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CMBS INCREASES, EXPANDS TO MORE MARKETS

CMBS originations are on track to hit \$35B to \$40B this year, with \$10B already originated since January. Multi-borrower securitizations were nearly nonexistent until mid-2010 and CMBS lenders have become even more active in the last couple months. So far in 2011, we have seen many shops rev up to increase production for office, hotels, multifamily, industrial and retail. February's activity alone was almost two-thirds of the roughly \$11B in deals offered last year. There are around 24 organizations that say they are doing CMBS. At this point around 10 or 12 players have actually closed a meaningful amount of CMBS 2.0, while another five or seven will close CMBS this year and a handful of them will never see any come to fruition. **Wells Fargo, Bank of America, Citibank, Deutsche, Goldman Sachs Commercial Mortgage Capital, Cantor Fitzgerald** and **JPMorgan** have all been active in the space and the middle market CMBS guys start to pick up as well.

Leverage will creep back up to 75%, after averaging 65% to 70% recently. Expect it to stay at that mark for next six months. Delinquencies have tapered off and special servicers are done with long loan extensions. Don't expect to see any extensions of more than a one-year period going forward. A general perception is emerging that there is liquidity available for new loans and there are plenty of players looking to step up and write loans. The recent closing of **Bridger Commercial Funding** could be the first of many signs pointing to an overly crowded CMBS market, especially within the last six months. Everyone will be chasing the same loans and the big players will squeeze the smaller guys out. This could turn into survival of the fittest, so expect more small players to exit the market.

Count on the conduits to snatch up the larger loans, although, they will look into smaller ones but most will not underwrite because borrowers might have credit and/or default problems. The smaller deals will be passed to banks and life companies. The insurance companies will start to feel the competition with CMBS bidding on similar deals. Up until the last month or two, the LCs had little competition and were able to pick and choose the deals that made the most sense for them. But now CMBS snatches up deals in smaller markets that life companies won't enter.

As the market stabilizes, CMBS lenders broaden their criteria and begin to close loans for transitional assets that they probably would have discounted last year. They are targeting a wider range of property types and start to work on deals outside the major markets, with many loans being inked in secondary and tertiary markets. Healthy cash flow is no longer the top criteria, as many loans will close on assets that have cash flow but with room for significant NOI improvements.

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A couple CMBS loans for hotels in secondary markets emerge this month. UBS puts up an \$8M CMBS loan to a full-service Hilton in suburban Charlotte, N.C. The loan will be used for a refi and an upcoming PIP. The asset is a bit older and is in need of some renovations. It has cash flow coming in, but it is not performing at the peak of where it can be once renovations are complete.

JPMorgan inks a \$12M CMBS refi for a Residence Inn in Chattanooga, Tenn. The DSC came in at 155x with an LTV rumored to be around 84%. The hotel opened a year ago and will use these funds to refinance its construction loan. It is interesting to see a new loan on a property with limited operating history.

DISCOUNTED PAYOFFS TAKE OFF

Right now all the major banks are dumping their paper properties and are finally letting go of distressed or troubled loans, which will lead to discounted payoffs (DPOs) transactions increasing throughout the year. If the borrower or property is in distress then a conventional refinance is not possible. DPOs are able to monetarily reduce loan amounts to market values, so something that was financed 10 years ago will not be worth as much. Borrowers benefit from DPOs because they can reset their basis by taking an asset that is underwater and resizing the loan to what would be typical at today's values. Borrowers typically infuse new equity into these loans, thus giving the DPO lender a viable deal at current values, with fresh cash. Most likely, the borrower's previous equity in the deal has evaporated, so new equity is needed to obtain the loan from the new lender. The borrower will be motivated to keep the loan performing since they have now put money in twice. And, although the original lender takes a hit on the principal, they get liquidity back and get a non-performing asset off the books. Count on lenders across the board to be active in DPOs, including Wall Street banks, life companies, commercial banks and private money. Sometimes it is not the property that is in trouble, so some lenders are offering discounts to borrowers on performing notes in certain situations in order to balance portfolios and pay down debt exposure.

