

The **CRITTENDEN**  **REPORT**<sup>®</sup> Real Estate Financing

*The Nation's Leading Newsletter on Real Estate Finance*

## CMBS TOO FAST AND FURIOUS FOR SOME...

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Life Companies will also generate their largest CMBS allocations in several years. As maturing loans are paid off, the companies need to replace those loans with new ones to build their portfolios. **Prudential Financial** plans to originate about \$400M this year and will likely securitize the loans through Wells Fargo. The insurer, which increased its lending volume by more than 50% last year to almost \$9B, should dramatically increase its activity again in 2011.

Retail properties took top prize in the CMBS issuances of 2010 and continue to lead the way in new offerings coming to market this year. In last year's major issuances, retail made up more than 51% of loans, although that number did start declining at year's end. But *DB-UBS 2011-C1*, which carries 47 loans on 83 properties, carries 43.7% retail and Morgan Stanley/BofA Merrill Lynch has 43% retail on 37 loans for 79 properties. Office properties make up the second-highest level of loan counts, averaging 23%, but that number is increasing in the 2011 offerings. Issuances in CMBS 2.0 also have lower loan counts than in the past, where pools would contain hundreds of loans. The average loan count of CMBS 2.0 is less than 40, which means bigger loans and more portfolios.

On the flip side, Greystone Bank's *Waterfall Victoria Mortgage Trust, 2011-SBC2* holds 175 seasoned loans on 175 properties with a DSCR of 1.12x and a weighted actual interest rate of 7.09%. According to DBRS, the properties are predominately located in strong infill markets with high barriers to entry. About 61% of the pool is located in urban markets and only 2.7% in tertiary markets.

## OFFICE PROPERTIES PIQUING LENDER INTEREST

There is a robust office-lending pipeline brewing, with an excess of \$3B in transactions moving ahead. The slowly improving job market is key to this recovery. With absorption on the rise, vacancies declining and pricing for Class A product in CBDs going up, lending for the segment should continue to increase. And so will the competition, with about 80% of the lenders chasing 20% of the deals, which are top-tier products with good sponsorships and rent rolls.

After more than two years of continued occupancy losses, negative net absorption started to ease in 2010, although a full vacancy recovery is not anticipated until 2012. The national vacancy rate declined 29 basis points to 16% at the end of last year. Rents are down and have fallen anywhere from 12% to 30% from the mid-2007 peak, depending on the market. This could pull recovering companies back into buildings to lock in lower rents. Demand for quality assets in primary and select secondary markets will drive investment activity this year and sales are forecasted to improve a bit over the next few quarters but will not meet demand until there are several months of consistent job growth and more financing available for less desirable assets.

Banks, conduits and life companies will dominate the landscape when it comes to core cash-flowing assets. Big banks have recapitalized their balance sheets and now have capital to invest in mortgages. Office loans are No. 2 on the list behind retail for CMBS players such as **Deutsche Bank, Wells Fargo and JP Morgan**. The conduits are bullish on the \$10M and up transactions and originate office loans based on debt yield rather than debt service coverage. Life companies have bigger allocations for 2011 across the board and concentrate on office loans of \$1M and up, and for the first time in 15 years have an advantage over pricing. Expect conservative underwriting and strong sponsorship to be the norm on these loans, with more lenders quoting LTV at 65% and higher. Lenders will consider the basis relative to the land and the "go dark" value.

The capital markets are ahead of fundamentals and acquisition activity will pick up in certain cities as a result. Well-located and well-leased properties will get the most attention. Multi-tenanted CBD office properties with strong operating histories, no near-term rollover and healthy, experienced sponsorship will generate the most competition from lenders. Institutionally owned developments in core urban markets will also see a lot of interest. Single tenant deals are a challenge because the income is binary, but deals with strong sponsors in first-rate markets could get a pass. Gateway cities such as Washington, D.C., New York, Los Angeles, San Francisco, Houston, Seattle and Portland, Ore., will be attractive thanks to their strong underlying market conditions and long-term growth opportunities.

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It remains to be seen how lenders will look at transitional projects. Suburban markets won't get as much play since office buildings continue to have high vacancies, declining rents and lofty concessions. Assets with large amounts of near-term rollover and above-market rents will also experience difficulty with financing, as will unstable, older properties with deferred maintenance issues.

Wells Fargo provides \$49.5M in acquisition financing to **Stirling Properties** for the Pan-American Life Building in New Orleans through its conduit program and **Walker & Dunlop**. The loan carries a 10-year term, 30-year amortization, a 5.86% rate and an LTC of 75%. Wells Fargo was drawn to the 28-story, Class A trophy property due to its location, tenant base and sponsorship.

Walker's SVP of Capital Markets **Andrew Coleman** expects to facilitate more office lending this year over 2010, noting that 12 months ago there were about 10% of the lenders that he has to work with today. Banks and life companies are back in business and over 20 conduits are actively looking for deals. The last two months have been very busy and Coleman has not seen a lull in the past six months.

