

## LENDERS CAUTIOUSLY SHOP FOR RETAIL SPACE

Retail spending reached pre-recession levels, bolstered by consumer confidence that hit an eight-month high last month. This improvement should boost the outlook for retail investment properties this year, however, the actual impact will be very modest until unemployment rates drop significantly. Lenders will continue avoiding the big retail picture and instead place their attention to a property's income flow, key tenants, rollover risk and how everything would appear to the FDIC when audited. Overall, expect new activity in the retail arena this year, which can yield a greater return than the multifamily market, albeit at a much higher risk.

Debt institutions are softening their approach toward retail and most like a property that came out of the recession with better than market occupancy. This will help drive borrower demand as estimates suggest the 10-year Treasury will climb above 4% by Q4 2011, which will likely bump rates 50 to 75 basis points higher. As such, don't be surprised to see more owners absorb a 3% to 5% prepayment penalty to get out of existing loans and refinance at current rates. Borrowers, who are fairly liquid, experienced, diversified and have no contingent liabilities should have no trouble locking in new rates.

This year, bet on life companies to be the choice lender for deals \$10M and up, with credit (BBB+) anchors, limited lease rollover risk and in "B" or better locations in major MSAs. Also, borrowers with long-term hold plans are preferred and can go to life companies for 10-year or longer fixed-terms for the right property. As for Wall Street lenders, expect the large banks to increase their allocations for retail over the next few months. **Wells Fargo** is already getting its hands dirty with the development of its "small balance" program offering loans from \$1M to \$5M. Others like **Citi** have also started their engines and look to place some CMBS deals in coming months. However, on the conventional side of lending, many don't expect to see **Citi** at all this year. There is also a lot of chatter about CMBS making some noise. Expect the conduits to play a much bigger roll this year than 2010, and chase the same deals as the life companies and big institutional lenders. CMBS has an added advantage as it offers non-recourse and longer amortization schedules, which are rare through local portfolio lenders. CMBS terms are also shorter compared to life companies.

Despite overall improving retail fundamentals and lenders opening up coffers for the right deal, vigilance is still the name of the game and there does not seem to be a ton of demand for the typical retail strip center in the current environment. Most lenders are focused on anchored properties with credit tenants in infill locations with barriers-to-entry, high traffic counts, staggered lease expiration dates and competitive market rents. If rents are significantly higher than the market, there is a possibility that tenants may move to a different retail location, adding risk to the property's cash flow.

**Forman Capital** looks to do about \$100M in deals across the board this year, of which CEO **Brett Forman** suspects \$40M to \$50M will be in retail. The balance will fall in hospitality, office and multifamily. It will stay active on lending as well as picking up notes and Forman expects to do fewer refinance deals and more recapitalizations this year. Operating as an entrepreneurial lender, expect Forman Capital to look at distressed and transitional assets, while maintaining a focus in primary and secondary markets east of the Mississippi. However, it will go anywhere in the nation for the right deal. Deal size used to range from \$5M to \$20M, but that number has shifted to between \$2M and \$15M, where borrower demand seems to be. Investment horizons are up to three years with extension options. Forman Capital's rates are typically in the low-teen range. Most of its deals are done without an appraisal and it prefers transactions that can be done in less than three weeks. Majority of the lender's deals are also below replacement costs. Overall Forman believes that retail real estate will continue to soften, even as consumer spending is up.

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Southern California player **Sunwest Bank** pushes to do about \$100M in healthcare and CRE loans in 2011. It will target good performing sectors such as mobile homes, retail, multifamily, small owner-user office and select senior housing. CEO **Glenn Gray** will be very selective on retail. Average underwriting comes in around 65% LTV with a 1.40x cover. It will go higher than five years, however won't do a fixed-rate on anything over five years. Deal sizes range from \$500K to \$10M. Gray also anticipates an increase in the SBA 540 program that recently underwent some changes. Expect to see some acquisitions and refinances this year and Sunwest likes deals that just need debt to be reset. Last year Gray saw a lot of refinance activity. Like many of its regional counterparts, construction deals will also be considered.

Sunwest currently operates primarily in Southern California core hubs and recently expanded into the Scottsdale, Ariz., and Oakland, Calif., markets via the acquisition of failed banks. Gray hopes for significant growth this year and to develop a larger presence in Scottsdale and Phoenix. The bank should perform well in coming quarters, as its portfolio is not inundated with trouble assets. Sunwest made a strategic move at the end of 2005 to get out of speculative real estate.

