outfits to capture and expand their business. Regional banks such as **BOK Financial, Associated Banc-Corp and Bank of Hawaii** should be able to service at least 25% of these maturing notes, especially in the middle market segment. Community banks will stick to local markets, while the heavyweights such as **Well Fargo** and

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<u>Institution/Address</u>	<u>Phone/Fax/Contact Name</u>	<u>Lending Activity</u>
Associated Banc-Corp 330 E. Kilbourn Ave. Suite 200 Milwaukee, WI 53202	(414) 278-1860 Greg Warsek greg.warsek@associatedbank.com	Diversified bank holding company with total assets of \$23B. It has 281 banking offices in Wisconsin, Illinois and Minnesota.
Bank of Arizona 2398 Camelback Road Phoenix, AZ 85016	(602) 957-0387 Jennifer Pescatore jpescatore@bokf.com	Regional bank that works on commercial real estate loans including construction, acquisition and mini-perm financing for the four major food groups.
Bank of Hawaii 130 Merchant St. 20 <sup>th</sup> Floor Honolulu, HI 96813	(808) 694-8782 Fax: (808) 694-4060 Ben Kashiwabara ben.kashiwabara@boh.com	Regional lender doing loans up to \$15M on office, retail, industrial/warehouse and apartments. Active in Hawaii and Guam.
BBVA Compass 8080 N. Central Expressway Suite 130 Dallas, TX 75206	(214) 706-8031 Chris Cain chris.cain@bbvacompass.com	Leading U.S. banking franchise in the Sunbelt region. Primary products and services include commercial and wholesale banking, treasury management, SBA, international, merchant processing, retail banking and consumer loan products.
BOK Financial Bank of Oklahoma Tower P.O. Box 2300 Tulsa, OK 74192	(918) 588-6000 Dan Easley	A \$24B regional financial services company. Currently operates seven banking divisions and provides a variety of loan products on commercial real estate, as well as homebuilder financing.
Commercial Capital Resource Group 340 W. Passaic St. Rochelle Park, NJ 07662	(201) 843-4443 Frederick B. Karl fkarl@commercialcapitalresourcegroup.com	Lender that will originate \$1.2B this year toward multifamily, office, industrial, anchored retail, hospitality and healthcare.
Freddie Mac Seniors Housing 333 Wacker Drive Suite 2500 Chicago, IL 60606	(312) 407-7508 Steve Schmidt steven_schmidt@freddiemac.com	Senior housing makes up about 5% to 6% of its conventional multifamily loan business. It will look at all asset types except entry-fee based CCRCs. Hopes to do more deals under its Multi-Asset Flow Facility and Capital Markets products.
GE Capital, Healthcare Financial Services 500 W. Monroe Chicago, IL 60661	(312) 441-7529 Brian Beckwith	The lender expects to close \$1B in deals in 2011, about the same figure it did for 2010. Prefers a portfolio of three to four properties that have demonstrated consistent performance.
HFF 9 Greenway Plaza Suite 700 Houston, TX 77046	(713) 852-3572 Tucker Knight tknight@hfflp.com	Leading provider of commercial real estate and capital markets services. Keep an eye out for a bridge loan to close on a distressed multifamily property in Palm Springs, Calif., with a large money center bank.
Johnson Capital 5080 N. 40 <sup>th</sup> St. Suite 300 Phoenix, AZ 85018	(602) 522-0065 Neal Churney neal.churney@johnsoncapital.com	(Ridge at Sun Valley deal) Leader in commercial real estate investment banking with services that include debt placement and acquisition financing for perm loans, construction loans and property repositioning.
M&T Realty Capital Corporation 25 S. Charles St. 17 <sup>th</sup> Floor Baltimore, MD 21201	(410) 545-2418 Mark Gould mgould@mtb.com	Full-service mortgage banking company providing financing nationwide for all types of commercial properties. Fully accredited Fannie Mae and Freddie Mac lender, as well as approved FHA MAP lender.
Marcus & Millichap 270 Madison Ave. Seventh Floor New York, NY 10016	(212) 430-5100 Steven B. Rock steven.rock@marcusmillichap.com	Nation's largest brokerage firm focused on real estate investment services. It arranges capital for a wide variety of properties.
Red Capital Group 2 Miranova Place Columbus, OH 43215	(614) 857-1664 James Sherman jsherman@redcapitalgroup.com	A top Fannie Mae DUS lender that provides debt and equity capital for multifamily, student and senior housing, and the healthcare industries.

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About 11% of BOK's 2010 CRE workload was in industrial, 17% in office, 25% multifamily and 27% retail. Most of the lender's new money last year was on stabilized assets. It was very active on both the refinance and acquisitions fronts, which was split just about 50/50 last year. It also did a few multifamily construction deals and won a couple of office built-to-suit deals. BOK collectively holds about \$24B in assets. It was the largest bank to not accept the TARP bailout.

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Associated Banc-Corp should do about \$500M in CRE loans this year across the Midwest where it is considering some expansion. CRE SVP and Regional Manager **Greg Warsek** sees a strong 2011 pipeline, including renewed interest in construction financing — beyond multifamily — such as value-oriented retail. Don't be surprised to see about 40% of the business to be acquisitions, 40% refinances and the balance construction. The lender is also looking at some note sales this year and whether or not it would be willing to finance these deals.

Warsek will maintain his focus on core properties in the multifamily, office, retail and industrial sectors. He also likes auxiliary properties such as self storage and senior housing. Land, for-sale housing and hospitality are not on the menu. Expect the lender to favor cash flowing assets and deals that do not have a lot of market risk. Construction loans will either be multifamily or a project that is nearly 100% preleased. Underwriting is typically to in place cashflow with a minimum DCS of 1.25x and loans are in the \$5M to \$15M range. Last year, Associated dedicated much of the first six months to getting through its legacy portfolio, and most of its production was during the backend of the year. It wrapped up 2010 at just about \$200M and currently has about \$23B in assets across the board.

Bank of Hawaii did more than \$100M in CRE loans last year and hopes to do at least that in 2011. Main lending products include multifamily, shopping centers, office, industrial warehouse and owner-user assets. Hawaii has an influx of storage facilities, prompting the lender to step away from these transactions. Condo hotels are also not a lender favorite. In the last four to five months, bank leaders have made a conscious effort to increase production. It will continue to look at cash flow to drive loan size.

Last year Bank of Hawaii saw mainly refinances as the local purchase market was very focused on leases. Acquisitions should pick up the pace this year, however, VP Commercial Real Estate Loan Division **Ben Kashiwabara** notes smaller multifamily properties will be trading hands. He also expects to see a lot more owner-users looking to buy CRE assets this year, and there are a lot of \$20M to \$50M deals out there. A typical CRE loan is up to \$20M, however, the sweet spot is \$1M to \$5M. LTVs can go up to 75% and DSC anywhere from 1.25x to 1.35x. It typically does 10-year deals with 25- to 30-year amortization schedules. Look for the bank to also make an effort to increase its SBA lending capacity this year. Like many of its peers, Bank of Hawaii also never took TARP money.

Banks operating in Hawaii are primarily regionals, and they certainly have the added advantage seeing as the large players like Bank Of America do not see Hawaii as a primary market and prefer to keep their business on the mainland.

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