Private-lender **Sterling Commercial Capital** specializes in hard-to-finance CRE transactions and plans to deploy around \$300M in DPOs this year. CEO **Brian Opert** has a DPO program where Sterling can either lend a high percentage of the cost of the discounted note to the borrower (requiring some additional borrower cash), or purchase the note on the client's behalf at the negotiated discount with no additional cash required. Then the lender will restructure the discounted debt with a suitable bridge loan and a detailed buy-back provision. Sterling can arrange for long-term financing once the property has stabilized. This program will be for any income producing real estate asset but will not work with land or condos. The cost of the note has to be at least equal to the value of the property, but is expected to be higher. Opert knows he can get up to 65% LTV financing for a take-out loan. Sterling makes its money on the spread and points charged. Also, this type of transaction tends to be a fairly safe bet since another bank has already done the legwork on the property by inking the original loan. Sterling will also do traditional financing for apartments, office, retail, mobile home parks and self storage. Loans range from \$1M to \$15M and Sterling will work nationwide, although is cautious in deeply distressed areas such as Michigan.

B&A Capital Managing Director **Brian Shniderson** expects around one-third of his company's \$150M in commercial real estate originations will be DPOs this year. This marks an increase over last year because this is where private-money loans make sense, especially with capital opening up, which gives the private lender competition on more traditional bridge situations. Shniderson will perform DPOs for all product types that have a compelling story and proper exit strategy. Don't count on B&A to put together a DPO for ground-up construction or special purpose real estate such as golf courses, hospitals or schools. When considering a DPO, Shniderson looks at the borrower's business plan and collateral underwriting, while assessing the risk factors in making the loan such as market risk and legal risk. The sweet spot for loans is \$5M to \$15M but amounts could go as high as \$50M. B&A will work on deals nationwide.

Count on **Edgewood Capital** to dole out a total of \$50M in DPOs this year. The company has already done around \$10M year-to-date. Expect \$200M to go out to commercial real estate through all loan types by

DISCOUNTED PAYOFFS TAKE OFF...

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Edgewood is a bit different from conventional lending since it does not operate off coverage ratio, but is more borrower and asset driven and can close within four weeks or less. The lender works on a \$5.6M two-year first mortgage on 18 condo units in Garden City, N.Y. This was a discounted payoff of a \$6M loan for \$4M and Edgewood's funding provided money for the payoff, interest, renovation of units and carry costs. Edgewood funded 100% of the costs and the borrower did not have to put in new equity.

Protective Life puts together a \$5.5M loan for Sunset Crossing, a 217,000-s.f. retail power center in San Angelo, Texas. The original lender, First Franklin, was in distress and filed Chapter 11. The courts said it had to refinance its portfolio and needed to get the debt exposure for commercial real estate down. In order to reduce the balance sheet, First Franklin approached the borrower offering a DPO and the borrower jumped at the chance and brought in Protective Life to issue the new loan. The loan has 15-year term with 15-year amortization. Interest is fixed at 6.15% and the LTV is 60%, while the DSC is 1.35x. Protective was happy to work on the deal because everything was perfect from the borrower standpoint. Also, Protective was taking the loan from another bank at a lower LTV. The life company was also attracted to the shorter amortization and a good mix of strong retail tenants that had been in the center a while.

WILL INTEREST RATES TOP OUT THIS SUMMER?

It's not a matter of whether or not interest rates will climb this year, but rather, where exactly they will tip the scales. Recent whispers put the yield on Treasuries moving higher in June, after the Federal Reserve brings an end to its \$600B Treasury purchasing program. Now if the environment were a little more regular, the yield on benchmark U.S. 10-year notes would more closely track the nominal rate of GDP growth, which some estimates put at roughly 5%, but many have scoffed at a yield reaching those kinds of digits. Currently the note is hovering around 3.56% percent, so a yield at 5% seems unlikely; 10-year notes topping out at 4% come June will be a bit more in line with industry rumblings, with predictions for the year-end interest rate falling between 3.5% and 3.75%. No matter where the needle rests, though, the end of quantitative easing (QE2) is sure to affect the market, one way or another.

So, does that leave us with a glass that is half full or half empty? As we moved through 2010's summer days and into fall, the market saw interest rates drop around 140 basis points, and it was that kind of sudden interest rate shift that drove the bubbly activities during the second half of the year, where borrowers were taking advantage of 5% gains on LTVs, pushed out from 65% to around 70%.

And as the market goes, after one person jumped in the pool and declared the water nice and warm, everyone jumped in. But it wasn't long before interest rates were pushed out again, based on a combination of November 2010's QE2 announcement, the Bush-era tax cuts that were extended, and don't forget the holidays that saw a lot of consumer spending. People were overzealous when they didn't have that much to be excited about, and interest rates then jumped from 250 up to 350 basis points.

