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MAJOR BANKS RAMP UP CMBS LENDING

The biggest players in the CMBS game rev their engines with significantly higher production goals over last year. **RBS'** Global Banking and Markets Division in the Americas plans to do $3B in CMBS financing this year. Just about $500M went out in 2010, including the first multi-borrower deal that was more than $300M. During Q1, **JP Morgan Chase** was lending up to $450M a month and now that number has risen to $500M to $550M a month. This will equal out to significantly more than the $2.4B seen last year. Count on a large portion to be CMBS deals. **Wells Fargo** expects to originate around $5B by year's end for CMBS and another $1B for non-recourse deals. **KeyBank Real Estate Capital** would like to originate $1B in CMBS this year.

RBS has already put out $1B year-to-date. CMBS is the only real estate lending platform RBS has for the time being, along with REIT credit facilities. Collateral and geographic diversification are part of the company's objective and Managing Director **Gary Swon** points out that RBS will work with all traditional real estate types, along with self-storage, hotels and mobile homes. Swon is as busy as he has ever been, although, he points out that there is a need for debt but many properties are overleveraged and difficult to finance. Most loans will be $20M and up, although RBS will consider smaller loans on a case-by-case basis. There are five production offices nationwide, with a focus on primary and secondary markets. Loans will be fixed rate on stable properties and RBS will not finance construction or land.

JP Morgan Chase was one of the first to get back into CMBS and is actively looking for deals in major markets. President of Commercial Term Lending **Al Brooks** expects up to $550M in originations to go out per month across all JP Morgan's lending programs. Original goals were targeted for a total of $3.6B this year, but Brooks believes they will hit $6B to $6.5B. Around $400M went out in 2009, now JP Morgan will do more than that per month. Even though these are impressive improvements, Brooks points out that these numbers are still not up to the $13B that went out during the height.

KeyBank focuses a lot of energy on building a CMBS production staff and wants to hire four more people. Once that happens, conduit originations should pick up. With the current deal flow, KeyBank's National Product Manager and CMBS Director **Clay Sublett** is not sure they will make their $1B goal for the year but it will definitely be a vast increase over the two loans closed in 2010 totaling around $40M. Office, retail and industrial/warehouse are all on the radar, with a focus on existing bank lines. Sublett will also look into multifamily but notes it is difficult to compete with the agencies. Loans can go as low as $5M and up to $50M, with most coming in around $10M to $11M. Underwriting is done to debt yield, which needs to be 11% on NOI, but with market erosion over the last few months it is averaging 10.5%. LTVs have been right around 60%. Acquisitions and refis are on the table, while construction lending does not work well with CMBS. KeyBank offers other real estate lending products in addition to CMBS.

LCS AND CMBS DUKE IT OUT FOR GROCERY-ANCHORED CENTERS

Everyone points to life companies and conduits as the top competitors in this tug of war over grocery super anchors, but all types of lenders are vying for them. But, there are also those who are skeptical as to exactly how much business conduits will pick up this year. When it comes to lending on grocery-anchored centers (GAC), why is not the question but rather, who. Look to **Citigroup, JP Morgan, Goldman Sachs, Wells Fargo** and **Ladder Capital** to be aggressive in grocery-anchored loans this year. Expect LCs such as **Genworth Financial** and **Sun Life Assurance Company of Canada** to steal some deals. **TIAA, MetLife, Prudential, Advantus, Protective** and **AIG** have also been quoting on GAC loans recently. Many money center banks such as **Sovereign, BofA, Citizens** and **Toronto Dominion Bank North** are getting in on the action by establishing a CMBS platform to securitize as many grocery-anchored loans as possible versus holding them on the balance sheet.

Continued on Next Page

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LCs AND CMBS DUKE IT OUT FOR GROCERY-ANCHORED CENTERS...

