The CRITTENDEN REPORT® Real Estate Financing
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THE 75% LTV IS HERE

Some lenders begin to put 75% LTVs on the table for commercial real estate loans, with the exception of hotels and specialty-use assets. In order to win the best deal, expect to see CMBS push LTVs to 75% when it comes to the most desired properties that are well leased, with solid sponsorship in an attractive market. Weighted average LTV in Q2 is predicted to be 65% to 68%, up from 63% in Q1. By year's end the weighted loan average should be 72% +/-, so some will be 75% and others will be at 70% or fewer.

The four food groups of industrial, retail, multifamily and office could all get higher leverage, while hotels should stay around 65% this year. Community banks are stuck in the 65% to 70% range, life insurance companies will most likely be in the 70% area and the big banks, doing most of their lending through the conduits, boast leverage at 75%. When there is a low cap rate market, which we are moving toward, the lenders will hit a wall with debt yield and service coverage before they can get 75% LTV. Expect to see this with the Wall Street lenders and Fannie and Freddie.

Leverage on an attractive deal for CMBS can go up to 75% right now and could rise to 80% by year end. Some caution that memory is short and the financial market could end up right back where it started with loads of CMBS groups that are overstaffed and all vying for product. There are around 20 to 25 CMBS lenders out there right now all chasing the same product and some of the smaller guys are struggling. They are getting loan requests, but many borrowers are trying to refi and there is not enough juice in the deal to get it done. Expect a shake up with conduits by the end of the year, and if they can get away with it (with the credit rating agencies), they will go to up 80% LTV in a heartbeat.

Life companies will tap out at 70% on most property types unless it's a single-tenant, non-credit asset then

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Count on **Hudson Realty Capital** to dole out $200M to $250M this year and target multifamily and retail but will work with all property types. LTVs should be around 70% on most deals but Managing Director **Spencer Garfield** would rather get 80% LTV on a conservatively underwritten property than 75% on an aggressive one. He generally underwrites 10% to 15% below replacement financing and targets yields

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Banks have different investing criteria and generally don't want to be obligated to fix a rate for longer than five years. The CMBS market will string it out longer to around 10 years, but the yield premiums for the longer terms are generally priced above LCs, who have typically been a good source for these long-term loans.

Susan Pickrell, assistant VP at John Hancock Real Estate Finance Group, insists the company's underwriting requirements don't waver beyond an LTV of 75% and a minimum DSC of 1.25x. She will perform longer-term loans, such as 30 years, for the right prospect. Pickrell also thinks LCs are looking at the same assets they've always surveyed, and because John Hancock sets reasonable goals for its team, reaching $1.4B this year is not unlikely. The company secures a $7.3M, 15-year, fixed-rate loan for Peninsula Storage Center in Mountain View, Calif.

Allianz shoots for a goal of $1B to $1.5B this year and has already closed and signed commitments for $555M. The company did $700M in 2010, so that is already at 80% of last year's production. Allianz lends nationwide on the four major asset classes with a small pocket for medical office. Underwriting differs depending on the product type and market, but rates will be 120 bps to 220 bps over applicable treasury. LTVs are generally below 70%, with most under 65%. There is a requirement of 1.25x or greater DSC. Fixed-rate acquisition and refinance loans are the company's bread and butter. Demand has picked up dramatically for the LC in the last six months.

Unum VP **Shelley Stuart Carvel** notes her company is projected to do around $300M to $400M this year, but points out she must be comfortable with the loan's details — you won't find the company simply shelling out random dollars just because there's money that yearns to be spent. Unum's typical LTV is around 70% to 75%, with a minimum DSC of 1.35x. The team is most comfortable with 10-year terms, but will perform shorter terms if the spread is reasonable. Over the last couple years, Unum never slowed down on lending and continues to finance single-tenant deals and multi-tenant industrial, as well as grocery anchored and others. Carvel is concerned pricing has already gotten ahead of itself: The CMBS market is fueled with some very aggressive quotes but Carvel maintains that Unum strives to find sound deals for the long term. She also believes it would be nice if the industry would roll more "steady as she goes," but Wall Street, as usual, tends to keep things moving.