**ING Investment Management** bucks the tide by doling out \$16M for the 147,549-s.f. Granite Park Regional, a single tenant office building in Sacramento, Calif. This is a 12-year fully amortizing refinance with the rate fixed for the entire term at 4.85%. LTV was 61% with DSC of 1.20x. ING liked that there was 10 years remaining on the lease with an investment grade credit tenant that has experience and financial strength. ING typically stays away from single credit tenant deals unless there is significant credit and term. The life company prefers to work with renovated multi-tenanted Class A or Class B offices.

ING SVP-Head of Real Estate Finance **Greg Michaud** sees average to high demand for office loans, and the company expects to allocate 20% to 25% of its planned \$2B to \$2.5B CRE originations to the segment. More than \$750M has already been committed, closed and/or is under application to close in 2011. About 15% of that is for office. The typical loan amount is \$25M and most are permanent fixed rate with LTV of 65% or less and 1.30x DSC or more. ING will include \$1.10 for TI and leasing above the line. Loans on retail, multifamily, industrial mobile homes and mini storage will also be in play this year.

**Edgewood Capital** provided \$8.1M in first mortgage funding for a newly built 93,000-s.f. Class A office building near the Portland airport in Oregon. The loan carried an interest rate of 10% and provided 75% of the total capital structure. It was funded with an initial advance to finance the discounted payoff of the existing first mortgage and provided additional funds for the lease up and operating carry of the building. At the time of the funding, the building's occupancy was 4% with one tenant occupying the property. The remainder of the square footage was in shell condition. Edgewood was able to provide bridge financing in a matter of weeks to enable the borrower to realize the discount and the lender to get the loan off its books

## DEALMAKER DATABANK

<p><b>CBRE</b> 222 S. Main St., Fourth Floor Salt Lake City, UT 84101 (801) 869-8013, Fax: (801) 869-8080 Trent Snarr, VP Debt &amp; Equity Financing trent.snarr@cbre.com</p>	<p>Large commercial real estate services firm that works with real estate owners and investors. Offers advice and execution for property sales and leasing, corporate services, mortgage banking, appraisal, valuation, investment management and research and consulting. (Millrock Park East deal)</p>
<p><b>Edgewood Capital</b> 132 Old Post Road Southport, CT 06890 (203) 255-1700, Fax: (203) 259-3030 Jonathan Levirne, Managing Director jon@edgewoodcapital.com</p>	<p>Edgewood Capital is a private, diversified real estate investment company specializing in opportunistic CRE investments across all property sectors. Edgewood originates bridge loans, acquires CRE debt and invests in value-added real estate transactions.</p>
<p><b>ING Investment Management Americas</b> 5780 Powers Ferry Road, Suite 300 Atlanta, GA 30327 (770) 690-4865, Fax: (770) 690-5465 Greg Michaud, SVP-Head of Real Estate Finance greg.michaud@inginvestment.com</p>	<p>Life company that will invest in industrial, office, retail, multifamily, mini storage and mobile homes, with a focus on smaller deals in secondary markets. Will originate \$2B to \$2.5B this year, with \$750M completed already.</p>
<p><b>KeyBank</b> 911 Main St., Suite 1500 Kansas City, MO 64105 (816) 460-2120, Fax: (877) 379-1625 Clay Sublett, National Production Manager clay_sublett@keybank.com</p>	<p>KeyBank Real Estate Capital Permanent Product Specialists (PPS) have expertise in securitized loans, agency and institutional mortgage products. The bank recently closed its first CMBS loan after more than a two-year hiatus.</p>
<p><b>MarkOne Capital</b> 1420 Fifth Ave., Suite 1600 Seattle, WA 98101 (206) 826-5733 Glenn Gioseffi, Director of Capital Markets ggioseffi@marcusmillichap.com</p>	<p>Nationwide full-service CRE finance company that works closely with Marcus &amp; Millichap. The firm has been lending on apartment properties for 15 years and just launched a new mobile home lending program with Fannie Mae competitive pricing.</p>
<p><b>Mesa West Capital</b> 299 Park Ave., 20<sup>th</sup> Floor New York, NY 10171 (212) 871-8902 Raphael Fishbach, Principal rfishbach@mesawestcapital.com</p>	<p>Privately held portfolio lender with a capital base of more than \$2B. Has an established debt platform that continues to provide flexible and reliable capital for real estate acquisitions, refinances and recapitalization on office, retail, industrial, multifamily and hotels in the United States.</p>
<p><b>NBS Financial Services</b> 121 S.W. Morrison, Suite 200 Portland, OR 97204 (503) 273-0363, eFax: (503) 467-7463 Ken Griggs, EVP kgriggs@nbsfinancial.com</p>	<p>Assists commercial real estate borrowers to originate, service and close loans through relationships with major life companies, banks, GSEs, credit unions and specialized providers. (Granite Park Regional deal)</p>
<p><b>Pacific Life Insurance Co.</b> 700 Newport Center Drive Newport Beach, CA 92660 (949) 219-5447 Tony Premer, VP of Finance, Real Estate tony.premer@pacificlife.com</p>	<p>Pacific Life has extensive experience lending on all types of commercial properties but specializes in structured loans on portfolios of best-in-class commercial real estate assets, with an emphasis on office and industrial properties, regional malls, high-end hotels and apartments.</p>
<p><b>Prime Finance</b> 1330 Avenue of the Americas, Suite 36B New York, NY 10019 (212) 231-9071 Jon W. Brayshaw, Principal jbrayshaw@prime-finance.com</p>	<p>Real estate finance company that provides bridge loans mezzanine, first mortgage and preferred equity loans for the major asset types, nationwide. Should originate \$600M to \$800M for commercial real estate this year with approximately \$80M already done.</p>
<p><b>Talonvest Capital Inc.</b> 2755 Bristol St., Suite 140 Costa Mesa, CA 92626 (714) 556-5086 Eric Snyder, Principal esnyder@talonvest.com</p>	<p>Created by former Buchanan Street Partners executives and will provide commercial real owners access to debt and equity markets. Just launched a new self-storage CBMS program that will do non-recourse loans of \$3M or greater. Underwriting will be based on trailing 12 NOI.</p>

