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ACQUISITION CAPITAL PRIMED, READY TO DOLE OUT

The gospel from lenders is quite positive regarding acquisition financing this year. The transaction market has shown improvement over the past 12 months, making loans available from both the national and regional banks, as well as life companies, Wall Street CMBS lenders and bridge lenders. **Beech Street** [redacted]

ACQUISITION CAPITAL PRIMED, READY TO DOLE OUT...

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The positive forecast surrounding the political buzz in New Jersey helps explain two large transactions: **Morgan Stanley** recently put up a $41.25M five-year, fixed-rate loan for Princeton Forrestal Village, a 550,000-s.f. mixed-use development that is close to Princeton University and already has signed leases from several medical tenants, with many more expressing interest. With regard to the increase in multifamily properties, **PNC Real Estate** is responsible for helping AvalonBay Communities acquire Fox Run Apartments, a 776-unit property located in Plainsboro. The sellers picked up the asset in 2009, during one of the slower times, for $70M and then turned around and sold it for $86.5M. The buyer is purchasing the New Jersey apartments with existing debt and are also receiving a $10M supplemental loan from PNC.

Walker & Dunlop's Assistant VP **Alan Blank**, predicts acquisition financing to jump 10% to 15% this year, increasing the big picture from 20% to around 35%. Fortunately, fire sales didn't really happen, and owners were able to hold onto properties longer than expected. A recent W&D deal consisted of a $21.2M 10-year loan with two years interest-only utilizing Fannie Mae's DUS product line, with an LTV of 79.3% and a 1.25x DSC. The Class A, 267-unit multifamily asset is located in Alabama, where the economy is stabilized. Blank notes that on the stabilized multifamily side, Fannie and Freddie will continue to have the largest share, while looking to increase that in the coming months.

Arbor Commercial Funding is another lender who has recently taken advantage of Fannie Mae's DUS financing. **Ronen Abergel**, VP, arranges a $15.24M loan, which carries a 10-year term and a 30-year amortization schedule, for the East Village Portfolio. The five-building, 52-unit multifamily complex is located in New York City. Arbor expects to be very busy this year, just as many lenders are coming to market, but sees the multifamily sector as the most active and anticipates the GSEs will take the biggest chunk of multifamily loans.

CREDIT TENANT LEASE PROVIDES A LONG-TERM SOLUTION

Credit tenant lease (CTL) loans emerge as one of the few alternatives for borrowers after the conduit bubble. Many lending institutions look into doling out loans based on the tenant's credit rating versus the actual real estate asset through CTL financing. Because the credit rating takes precedence, these loans typically allow for more lenient real estate loan criteria. Unlike traditional loans, which have five- to 10-year terms and longer amortization, CTLs provide a financial solution that is co-terminus with the lease of the tenant, usually falling in a 15- to 25-year sweet spot. So, borrowers that want longer-terms loans will consider CTLs, especially for tenants such as Walgreens, Lowe's or CVS that have 25-year leases and want loans with 25-year terms and amortization. These longer term loans are hard to come by with traditional lending because life companies are hard pressed to do any debt for more than 15 years, while conduits cap out at 10 years and banks usually cover five-year or less loans. Developers who can lock into long-term, fixed-rate financing that is co-terminus with the lease term can benefit future buyers who can assume the developers' financing at today's low rates. CTLs usually need to be $3M and up to make sense.

Income streams, the strength of the tenant and terms of the lease are all more imperative when underwriting over the fundamentals of the property. Borrowers can obtain very attractive LTVs from 90% up to 100%, while most commercial loans are restricted to the 65% to 75% area right now. CTLs can also provide very favorable debt service coverage as low as 1.01x to 1.05x, whereas most loans usually fall in the 1.30x to 1.40x realm. Interest rates will reflect what is available in the market but most will be around 5% to 6%, still better than the 7% rates seen a few years ago. Many deals are done through bond houses, and life companies and pension funds are usually the end buyers.

Investment grade companies need to be DDD and above from a rating agency, although most will need to be BBB or better. CTL loans will work for assets across the commercial real estate sector but the most velocity comes from big-box and single-tenant retail, especially drug stores. Office, industrial, universities, medical office, hospitals and government buildings are also on the radar. Downsides are that this loan type does not give off much cash flow, which means marginal returns, but there is less risk involved. Also, obtaining CTL financing can be a lengthy process.