Continued from Page 1

Grocers generally have long-term leases and contribute around half of the overall revenue to GACs, making for a high degree of cash flow certainty, which is exactly what CMBS lenders seek. Factors that should really get CMBS back in the game will be a focus on reserves, escrows and TIs, although it may well be another quarter before we see just exactly where they are going to fit. Conduits quote financing regardless of location but, for well-located properties, provide more leverage than LCs. The aggressive style of CMBS underwriting keeps the LCs honest but conduits don't normally want to lend on a loan that's under $5M. LCs pass on many deals that are not located in primary markets. Though, they are securing some with low LTVs of 65% to 70% and conduits are winning the large loan deals with 75% LTVs. High-quality sponsors with high-quality real estate seek out LCs, and the properties situated on the next tier down will talk to CMBS lenders. Still, if the industry is going to get back to where it needs to be, the market will need securitized lending to take care of the tidal wave of maturities coming down the pike.

Grocery-anchored centers are at the top of Citigroup's list. Director **Jay DeWaltoff** notes his company will go as high as 75% on an LTV, with a minimum 1.25x to 1.30x DSC, depending on rates. He adds that the key for Citigroup is to check whether or not the GAC will have rollover during Citi's term; if his team has clarity on the structure, they can get more comfortable lending on the property.

Genworth Financial's portfolio is quite varied, though its bread-and-butter deals fall between $3M and $15M. **Doug Willman**, VP of loan originations, points out that's exactly what made the company's recent grocery-anchored deals so perfect since they were $4.7M and $12.6M. Willman adds that when it comes to lending on grocery-anchored centers, Genworth's first choice will always be major metros.

Sun Life Assurance Company of Canada is projecting to loan $500M this year, with underwriting requirements targeting an LTV of 70% and a 1.25x DSC, according to Senior Investments Officer **Stephen Pierangeli.** His company finances Stow Shopping Center, a community retail property located in Waltham, Mass., for $12M. Behind apartments, GACs are the most desirable assets to Pierangeli, as 60% to 80% of the NOI is both high-quality credit and in place for the long term — 15-plus years, on average.

LENDERS CAN'T GET ENOUGH INDUSTRIAL

Lenders of every shape and size would like to get their hands on industrial properties but they are finding it hard to do so for a couple of reasons: Manufacturers have taken over a large portion of the industrial pie because they feel safer owning the warehouse that houses their very expensive production lines and most choose SBA to secure financing. REITs then buy up another chunk funded with corporate bonds.

Wells Fargo, Goldman Sachs, Aviva Investors, Advantus Capital Management and **Nationwide Real Estate Investments** are said to be lending on what's left over. And provided the deals are large enough, watch for life companies to dole out money on these assets. **Symetra Life Insurance Company, Prudential, MetLife, Lincoln Financial** and **Aetna** are dipping their toes in the industrial waters. Finally, although private equity fund groups are rumored to only do three- to five-year loans, look to **KTR Capital Partners, Starwood Capital Group, FundCore** and **Cobalt Capital** to be eying industrial deals, as well.

The difficultly of amassing large loan dollars on industrial product — an asset with low rent metrics, when compared to retail or office — means nearly all life companies have less than 15% of their portfolio weighted to this asset class. Pricing, in terms of the spread over U.S. Treasury interest rates, should drop, making loan-to-values grow as the conduits push all lenders to be more competitive. However, LCs would like to add more industrial properties to their balance sheets, thanks to the assets' low default rates.

CMBS arms also want this product attached to their portfolios and will differentiate themselves from LCs by providing more leverage, as well as securing industrial deals in secondary markets. **Eric Smith**, SVP and managing director for Wells Fargo, points out that industrial assets include low-percentage buildout and lower re-tenant costs, which make for ideal generic spaces where you can fit anything. True, the most recent securitization deals have seen overall execution spreads go up, though industrial is still highly profitable. There is a large pent-up demand from debt portfolio managers to purchase a product that offers superior relative yields, which is what CMBS product can offer today, compared to other asset classes. Industrial properties' numbers are often below the threshold for conduits and their requirements/minimums