For those that live and die by five-, seven- and 10-year spreads, interest rate forecasts could be a shock to the system. Historically speaking, however, if you look at what the 10-year Treasury rate is today and compare it to what it's been over the last 30 years, summer 2011 shouldn't be that bad. Obviously, there are a lot of factors that affect the CRE environment and interest rates only make up a portion of the overall equation. One important driver is a return to fundamentals: when the general economy is in recovery

DEALMAKER DATABANK

<p>AmeriSphere 1900 Grant St., Suite 1250, Denver, CO 80203 (303) 831-9480 Scott Graber, FHA Loan Officer/Production Manager sgrab@amerisphere.net</p>	<p>AmeriSphere provides financing for existing and proposed apartment buildings, senior-living properties and hospitals in rural or metropolitan areas and helps increase the availability of affordable multifamily housing through financing of properties that qualify for Federal housing tax credits.</p>
<p>B&A Capital 1515 W. 190th St., Suite 455, Gardena, CA 90248 (310) 532-9122 Brian Shniderson, Managing Director brian@rtiproperites.com</p>	<p>Provides bridge financing on transitional properties across the U.S. and Canada. Will originate \$150M this year and the loan sweet spot is between \$5M and \$15M. Will work with any property type with a good story and exit strategy.</p>
<p>BMC Capital 3100 Monticello Ave., Suite 400, Dallas, TX 75205 (214) 526-7178 Keith Van Arsdale, President/CEO kvanarsdale@bmccapital.com</p>	<p>BMC specializes in small- and mid-sized properties, including multifamily and NNN loan originations, real estate advisory and servicing. Over the past ten years, BMC has funded more than 2,000 transactions, accounting for billions of dollars.</p>
<p>Cohen Financial 2390 E. Camelback Road, Suite 100, Phoenix, AZ 85016 (602) 381-3700 Brandon Harrington, Director-Capital Markets Unit bharrington@cohenfinancial.com</p>	<p>Diversified commercial real estate capital services firm offering debt and equity placement, investment brokerage, loan administration and advisory services. (Waddell & Reed deal)</p>
<p>Cushman & Wakefield Sonnenblick Goldman 2001 K St., N.W., Seventh Floor, Washington DC, 20006 (202) 739-0370 Walter Coker, Executive Director walter.coker@cushwake.com</p>	<p>Cushman & Wakefield is an independent real estate investment banking firm, providing a full range of real estate financial services, including debt and equity placements, joint ventures, hospitality investment sales and workout advisory services. (Residences at Loudoun Station deal)</p>
<p>CW Capital 111 S. Calvert St., Suite 2830, Baltimore, MD 21202 (410) 500-4300 Andrea "Dee" McClure, SVP dmccclure@cwcapital.com</p>	<p>CW Capital is a commercial real estate finance and investment management company focused on multifamily and healthcare lending, primary servicing, special servicing, investment management and research and consulting services.</p>
<p>Edgewood Capital 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>Marcus & Millichap 9255 Towne Centre Drive, Suite 700, San Diego, CA 92121 (858) 373-3146 Chad O'Connor, VP of Capital Markets chad.oconnor@marcusmillichap.com</p>	<p>Nation's largest brokerage firm focused exclusively on real estate investment services through its network of national and regional lenders for a variety of investment properties. (Sunset Crossing deal)</p>
<p>PMZ Realty Capital LLC 845 Third Ave., Sixth Floor, New York, NY 10022 (212) 277-8252 Michael Sonnabend, Managing Partner sonnabend@pmzcapital.com</p>	<p>PMZ has seen good success with closing hotel loans. The company has closed 12 in the last six months and has another dozen in the works, with several expected to close in the next few weeks. (Hilton and Residence Inn deals)</p>
<p>HFF 1000 S.W. Broadway, Suite 900, Portland, OR 97205 (503) 224-5566 Casey Davidson, Managing Director cdavidson@hfflp.com</p>	<p>Leading provider of commercial real estate capital markets services including debt placement, investment sales, advisory services, structured finance, private equity, loan sales and commercial loan servicing. (Eastlake Center I and II deal)</p>
<p>Sterling Commercial Capital LLC 5050 Quorum Drive, Suite 700, Dallas, TX 75254 (800) 497-8606 Brian Opert, CEO bopert@sterlingcommercialcapital.com</p>	<p>Private direct nationwide commercial real estate mortgage lender specializing in hard-to-finance transactions. Last year financed over \$300M in discounted payoffs and sets similar goals for this year. Will work with most income producing properties.</p>
<p>Terra Capital Partners 805 Third Ave., Eighth Floor, New York, NY 10022 (212) 753-5100 Dan Cooperman, Managing Director dcooperman@tcp-us.com</p>	<p>RE finance and investment company focused on mezz and equity investments in high-quality properties nationwide, originating, financing and managing investments worth approximately \$3.5B on behalf of institutional, high net worth and retail investors.</p>

MAKING THE CASE FOR MULTIFAMILY INVESTING

It's no surprise that major banks, life companies and CMBS lenders work aggressively on multifamily loans to take business away from Fannie and Freddie, since interest rates seem to be holding steady at a decent percentage. Look to **BMC Capital, Terra Capital Partners** and **AmeriSphere** to be at the forefront of the multifamily action this year, while **CW Capital** puts together construction development deals.