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The CTL pipeline could slow down somewhat this year if borrowers use wishful thinking and opt to sell their assets instead of financing the property, believing they can get a good cap in today's market. The rumored 25 conduits dipping their toes back into the market could also take away from CTL transactions this year, but usually they require more equity in the transaction and will only provide up to 10-year terms. But most predict the CTL market will expand, given the historical combination of low base interest rates as reflected by the treasury and corporate spreads. This should be a strong year for CTLs as the different sectors pick up and become well capitalized.

A newly constructed Omaha, Neb., office building closes $83M in CTL financing with a 25-year fixed rate at 5% and a 25-year amortization. LTV was 90% on the 316,481-s.f. building, while traditional financing would have brought in only 50% to 60% LTV. Broadview Financial executed the deal through a bond house and was able to get competitive pricing and many bids because of the tenant's strong credit. The building is Blue Cross Blue Shield's new headquarters. CTL financing made it so the developer would not need as much equity in the deal. When Broadview first started working on the deal interest rates were around, 6% but they were able to get it under 5% at the time of the loan.

A $4.3M CTL loan goes out for the purchase of a 13,650-s.f. Walgreens in Dundee, Mich. Funds were sourced from bond investors and the loan has a 23-year term with 23-year amortization. DSC ratio was 1.01x. Interest was set at 6.05% and LTV was 92%. The owner/purchaser of the property is a non U.S. citizen investor so this was the perfect opportunity to get a great return on investment. Since Walgreens is a stable and solid investment, the borrower was able to get high leverage at a favorable interest rate that is fixed for a period of time.

William Blair & Co. worked on 28 CTL transactions in 2010, equaling out to around $450M and Michael Kalt, principal and head of CTL Group, hopes to do around the same amount this year. The last two years have been record breaking for the CTL program and Kalt would like to sustain that going forward. The most recent transactions include a Veterans Affairs clinic and four medical office buildings that were coming in between $40M to $60M per transaction. Kalt notes that a lot of new CTL activity will come from the VA and medical industry. He prefers to work with BBB plus better tenants or A and better for government sector.

Amerifund Commercial Corp. SVP **Michael Rubino** noticed an uptick in CTL lonas in 2010, especially as an alternative financing option for single-tenant properties. Count on Amerifund to lend to the big guys such as McDonald's, Target and Walmart, which have a $3M loan minimum and no maximum; 1.00x DSC for triple net lease or 1.05x for double net lease; and 100% LTV. Rubino sees fuller amortized debt that is co-terminus with the firm lease term remaining, or a slightly longer amortization that is insured as the wave of the future. By locking into long-term, fixed-rate financing co-terminus with the lease term remaining, buyers of single-tenant properties do not need to fear higher interest rates on refinances five to 10 years down the road. He also predicts that the current lending environment on single-tenant assets will endure [illegible] because of the overly aggressive conduit lending done on these property types