RECENT LOAN ROUND-UP

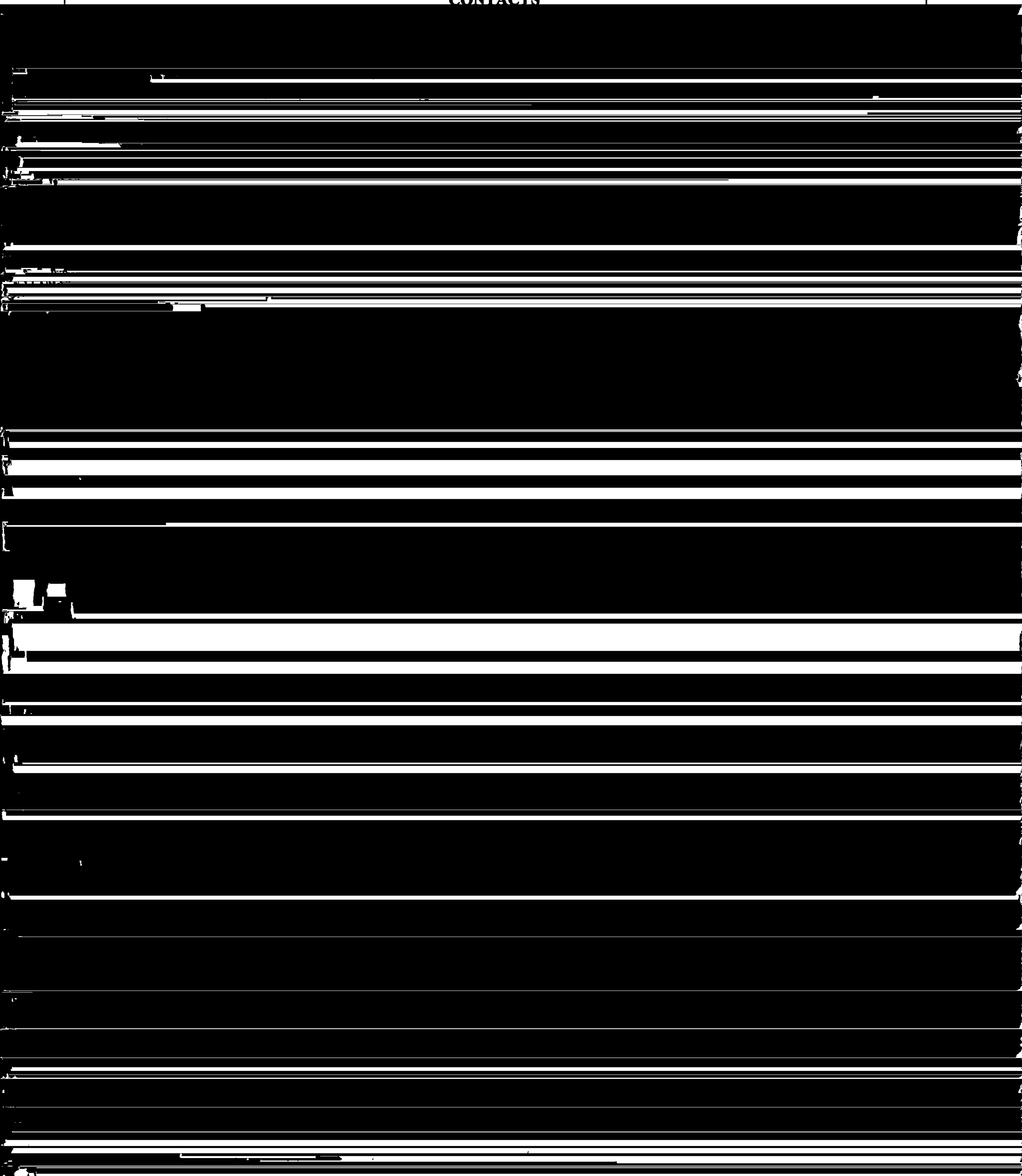
JP Morgan Chase and Company doles out $53M for the 656,030-s.f. Promenade Shops at Centerra, a lifestyle center in Loveland, Colo. This is a seven-year, fixed-rate loan with 30-year amortization. Interest is 5.8% and DSC is 1.70x. LTV is 70%. The borrower, DRA Advisors LLC, bought the asset all cash and added this loan one month later. The JP Morgan piece has already been sold. This type of asset fits right into JP Morgan's targeted property and around 60% of the pool to date has gone for retail properties. There were a lot of bids, but JP Morgan had an existing relationship with the borrower and won the deal.