Senior Investments Officer **Steve Pierangeli** projects $500M this year for Sun Life of Canada, where the company underwrites loans with a max LTV of 70% and DSC of 1.25x. Sun Life closes first-mortgage

DEALMAKER DATABANK

Allianz Real Estate of America 1114 Avenue of the Americas, New York, NY 10036 (212) 739-3301 Wendell Kurtz, Managing Director-Commercial Properties wendell.kurtz@azoa.com	Life company that will dole out up to $1.5B this year. Looks to lend on apartments, industrial, office and retail, with a small focus on medical office. Has already sold or signed commitments for $555M this year.
Apartment Bank 220 Newport Center Drive, Suite 11-268, Newport Beach, CA 92660 (949) 244-8614 David Boyles, Senior Loan Office-Multifamily Lending david.boyles@bankofinternet.com	A division of Bank of the Internet with a focus on multifamily lending for affordable and market rate housing. Will do acquisition and refinance loans nationwide for three-, five-, seven- and 10-year fixed- rate terms.
BRT Realty Trust 60 Cutter Mill Road, Suite 303, Great Neck, NY 11021 (516) 466-3100 Mitch Gould, EVP; William O'Hagan, Senior Underwriter mitch@brtrealty.com; willo@brtrealty.com	A national REIT lender for short-term financing that will dole out around $200M this year. Specializes in one- to two-year bridge loans, freely pre-payable anytime for multifamily, office and retail properties nationwide.
Cambridge Realty Capital Companies 125 S. Wacker Drive, Suite 1800, Chicago, IL 60606 (312) 521-7601 Brent Holman-Gomez, SVP-Underwriting & Operations bh@cambridgecap.com	One of the nation's leading senior housing/healthcare lenders. Plans are to close $300M in loans this year, which is up 20% from last year. Average loan is $6M and $100M has gone out so far in 2011.
Canyon-Johnson Urban Funds 2000 Avenue of the Stars, 11th Floor, Los Angeles, CA 90067 (310) 272-1500 Marti Page, VP mpage@canyonpartners.com	Urban Funds' focus is on the development of urban properties in underserved neighborhoods. Formed to identify, enhance and capture value through the development and redevelopment of real estate in densely populated, ethnically diverse urban areas.
Cornerstone Real Estate Advisers 1 Financial Plaza, Suite 1700, Hartford, CT 06103-2604 (860) 509-2400 Rob Little, Chief Investment Officer of Finance rlittle@cornerstoneadvisers.com	Provides core and value-added investment and advisory services, including a comprehensive suite of real estate debt, equity and securities expertise and services, to institutional and other qualified investors around the globe.
Equitable Life & Casualty Insurance Co. 3 Triad Center, Salt Lake City, UT 841180 (866) 579-3418 John Pitcher, Director of Mortgage Services john.pitcher@equilife.com	Life company that does commercial real estate loans in small balance realm on their portfolio and through the SBA program.
Hudson Realty Capital LLC 250 Park Ave. S., Floor Three, New York, NY 10003 (212) 532-3553 Spencer Garfield, Managing Director sgarfield@hudsoncap.com	Middle market lender projected to dole out up to $250M this year. Will work with all property types, especially multifamily and retail throughout the U.S. Loans fall in the $2M to $25M area with a low teens targeted yield.
John Hancock Real Estate Finance 1646 N. California, Suite 320, Walnut Creek, CA 94596 (925) 939-6019 Susan Pickrell, Senior Investment Officer spickrell@jhancock.com	John Hancock offers a broad range of financial products and services and sets a goal of $1.4B in commercial real estate loans this year. The LC will perform long-term loans for the right asset.
Prime Finance 50 California St., Suite 3240, San Francisco, CA 94111 (415) 445-7474 Scott Douglass, Principal sdouglass@prime-finance.com	Originates mortgage, mezzanine and preferred equity financing, offering a variety of fixed and floating rate loans above $10M on office, retail, hotel, industrial, multifamily, mobile home, self-storage and mixed-use properties nationwide.
Prudential Mortgage Capital Company 8401 Greensboro Drive, Suite 200, McLean, VA 22102 (703) 610-1427 Patrick McGlohn, Director patrick.mcglohn@prudential.com	Financial services company assisting clients with life insurance, annuities, retirement-related services, mutual funds, investment management and real estate services. As of 2010, it held almost $700B in assets, with worldwide offices.
Standard, StanCorp Mortgage Investors LLC, The 19225 N.W. Tanasbourne Drive, Hillsboro, OR 97124 (971) 321-6263 Ken Borst, Senior Mortgage Loan Officer ken.borst@standard.com	StanCorp's commercial real estate loan sweet spot is between $1M and $3M. The focus is on multi-tenant retail, office, industrial and warehouse properties in solid locations.
Sun Life of Canada 1 Sun Life Executive Park, Building 1 (SC1214), Wellesley Hills, MA 02481 (781) 416-2185 Steve Pierangeli, Senior Investments Officer stephen.pierangeli@sunlife.com	A financial services organization providing a diverse range of protection and wealth accumulation products and services to individuals and corporate customers. It will underwrite commercial real estate loans with a max LTV of 70% and DSC of 1.25x.