**DEALMAKER DATABANK**

<p>Walker &amp; Dunlop                  7501 Wisconsin Ave., Suite 1200                  Bethesda, MD 20814                  (301) 215-5500, Fax: (301) 634-2151                  Andrew Coleman, SVP of Capital Markets                  acoleman@walkerdunlop.com</p>	<p>One of largest multifamily lenders focused on loans for property owners, investors and developers of multifamily properties across the U.S. Will also put together loans for other property types in including office. Went public in December 2010.</p>
<p>Westfield Realty Group                  426 S.W. Commerce Drive, Suite 130                  Lake City, FL 32025                  (386) 438-438-5550, Fax: (941) 827-7977                  James Cook, MHC/RVP Specialist                  james@westfieldrealtygroup.com</p>	<p>Specializing in mobile home and RV park brokerage. Predicts life companies, major banks and most conduits coming back into the mobile home lending space. Has closed several deals with life companies recently.</p>

**OFFICE PROPERTIES PIQUING LENDER INTEREST...**

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**Mesa West Capital** originates a \$47M first mortgage financing for the 333,000-s.f. 5 Hanover Square in Manhattan, a three-year interest only loan. Principal **Raphael Fishbach** believes there will be plenty more office opportunities, as sponsors are willing to take on more risk given the job growth in certain parts of the country. This was the first deal for Mesa West in New York City, and Fishbach was attracted to the sponsorship and the fact that the building had a reset basis in the market and will lease up quickly. The private equity firm is a floating rate lender that will do acquisition, refinance and redevelopment loans but

## NEW PROGRAMS COME OUT OF THE RECOVERY

As the capital markets slowly improve, new lending programs emerge to meet demand for all commercial real estate product types, especially in underserved niches. These ignored sectors are not as romantic as say, apartments or hospitality, but could be a hidden gem in the recovery. Even CMBS lenders are joining the party. Self-storage performed well throughout the downturn, relative to other property types, and the worst seems to be over for this asset class. Manufactured housing is expected to see an upturn as single-family home prices start to rise. Many lenders will have an appetite for mobile home mortgages, including the conduits, life companies and major banks such as **Wells Fargo, Bank of America and GE**, looking to compete with the GSEs.

**Talonvest Capital Inc.** sees a void of capital in the markets to provide competitive loans to self-storage owners and has decided to bring CMBS back to the sector. Talonvest will allocate at least \$150M out of its new CMBS self-storage program by year's end. Principal **Eric Snyder** notes that these loans are similar to before the meltdown, except underwriting is now based on the trailing 12 NOI. The lender will do non-recourse loans of \$3M and up. LTV is set at 70% with DSC at 1.30x and a 10%-plus debt yield. Loans can be five- or 10-year fixed with rates under 6% and 30-year amortization. The properties must be at least 70% occupied and Snyder will work on assets nationwide with populations of 50,000 in a three-mile radius. Talonvest offers something unique because most CMBS lenders require minimum loans of \$10M to \$15M and most banks will only do recourse. After only one month of marketing the new program, Snyder is working on loan requests totaling more than \$50M for owners nationwide.

**MarkOne Capital** decides to expand its multifamily lending program to include manufactured housing this year after doing brick and mortar apartment properties for the past 15 years. The firm would like to loan out about \$50M a quarter under the new program. Director of Capital Markets **Glenn Gioseffi** feels that multifamily seems to have hit a bottom with stagnant cap rates, dropping vacancy and rental rates going up. Since it will probably not go down much more, MarkOne feels comfortable launching a mobile home lending program at this time. The company will lend on communities in Washington, Oregon and California and will offer pricing competitive to Fannie Mae. Fannie financed about \$540M in manufactured home communities in 2010.

Loans will range from \$500K to \$7.5M, so this will target borrowers looking to buy parks for \$10M and under. Most will be acquisitions loans with some possible refinances. LTV should be 75% and DSC of 1.20x, determined on the strength of the park, not the buyer. Gioseffi will not focus on the quality of the park, but rather if it meets the guidelines of all single or doublewide. Attributes such as occupancy, vacancy history and cash flow will also be considered.

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