DEALMAKER DATABANK

Arbor Commercial Funding 375 Park Ave., Suite 3401, New York, NY 10152 (212) 389-6548 Ronen Abergel, VP rabergel@arbor.com	Arbor Commercial Mortgage LLC, and Arbor Commercial Funding LLC, are national direct lenders specializing in the origination of debt and equity financing and servicing for multifamily and other diverse commercial assets.
Amerifund Commercial Corp. 2275 Half Day Road, Suite 343/350, Bannockburn, IL 60015 (847) 374-9500 Michael Rubino, SVP mrubino@amerifundcorp.com	Amerifund's specific niche is CTL financing and bets on this loan type as the logical financing structure of the new economy. Funds for CTL financing are generated through private placement bonds sold to pension funds and life companies. Will also do GSA financing.
Applied Bank 601 Delaware Ave., Wilmington, DE 19801 (302) 326-4200 Carl H. Kruelle, Chief Lending Officer Carl_Kruelle@appliedbank.com	Bank lending on multifamily, hotels, retail, industrial and specialty office. Will do loans in the $5M to $25M range with a focus on the Mid-Atlantic and Florida.
Beech Street Capital 201 Filbert St., Suite 400, San Francisco, CA 94133 (415) 362-5400 David Levine, EVP, Originations dlevine@beechstcap.com	A mortgage banking company engaged in originating, underwriting, closing and servicing high-quality multifamily mortgage loans. Also, provides financing for existing and proposed apartment buildings and manufactured home communities throughout the U.S.
Bluestone Real Estate Capital The Rialto Building at The Piazza at Schmidt's 1033 N. Second St., Second Floor, Philadelphia, PA 19123 (215) 717-2227 Matthew McManus, Chairman mmcmanus@bluestonecap.com	Bluestone Real Estate Capital is a Philadelphia-based commercial real estate investment banking and advisory firm that secures innovative debt, mezzanine, equity and sponsor equity financing for the nation's top-tier investors, operators, owners and developers.
Georgetown Hospitality Partners 2 Ravinia Drive, Suite 500, Atlanta GA 30346 (678) 885-7270 John Wright, Managing Partner jwright@georgetownhospitality.com	The newly formed company will serve as a direct funding source for short-term rehabilitation loans.
Holliday Fenoglio Fowler, L.P. (HFF) 200 Campus Drive, Suite 205, Florham Park, NJ 07932 (973) 549-2000 Jon Mikula, Senior Managing Director jmikula@hfflp.com	Offers clients a fully integrated national capital markets platform, including debt placement, investment sales, advisory services, structured finance, private equity, loan sales and commercial loan servicing. (Princeton Forrestal Village and Fox Run Apartments deals)
Marcus & Millichap Capital Corporation 101 S.W. Main St., Suite 1850, Portland, OR 97204 (503) 200-2000 Steven Wiltshire, Associate Director swiltshire@marcusmillichap.com	A subsidiary of Marcus & Millichap Real Estate that provides capital market products for a variety of investment properties including multifamily, shopping centers, office, industrial, self storage, manufactured homes, hotels and CTLs. (Walgreens deal)
Mesa West Capital 11755 Wilshire Blvd., Suite 1670, Los Angeles, CA 90025 (310) 806-6300 Ryan Krauch, VP rkrauch@mesawestcapital.com	Mesa West looks to increase its lending to hotels this year with up to $300M in loans possible by year's end. The lender also looks to widen its pool of potential borrowers and transitional properties.
Mesirow Financial 353 N. Clark St., Chicago, IL 60654 (312) 595-6000 Stephen Jacobson, Senior Managing Director sjacobson@mesirowfinancial.com	Privately-owned diversified financial services firm that provides a full range of investment banking services including CTL loans. Acted as placement agent for $83M CTL loan for the Blue Cross headquarters in Omaha.
Morgan Stanley Real Estate Advisors 1585 Broadway New York, NY 10036 (212) 761-3116 Ben Black, Executive Director benjamin.black@morganstanley.com	Provides a wide range of investment banking, securities and investment management services. The Global Sustainable Finance (GSF) supports the development of long-term business models capable of achieving compelling financial, social and environmental returns.
PNC ARCS 5 Independence Way, Princeton, NJ 08540 (609) 720-0720, Ext. 209 Steven Heller, SVP Steven_heller@arcscommercial.com	PNC is one of the largest diversified financial firms, providing retail and business banking, residential mortgage banking, specialized services including corporate banking, real estate finance and asset-based lending, wealth management and asset management.

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Q10 Capital | Daisley Ruff/Broadview Financial 440 Regency Parkway, Suite 200, Omaha, NE 67114 (402) 384-5233; (402) 758-1888 Steve Ruff, President/CEO steve.ruff@q10drfc.com	National leader in commercial real estate capital with debt and equity placement through relationships with life companies, conduits, pension funds, banks and investors. (Omaha office CTL deal)
Thomas D. Wood 7349 Professional Parkway, Suite B, Sarasota, FL 34202 (941) 552-9731 Brad Cox, SVP bcox@tdwood.com	Independently owned and leading commercial mortgage banking firm in the Southeast that has correspondent relationships with major LCs. Will work on retail, industrial, office, senior housing, self storage, apartments, hotels and mobile home parks.
Walker & Dunlop 200 Park Ave. S., Room 1615, New York, NY 10003 (212) 953-7302 Allen Blank, Assistant VP ablank@walkerdunlop.com	Leading provider of commercial real estate financial services, with a primary focus on multifamily lending. The Multifamily and FHA Finance groups are focused on lending to property owners, investors and developers of multifamily properties in the U.S.
William Blair & Company 222 W. Adams St., Chicago, IL 60606 (312) 236-1600 Michael Kalt, Principal/Head of CTL Group	Global investment firm offering investment banking, asset management, equity research, and private capital to individual, institutional and issuing clients. Did 28 transactions and $450M in CTL loans last year.