DEALMAKER DATABANK	
Thrivent Financial for Lutherans 625 Fourth Ave. S., Minneapolis, MN 55415-1665 (612) 844-4470 Wayne C. Streck, Head of Mortgage Lending wayne.streck@thrivent.com	Thrivent Financial and its affiliates offer a broad range of financial products and services. Count on the life company to loan $600M to $650M this year, up 20% from 2010. Typical loans fall between $2M and $15M.
UBS 1285 Avenue of the Americas, New York, NY 10019 (212) 713-9282 Marc Waldman, Executive Director Marc.waldman@ubs.com	Provides securities and other financial products and research in equities, fixed income, rates, foreign exchange and commodities, advisory services and alternative asset managers and private investors.
Unum 2211 Congress St., C244, Portland, ME 04122 (207) 575-4049 Shelley Stuart Carvel, VP scarvel@unum.com	Life company that will do $300M to $400M in commercial real estate loans this year. The company prefers 10-year term loans but will put out short terms if the spread is reasonable.
Walker & Dunlop 7501 Wisconsin Ave., Suite 1200, Bethesda, MD 20814 (301) 564-3291 Michael Johnson, VP FHA Finance mjohnson@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.

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Standard Life Insurance Company's loan sweet spot is between $1M and $3M, primarily on multi-tenant retail, office, industrial and warehouse properties in solid locations. **Ken Borst**, senior mortgage loan officer, believes sales cap rates have fluctuated slightly in many markets but maintains his company is quite consistent utilizing underwritten cap rates in the 8% to 9% range. Standard also utilizes fixed-rate loan terms between three and 20 years, with amortization up to 25 years. The company lends $3M for a 15-year loan with an interest rate of 6.25% on a 102,250-s.f. retail center, built in 1986, located in Orlando, Fla. Borst adds that owner-occupied properties are not a big focus but this particular retail center had low leverage with a conservative cap rate of 9% and a fast amortization of 15 years. It also didn't hurt that the property is 100% occupied. A $3.4M refi loan goes toward Shoppes of Atlantis in Atlantis, Fla., with 1.96x DSC. Tamarac Center receives $2.95M in refinancing with 1.66x DSC in Tamarac, Fla. Both loans have LTV of 70% and 10-year terms with 25-year amortization.

Cornerstone Real Estate Advisers Chief Investment Officer of Finance **Rob Little** notes that after tallying $2.5B in 2010, his company would be more than happy to do $3B to $4B of originations this year. For the right transaction, Cornerstone will go up to 80% on an LTV and maybe a little inside of 1.25x, stopping at 1.10x, for DSC and really wants to expand on hotel lending this year. The company has a special unit dedicated to hotels, allowing it to understand that aspect of the business better, as well as underwrite those assets in the best way possible. Little points out that Cornerstone will add about 20% of hotel business to its portfolio this year, loan range falls between $40M and $125M, with terms of five, 10, 20 and 30 years.