Life company **Advantus Capital Management** closes two industrial loans for almost $7M. The 10-year, fixed-rate loan for Carolina 31st Corporation in Pembroke Park, Fla., is based on a 22-year amortization and 5.15% interest rate. LTV is 65%. Another loan equals $1.5M for a 68,000-s.f. industrial building, also located in Pembroke Park. The fixed-rate loan has a 10-year term and 20-year amortization.

Citigroup's conduit arm doles out $11M for MacArthur Village, a 177,646-s.f. Kroger-anchored retail center in Alexandria, La. The loan was structured with a 10-year term with 30-year amortization. There is an LTV of 75% and a 6.01% interest rate.

Wells Fargo doles out $9.99M from its conduit arm to refinance a 166,600-s.f., fully leased industrial/warehouse facility in San Jose, Calif. The loan on Remillard Court earns a 10-year term and 30-year amortization with a 5.98% fixed-rate. This note has already sold as part of CMBS 2.0. SVP and Managing Director **Eric Smith** recognizes that while there are not a lot of these properties in Northern California, his company likes to go after them when they become available.

CONTACTS



PORTFOLIO LOANS PAYOFF FOR PATIENT LENDERS

Right now many lenders say they would rather do one $10M loan than several $500K deals and choose portfolio deals landing between $5M to $20M. Anything larger than $30M usually gets its own separate deal. Portfolios are much more difficult to underwrite, however, the payoff is tenfold down the road. Watch for some big players such as **UBS** and **Deutsche Bank Securities** to put some portfolios on their books. Deutsche recently refinanced an office portfolio in Frisco, Texas, for $43.1M. **NXT Capital, Beech Street Capital, Red Capital Group, Arbor Commercial** and **First Tennessee Bank** will also be active in this sector. However, portfolios aren't always desirable. Take for example General Growth Properties (GGP) recent trouble getting a lender to refi its $900M portfolio of retail assets. The other side of the table insists it was more efficient for GGP to spread several of its properties across a few smaller loans, along with the fact that GGP was eager to build new relationships around the country.

When it comes to multifamily, chances are Fannie and Freddie will back the portfolio, so it would behoove lenders to work with the little guy. Because after a few years of renovating, flipping and continued buying, that little guy will soon be doing much bigger deals — and more of them.

UBS is one of the conduits reemerging this year. The lender makes it possible for one borrower to take several small loans on five retail condos on the Upper West Side of New York City and repackage them into one portfolio for $27.6M. The seven-year refi has a 5.31% interest rate. LTV was 60% and 1.70x DSC.

NXT Capital is on track to lend around $400M this year. **Bill Ballent**, managing director, explains that his company focuses more on LTC than LTV, especially for acquisitions. He also reveals that his company likes portfolio loans, as they provide a more diversified revenue stream. Though, he agrees they are more burdensome to underwrite. NXT provides $15.7M of debt for a warehouse portfolio containing 568,551 s.f., located in Oklahoma City. The LTC was approximately 70%, with an initial DSC of 1.60x.