INCREASED COMPETITOIN FOR HOTEL LOANS

Competition will heat up between lenders in the next few months, leading to an expanded pool of borrowers and hotel types, which translates to more favorable LTVs in the hotel sector. Wall Street is feeling good about the hospitality segment again, so expect the goodwill to trickle down to the regional and local lenders as well. Most lenders prefer hotels with strong brand and sponsorship, as well as positive NOI, so they need to get more aggressive if they want to finance the most desirable deals. LTVs are currently hovering between 65% and 70%, a significant improvement from six months ago when borrowers were lucky to get 60%. Interest rates will not drop any further because treasuries are going up. During the rest of this quarter and Q2, rates will likely be status quo, but expect to see a slight rise in rates later in the year. However, increased lender appetite in the marketplace will ensure better terms and leverages going forward.

Existing relationships were extremely important when the financing markets first thawed out, but now some lenders are getting more flexible and strive to build new relationships. Around 50% of the loans inked in January were between lenders and borrowers that didn't have a previous a borrowing history. Lenders see a lot of opportunity in hospitality and will need to expand their initial comfort zone by adding new clients to help build for the future.

Acquisition financing will start to extend to transitional hotel properties in Q2 and Q3. With many lenders finally seeing loans mature and get paid off, it will free up capital that can be redistributed to these assets. This will help create room for rates and terms to improve for transitional properties. At first, loans will be issued for the properties that need the least amount of improvements to get NOI on the upswing. Value-add situations should find financing, as long as the problems aren't too deep. Initially, lenders plan to target hotels with strong brands to justify a looming PIP. And with the huge wave of PIPs scheduled for this year, more lenders will start to include the price of the renovations when underwriting the loan. This way the lender can be sure the hotel will get the improvement attention it deserves.

JP Morgan Chase explores new relationships this year and inks a deal with Magnolia Hotels, which it had not worked with previously, to refinance the company's Dallas hotel. The refi is a 10-year, non-recourse loan with a fixed rate. JP Morgan issued the new loan as part of its CMBS group. Like many other big banks, its CMBS group is back and very busy.

Mesa West Capital steps outside of most lenders' safe zone and pursues a wider variety of property types and borrowers. Look for the company to lend $200K to $300K in the hospitality sector in 2011, after lending $100K at the end of 2010. The company aims to create new relationships this year and will also lend on transitional assets.

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Mesa West finances assets in a wide variety of markets, including suburban locations, like when it originated a loan for a full-service boutique property outside of Chicago. The NOI had been beaten down, but Mesa West was able to secure the loan based on the strength of the future brand. Going forward, the company will look at loans that many of the larger banks and life companies may avoid. Properties with depressed NOI, upcoming PIPs and brand conversions are all strong candidates. Mesa West gets behind value-add situations and can have financing ready at the close of the sale.

Look out for Mesa West to close a deal this month that comes in around $50M for a Starwood branded asset in Washington, D.C. In January, the company also inked a $60M loan for a Hilton asset in Rockville, Md. Mesa West looks for borrowers to have extensive experience in the hotel sector, especially with the brand and location. Demand generators in the market are important and the lender is looks for core hospitality assets that are not at the very top or bottom of the industry.

Georgetown Hospitality Partners (GHP) will serve as a direct funding source for short-term rehabilitation loans. The newly formed company sees pent up demand due to the downturn for hotel owners to be able to find loans for upcoming PIPs and renovations. The executives at GHP, including **Jon Wright**, **John York** and **Michael Lispon**, will initially focus on relationships they have developed over the past 25 years with borrowers and lenders, before exploring new relationships. Expect GHP's loans to be at low leverages around 65%. The company requires at least 20% equity. The loans will act similarly to mezz debt, but with lower rates and a higher constant for up to seven years amortization. GHP is traditionally a recourse lender, which has provided historically low default rates, even in the down cycles. Expect to see the company deploy around $100M throughout this year. Loans typically range from $500K to $5M. GHP's deals are somewhat unique in that they will cover both hard and soft costs. The lender's long-term approach is to aggregate portfolio transactions, which are later packaged and sold into the capital markets via institutional lenders. Count on GHP to close several loans in this quarter.

Regional banks will start looking at construction loans again and rates will need to be very competitive in order to close deals. **Applied Bank** only looks at construction loans with significant cash equity. The company currently works on a couple of financing deals for two different Hampton Inns that will be for construction financing and perm debt. Applied Bank also works on a perm loan for a deal that will be for the acquisition and conversion to the Holiday Inn Express brand. The bank puts together on a loan to