A 14,917-square foot shopping center in Woodbridge, N.J. receives \$4.25M in refinancing from a large portfolio lender headquartered in New Jersey. The loan is a 20-year self-liquidating loan just over 6% and

**CONSTRUCTION LENDING PICKS UP FOR APARTMENTS AND HOTELS ...***Continued from Page 2*

Look for Beneficial Bank to dole out \$100M in construction loans by year's end with several large commitments for student housing and apartments in the works. Count on a total of \$350M for commercial real estate overall from the regional lender this year. EVP and Chief Lending Office **Andrew Miller** believes multifamily, medical and education properties will have the most construction activity in 2011. An average loan is \$3M and Miller will look at all product types. Construction loans have underwriting of WSJ Prime plus 1.50%. Rates for CRE deals are in the mid-5% to 6.25% for five-year balloons. LTV/LTC is 70% up to 75% on a strong project with good sponsorship. Beneficial's territories are Southeast Pennsylvania, New Jersey and Delaware.

Construction loans make up 35% of Broadway Bank's originations and EVP, Commercial Banking Manager **David Pope** is cautiously optimistic for construction financing this year and sees things pointing in the right direction. Broadway does loans in the \$5M to \$20M range. The majority is split 50/50 over owner occupied and developers of office and office warehouse. Rates are usually 300 to 400 basis points over costs of funds. Broadway will do fixed or adjustable loans and territories are greater San Antonio and Austin, Texas. Pope sees the most demand for owner occupied because they are middle market and small business portfolio lenders. He really looks at the occupancy and submarket dynamics before working on a loan.

Mutual of Omaha Bank sees a pick up in construction activity in its markets this year. The bank works on a senior housing loan and another for an apartment property expected to close in the spring, both in Kansas City, with more in the works. Senior Commercial Relationship Banker **Joe Neuerburg** notes the main

## PENSION FUNDS BUMPING UP INTEREST

Expect more pension funds (PF) shopping around for opportunities to pour dollars into commercial real estate lending and pounce on lower-risk prospects, especially while underwriting standards are still high and interest rates are favorably low. Since the downturn, a large cohort of PFs are now underweighed in CRE allocations and will look to sectors such as multifamily, retail and industrial for diversification prospects. Hotel and multifamily assets are especially a hot commodity as it serves as inflation hedges. Historically PFs held between 6% and 10% of their total assets in the real estate sector, and this year many will be working hard to get close to that range again.

PF firms will keep a steady eye on increasing property values to justify deals. Values are estimated to leap up between 5% and 10% this year, which should add incremental returns. Returns fell as much as 20% in Q4 2009 in beaten sectors such as office. Like its counterparts, PFs look for long-term, stabilized, high-credit-tenant properties with steady cash flows. However, despite the seemingly improving economy, PFs still remain guardedly optimistic, as factors such as unemployment and sovereign debt issues in Europe could signal issues ahead.

**Mesa West** looks to do about \$1B in levered deals this year. It has up to \$2.5B to lend out. On the radar is office, retail, hotels and multifamily. The adviser will also do note purchases. The magic formula for closing a deal with Mesa West centers on risk relative to replacement cost and won't be based on the loan amount alone. Principal **Steve Fried** sees activity pick up in the last 60 to 90 days as values have stabilized. Mesa West loans average \$20M to \$30M, though it did do a \$130M deal last year. Its rates are 6% to 8%, floating rate over LIBOR. Terms are usually three to five years. Mesa West will finance empty buildings, however wants those deals with a value-add potential. Refinances, acquisitions and DPOs will all be part of the mix. In 2010, the PF adviser put out more than \$500M in loans. Mesa West originally expected to lend \$500M to \$750M in 2010 as part of the leveraged investment of \$400M it raised from PFs in late 2008 and early 2009.

**Bank on Washington Capital Management** to be active on the acquisitions side this year, looking to do about \$70M to \$80M in deals. It will maintain a focus on refinances, acquisitions and construction. Chances are volumes will be split just about equally between the three. Deals will be driven where Washington Capital Management gets the highest return. Loans will be in the \$10M to \$30M range, and it will also participate with other lenders in deals. LTVs will be based on the market, but should fall in the 65% range. LTC will require between 25% and 30% of equity. Bet on Washington Capital Management to look at markets where the life companies are active. It will look at most property types, with the exception of condos. It funds projects and properties in the western United States. The adviser will set terms on takeouts on a case-by-case basis, but typically works with a three- to five-year range.