ADDING MIXED-USE TO AN ALREADY EXPANDING MARKET

Lenders would be wise to consider devoting a share of their capital to the less-risky sector of mixed-use properties. They all agree that when it comes to mixed-use, the diversification of risk, depending on what the mix is, can help make a successful property. **Walker & Dunlop, Canyon-Johnson Urban Funds** (CJUF), **Prudential Mortgage Capital Company** and **UC Funding** all originate recent mixed-use loans, while **HSBC Bank USA** and **PNC** team up on a refinance for a Miami property. Keep an eye out for **Bank of America Merrill Lynch** and **UBS Securities** to lend on these types of assets as well, while **Prime Finance** concerns itself with bridge and sub-debt loans.

Most lenders focus on apartments with retail, whereas the CMBS arms are getting more aggressive in the office/industrial side of mixed-use, but only because they can't possibly compete with the GSEs and LCs on the preferred multifamily assets. And while mixed-use properties are attractive based on the benefits each component can lend the other, it's vital that each asset makes sense independently. Also, pay attention to those who start the ball rolling on funding for mass projects construction; they want it to be known they were the first to get involved in investments and bring attention to up-and-coming areas. Count on plenty of money to become available to transit oriented development (TOD) projects.

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Especially for the housing components of the project, which appeals to lenders because these properties are located next to a subway or metro station and bring in a slew of tenants looking to ease reliance on auto transport, keeping pollution down and convenience high.

Take, for example, a grocery store located below apartments: The extra amenity on the property will undoubtedly help spur occupancy rates for its residential units. With the multifamily sector doing so well, it makes sense to invest in the apartment/retail side of the market. **Walker & Dunlop** closes a $70.2M loan, insured under the HUD 220 program, for the Residences at Loudoun Station in Ashburn, Va. The project includes 357 residential units and more than 61,000 s.f. of commercial space in three buildings. VP **Michael Johnson** notes that construction is under way and is scheduled to wrap up in July 2012.

Marti Page, VP of Canyon-Johnson, notes her company is always sure to carefully research the individual components when underwriting mixed-use properties. For instance, CJUF provides $17.5M for the acquisition, re-zoning and pre-development of two land parcels in Hanover, Md. The 122 acres are currently the single-largest undeveloped TOD-zoned property in the region and will serve as the future home of Oxford Square, a 1.6 million-s.f., mixed-use community.

Properties with 100% occupancy are the ultimate goal when realizing which mixed-use assets will fare best, and nothing screams long-term lease deals like government projects. **Patrick McGlohn,** a director at Prudential Mortgage, puts his stamp on an 18-month forward commitment to loan $100M for the new headquarters of Defense Advanced Research Projects Agency (DARPA) in Arlington, Va. The borrower was keen to lock in the stellar interest rate of 5.58% on a 15-year, fixed-rate loan with an LTV of 60% and DSC of 1.60x. DARPA will occupy the first 355,000 s.f. of the 1.2 million-s.f. project, with offices for government contractors to come after the first phase is completed in 2012.

HSBC Bank USA and PNC act as co-arrangers on a $76M refinance loan for a prestigious mixed-use property in Miami. Located at 1111 Lincoln Road, the unique building offers retail, restaurant, residential and office space, where the retail portion is fully leased. HSBC serves as administrative agent for the loan, which is said to be one of the largest conventional loans in Miami since the credit freeze took over in 2008.

When it comes to mixed-use, **Scott Douglass,** principal at Prime Finance, believes most lenders want an easy story. If the property has to adapt in order to compensate for parts that have a permanent vacancy, it becomes more difficult to find loans for those assets. Prime focuses on borrowers who are looking for loans with 18 to 30 months of yield maintenance and underwrites with 80%-plus LTVs and 1.00x for DSC. A recent loan secures a five-year, floating-rate deal for $31M on a mixed-use asset in Simi Valley, Calif.

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