Beech Street Capital is on track to loan $2B this year, which includes a combination of building on correspondent business, as well as continuing national growth. **Joel Goodman**, assistant VP, knows portfolio deals are beneficial as they allow the lender to do a number of loans with the same borrower in a good location — which essentially translates to more business. The company's usual loan amounts are $4M to $100M, with a concentration in the $7M to $25M range. Underwriting requirements of 80% for LTV and 1.25x DSC are typical. The company shells out $74M for a portfolio of 13 mid-rise buildings sprinkled throughout Manhattan. The Fannie refi allows for a 10-year term with 10 years of interest-only payments and a fixed interest rate. In another deal, Beech Street uses $27.85M to refi three multifamily properties in Bethlehem, Pa. Since acquiring the properties, the owners have completed over $5M in renovations. The Freddie Mac loan carries a fixed interest rate, seven-year term and 30-year amortization. Also included is two years of interest-only payments with six and a half years of yield maintenance.

First Tennessee Bank closes $12M for the acquisition of three triple-net leased medical office buildings in Bradenton, Fla. **Cathy Wind**, SVP, admits the buildings weren't exactly Class A, but their 15-year leases with the local hospital, Nashville-based Hospital Corporation of America (HCA), definitely helped close the deal.

Red Capital Group focuses mainly on multifamily and senior housing and estimates its loan volume to be around $2B this year. **Linda Mackov**, senior managing director for the group, points out that this is a humble estimate seeing as how her company doled out $1.95B last year. Red secures $50M for three luxury multifamily communities in Tyler and San Antonio, Texas. The 10-year term with 30-year amortization is arranged through Fannie Mae DUS financing.

Arbor Commercial Mortgage realizes the benefits of working with the little guy, per the company's Texas Director **Anthony Tarter**. He also notes the reasons behind Arbor's recent portfolio deal in Dallas: a strong borrower and the historic Lakewood neighborhood. The $10.05M loan is funded under the Fannie Mae DUS product line for seven years with a 30-year amortization schedule. The company closes two more Fannie DUS portfolio loans, one refi for $15.5M with a 10-year, 30-year amortization schedule, and a second in New York City for $15.2M. This last loan also carries a 10-year term and 30-year amortization.

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CMBS: A VIABLE EXECUTION CHOICE ONCE AGAIN

All the big players are back and requests for conduit financing are pushed by the strong demand for bonds, meaning the investor base has returned. **Wells Fargo** and **JP Morgan** originated $1.3B each in Q1, while **Deutsche** doled out $2.2B. **Morgan Stanley** and **CIBC** were right behind them. Expect the conduits to be much busier than the measly 12% of all debt issuances they represented last year. The first quarter alone almost eclipsed the approximately $10B in CMBS origination that went out in 2010. Issuances will most likely not reach the scale they did in the heyday, but should be a strong influence on the debt market. Any players that have not returned yet are most likely gone for good. Those that survived are back in the market along with some new players. It remains to be seen how these smaller boutique guys will fare in the long run, but there is always a need for niche CMBS lenders.

There will be a tough fight between the conduits, LCs and the banks over assets in good markets with collateral and below 70% LTVs. Count on CMBS to compete with life companies on the most sought after deals but they could be stuck with the core B-plus product if the LCs win. Life companies could also creep back into CMBS because they have the ability to originate and can decide to hold or securitize. Once the GSEs diminish their pull there will be a move toward the conduits. Many LCs are at 65% LTV with some going up to 70% to 75%, but most feel this won't be necessary. CMBS LTVs should be at 75% with a DSC of 1.25x. Interest will fall in the 5.25% to 5.75% range on 10-year, fixed-rate financing. This is expected to stay the norm through the rest of the year.

One of the things that could slow this down is the majority of borrowers have been institutions and REITs that don't need much leverage because of strong balance sheets. Hopefully, more middle-market borrowers and private developers will return to the game and spur demand. Paul Daneshrad, president of StarPoint Properties, has seen a huge difference in the debt market from 18 to 24 months ago. When he bought an asset 18 months ago, national banks would not work with him. But, he recently went to refinance the property and received over 20 quotes, including 12 CMBS lenders. CMBS had the best and most