## LCs AND OTHER LENDERS LIKE INDUSTRIAL

Many lenders look to balance their portfolio this year and industrial is one of the areas that is not as well funded as office, apartments and retail, prompting many to look for opportunities in the sector during 2011, especially the life companies. **Cornerstone Real Estate Advisers**, **PPM America** and **Wells Fargo** all recently complete industrial loans.

The industrial sector tends to follow the economy and the last half of 2010 saw more industrial deals than the past few years. This year lenders will favor and compete for stabilized industrial properties with long-term leases and strong tenants. Every life company in the market has more money for 2011 than in the last few years for real estate originations and they are all seeking out good product and industrial will be on the radar. But, don't expect LCs to go back to the underwriting standards seen in 2007 and most will shoot for LTV in the 65% to 70% range. Most industrial deals will fall in the \$2M to \$10M area, with some larger than \$20M. Many of the larger LCs such as **John Hancock** and **MetLife** and the CMBS players will want Class A products and will be very cautious before jumping on the B and C assets. They will also have to be pretty sizable deals to get the attention of these large lenders. Count on both life companies and CMBS lenders to target multi-tenant industrial properties and have their sights on Class A and B assets.

**DEALMAKER DATABANK™**

<b><u>Institution/Address</u></b>	<b><u>Phone/Fax/Contact Name</u></b>	<b><u>Lending Activity</u></b>
Beneficial Bank 510 Walnut St. Philadelphia, PA 19106	(215) 864-3540 Andrew J. Miller drumiller@thebeneficial.com	Community-based bank serving the Southeastern Pennsylvania, New Jersey and Delaware area. Will do around \$350M in loans this year.
Broadway Bank 1177 N.E. Loop 410 San Antonio, TX 78209	(210) 283-6638 David G. Pope dpope@broadwaybank.com	Regional bank that covers the greater San Antonio and Austin areas, with a focus on office and office warehouse. Will do loans in the \$5M to \$20M range.
Cohen Financial Two N. LaSalle St. Suite 800 Chicago, IL 60602	(312) 803-5724 Don C. Trossman dtrossman@cohenfinancial.com	Commercial real estate capital services firm offering debt and equity placement, investment brokerage, loan administration and advisory services. (Wood Hill Crossings Business Park deal)
Cornerstone Real Estate Advisers LLC 1 Financial Plaza Suite 1700 Hartford, CT 06103	(860) 509-2200 Fax: (860) 509-2222 Rob Little rlittle@cornerstoneadvisers.com	A subsidiary of MassMutual Financial Group that will lend around \$3B toward commercial real estate this year. Will do hotels, office, retail, industrial and warehouse lending.
Fannie Mae 3900 Wisconsin Ave., N.W. Washington, DC 20016	(202) 752-6629 Jeff Hostler jeff_hostler@fanniema.com	Government-sponsored enterprise that provides funding for various residential types including student housing.
Forman Capital 75 N.E. 6 <sup>th</sup> Ave. Suite 101 Delray Beach, FL 33483	(561) 588-0132 Brett Forman bforman@formancap.com	Capital provider or first mortgage bridge loans and subordinate debt in office, retail, apartments, industrial and hospitality.
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.
Holliday Fenoglio Fowler One Post Office Square Suite 3500 Boston, MA 02109	(617) 338-0990 Janet Krolman jkrolman@hffip.com	Leading provider of commercial real estate capital markets services including debt placement, investment sales, advisory services, structured finance, private equity, loan sales and loan servicing. (Mystic Commerce Center deal)
Marcus & Millichap Capital Corp. 611 River Drive Elmwood Park, NJ 07407	(201) 582-1016 Fax: (201) 582-1037 Joshua Lipsey joshua.lipsey@marcusmillichap.com	Brokerage firm focused on real estate investment services and arranges capital for a wide variety of properties. (Woodbridge, N.J., deal)
Mesa West Capital 11755 Wilshire Blvd. Suite 1670 Los Angeles, CA 90025	(310) 806-6300 Fax: (310) 806-6301 Steve Fried sfried@mesawestcapital.com	Lends on the four food groups and flagged hotels with five-year terms. Expanding into gateway cities after opening New York office.
Mutual of Omaha Bank 13220 Metcalf Ave. Suite 370 Overland Park, KS 66213	(913) 685-1489 Joe Neuerburg	Life company that specializes in financing for commercial real estate developers, owners and investors. Will do condos, multifamily, office, retail, industrial and storage.
Northwestern Investment Management 720 E. Wisconsin Ave., N16 Milwaukee, WI 53202	(414) 665-6557 Fax: (414) 665-5773 Gregory J. Walz gregwalz@northwesternmutual.com	Life company lending to office, apartments, industrial, manufactured housing, medical office, retail and parking garages, nationwide.
PPM Finance Inc. 225 W. Wacker Drive Suite 1200 Chicago, IL 60606	(312) 634-2555 Fax: (312) 634-0903 David L. Henderson dave.henderson@ppmamerica.com	Jackson National Life Insurance Co.'s real estate investment affiliate, lending on the four food groups, with a big focus on apartments and industrial this year.
Sunwest Bank 1500 Quail St. Suite 120 Newport Beach, CA 92660	(949) 752-1472 Glenn Gray ggray@sunwestbank.com	Southern California bank does CRE lending on mobile homes, multifamily, select senior housing/healthcare and some retail and office.
Washington Capital Management 1301 Fifth Ave. Suite 1500 Seattle, WA 98101	(206) 340-0825 Fax: (206) 340-0142 El Jahncke el.jahncke@wcmadvisors.com	Pension fund adviser that invests Taft-Hartley PF capital primarily for construction projects of office, industrial and retail.
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.