Underwriting on CMBS deals is much more stringent than seen in the past, but the conduits are busy and the names on everyone's lips are **Citi, Goldman Sachs, Bank of America, Principal, Morgan Stanley, Wells Fargo, RVS** and **Deutsche**. **Credit Suisse** is said to be ramping up as well. Par for the course, borrowers are completing several multifamily transactions with Fannie and Freddie, but they also agree that life companies are working hard to get a piece of the action, too, namely **John Hancock, New York Life** and **Principal**.

Too much competition is not ideal, and competition without integrity will take us back to where we were a few years ago (and no one wants that again). But if the industry can stay competitive with a fair amount of balance, there should be enough pieces of the pie for everyone to stay comfortably full. Multifamily construction loans are picking up in major and secondary markets nationwide, where the economy is blossoming and job growth is increasing.

During the recession, the worst of times saw people actually moving into their mom and dad's basement. But now that the economy is on the mend, the majority of Americans are moving up and out. People want to be on their own, but they're still nervous about trusting the housing market. Couple that with the fact that it's often too difficult to secure a single-family loan and we find Middle America situating themselves into apartments. And while the competition between lenders is quite stiff, there's a limit to how many apartment loans LCs and conduits can secure. They are more than happy to try and steal a good deal from Fannie or Freddie, but they're also adamant about balancing their portfolios. New boutique lenders are revving up to get in the game, but they need warehouse lines to actually tap capital. Yes this means their profit margin will be less; still, there are those who will want to work with the little guy, making the increased competition better for all parties involved.

Expect BMC Capital's multifamily financing side to be up around 20% to 30% this year over 2010.

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The nationwide boutique lender originates two refinancing deals equaling \$3.9M. Both loans feature five-year, fixed rates at approximately 5.6% on a 30-year amortization schedule. The two apartment complexes, located in Dallas and Fort Worth, were unique in that the client did not want any agency debt, and BMC found an LC that was able to meet those requirements. The Dallas-based company does originate large loans, but its main focus is the small balance sector of \$1M to \$10M, while underwriting requirements for experienced borrowers with good liquidity see an LTV of 75% and DSC is 1.20x.

Dan Cooperman, managing director and head of originations at Terra Capital Partners, sees no signs of major lending shutting down and projects Terra's 2011 loans to reach \$50M to \$110M, attributing about half that to the multifamily side. Cooperman's nationwide company performs mezzanine loans and provides equity, with a sweet spot for loans falling between \$3M and \$5M. Terra focuses on secondary markets, with typical underwriting requirements holding at 85% for LTV and around 1.05x DSC. It can also structure an interest reserve for value-add transactions. Cooperman closes \$4.2M on Terra's suburban Atlanta Cortland Portfolio, securing two four-year loans with an interest rate of 14% (no amortization) and LTV of 75% and DSC of 1.20x.

Many say that Texas will lead the nation in job growth and creation, thanks to the state's take on income tax and its legislature regarding business. This all makes perfect sense to lenders such as **Scott Graber**, an FHA loan officer and production manager at AmeriSphere, a mortgage banking company engaged in servicing multifamily and healthcare mortgage loans throughout the U.S. Graber utilizes HUD's 223(f) program to secure a \$10.4M loan for Casa Verde Apartments, a 384-unit, Class C multifamily asset located in Houston. The deal includes long-term, fixed-rate permanent financing.

CW Capital is a full-service, national lender to the multifamily and senior housing real estate industries, closing \$2.75B in loans through its agency platform in 2010. The company projects an excess of \$3B for 2011. SVP **Andrea "Dee" McClure** has faith in lending money to multifamily developers such as Archstone, or companies that believes in communities where tenants can actually feel connected. McClure points out that this attention to design is a sure way to confirm high occupancy rates, ensuring revenue streams for the long term. CW lends \$90M for the construction of Archstone Apartments, a 389-unit asset in old town Gaithersburg, Md., equipped with cutting-edge amenities, such as community gardens and dog-washing areas.

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