## LCs AND OTHER LENDERS LIKE INDUSTRIAL ...

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Port cities and any market with increasing economic activities should see some pick up in industrial this year and the big four industrial markets are Chicago, Los Angeles, Dallas/Fort Worth and New Jersey. Pipelines will flow in Chicago with around 23% of the nation's intermodal traffic coming out of Illinois, second only to California. But, Illinois has not seen the highs and lows that California has during the recession. Chicago's industrial sales in 2010 were up 24% over 2009 and vacancy fell to around 11% at the end of last year. The Windy City will have reduced concessions and no corporate expansion until the economy gets stronger, proving some lending opportunities on existing product. Los Angeles' vacancy at the end of last year was 9.1% and port activity rose considerably in the second half the year, mostly due to imports. DFW had a nice spurt of leasing activity in the last quarter of 2010, with some built-to-suite product coming out of the ground. Vacancy is around 12% and most expect it to fall to around 9% in 2011.

Cornerstone Real Estate Advisors, whose parent is **MassMutual**, will lend out around \$3B by year's end and Chief Investment Officer-Finance **Rob Little** bets on about 10% to 20% going toward industrial. The lending appetite is large and Cornerstone will work on anything from core properties to aggressive repositioning loans. When considering an industrial property Little will look at sponsorship, rental rates, access to the highway or railways and the asset itself needs to be fundable and attractive to multiple users, since leases tend to be shorter. LTV will be 65% or less and DSC will be 1.35x or better. Little prefers portfolios over one-off deals. Cornerstone's appetite for investments and debt is growing and the lender has already done \$100M in loans this year. Little likes core space and value-add, and is more focused on large transaction lending. Hotels, apartments, some office and possibly retail will be on the radar too.

Cornerstone puts together a \$23M refinance loan for a portfolio of properties located in the recently developed Wood Hill Crossings Business Park in Woodbridge, Ill. Interest was 3.58%, fixed for five years. LTV was 45%. The lender liked that there was low leverage, with an experienced borrower and that it is a Class A multi-tenanted property with rollover leases. Many life companies put in bids on this deal.

PPM America, on behalf of **Jackson National Life Insurance Company**, doles out \$6.4M in refinancing for the two-building Mystic Commerce Center in Chelsea, Mass. The life company liked that the Class B/C property is in an excellent location with immediate access to Boston and Logan Airport and that a number of the tenants have been there for years. It is a five-year fixed-rate loan.

Wells Fargo puts out \$9.99M in refinancing for the 166,600-s.f. 940 Remillard Court in San Jose, Calif. This is a 5.98% fixed-rate loan for the fully leased industrial/warehouse facility. The loan has a 10-year term and 30-year amortization and proceeds are retiring a maturing loan on the property. Wells was confident in the location close to major interstates and the San Jose International Airport.

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