The CRITTENDEN REPORT® Real Estate Financing
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LENDERS FLOAT FOR THE RIGHT LOANS

Floating-rate money is becoming more prevalent in the marketplace with banks, pension funds and CMBS lenders. Count on the second half of the year to be more exuberant as banks and possibly CMBS reenter the scene. **Wells Fargo** will be more aggressive on floaters and is currently putting a team together to get some big clients and larger transactions done. **CIBC** is the leading bank for non-recourse floaters and there are whispers that **KeyBank** and **GE** will also enter the game. But banks will still be picky, so look toward private money and fund lenders to pick up the slack. Private lender **Berkadia Commercial Mortgage** launches a new floating-rate program and recently did a $13M loan for a student housing property.

CMBS lenders will also slowly start to move back into floating-rate financing and both **Goldman** and **Deutsche** should do some loans. But it could be six to 12 months before CMBS floating-rate pipelines fully begin to flow. During the height, CMBS did the larger five-year float-rate money, so count on them to be more aggressive with those deals. Floating rate never truly went away but when CMBS shut down, only the commercial and regional banks continued and they have been scattered at best for putting out any money since then. When it comes to life companies they will do floaters for unique situations, but it is not a common product since they usually shoot for long-term debt.

Most lenders are now pricing over Libor, typically Libor plus 500 to 600. Banks look for quality assets that may not be stable but have a 1.05x or better DSC and pending leases where the upside is real and the payoff is eminent. Pricing for these loans is typically 200 to 350 over Libor. Count on bridge loan floaters

HOTEL LENDING TRENDS...

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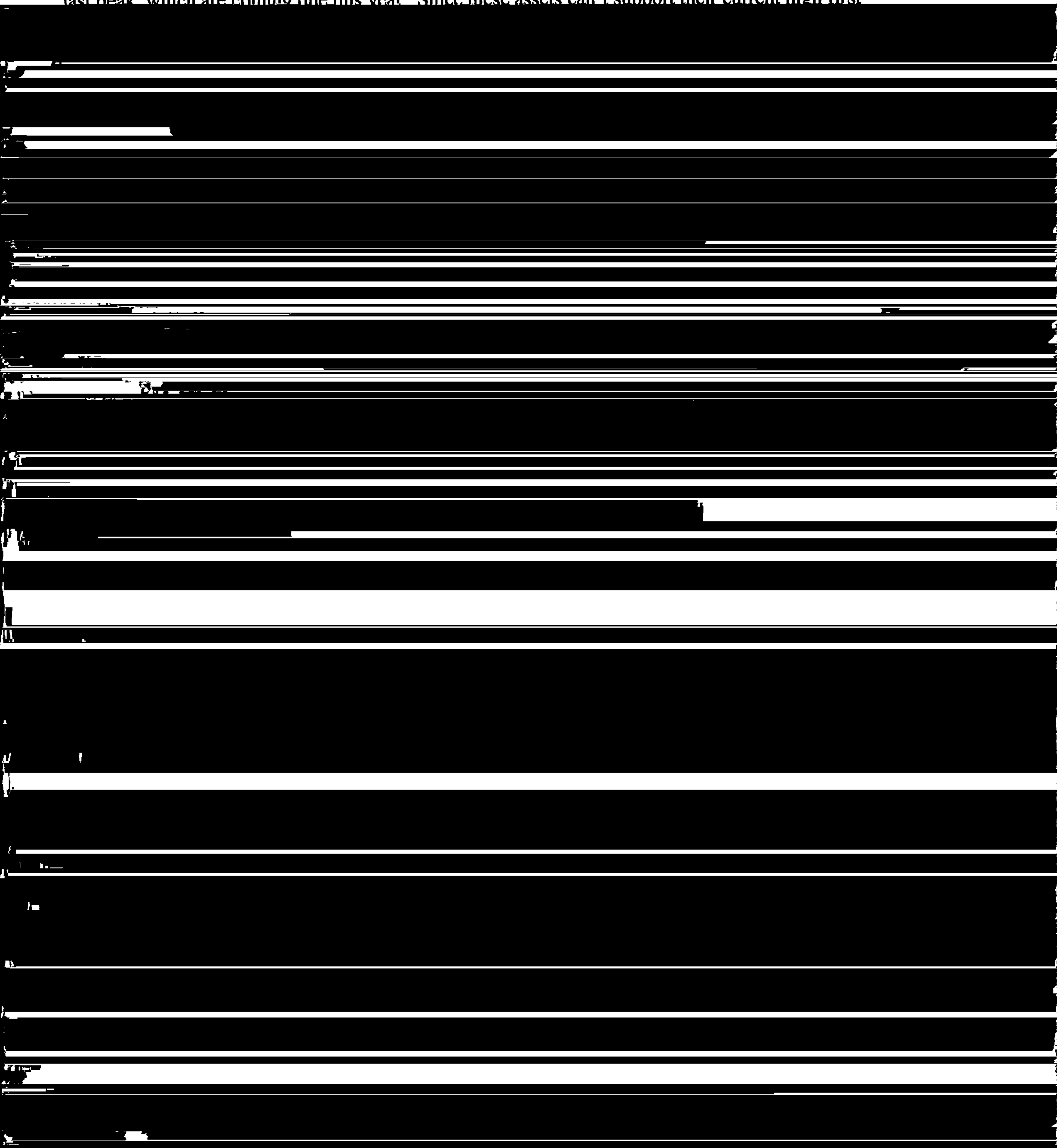
Private Funds Get Active in Mezz Space

A great need for mezzanine debt emerges thanks to the plethora of loans made at higher values during the last peak, which are coming due this year. Since these assets can't support their current high first



BUILDING A BRIDGE TO LOWER RATES

As commercial real estate numbers improve steadily for certain assets, lenders are more than happy to fund the multitude of distressed properties with bridge loans. For short-term lending, check out **The Bank of China, BB&T Real Estate Funding, UC Funding, Hancock Bank, Hudson Realty Capital, BRT Realty Trust** and **Pensam Capital**.

Underwriting is dependent on a property's current cash flow but as the market continues to bounce back, lenders are also willing to look at the asset's possibilities. Rules are strict though — even when using the pro-forma method. For these short-term loans, debt yield was 10% to 11% a year ago but is now hitting between 9% and 10%. Local and regional banks have a lower leverage of 65% LTV. Life companies, though few, are also quoting bridge loans; look to **Sun Trust, Prudential** and **John Hancock**. Hedge funds and mortgage REITs begin to take on this type of loan as well, while conduits crank up their bridge programs in hopes that they can do permanent loans down the road.

CMBS lenders secure the bigger $20M and up deals. For loans under $10M, however, the lender pool seems to be smaller. Borrowers looking to use the agencies for multifamily loans, such as FHA or HUD, are waiting up to 12 months for approval, so many looking at bridge loans to quickly fund their projects. Developers pick up short-term loans as a way to complete the plethora of unfinished condo units around the nation. Some of the reasons borrowers are seeking out bridge loans today include quickly paying off a bank for an overleveraged property or using the extra time to lease up a property in order to secure better terms on permanent financing.

BB&T Funding expects to lend around $250M this year and is comfortable doing loans in the $5M to $25M range. UC Funding has financed $150M in loans over the last three months and projects $1B in overall volume for 2011. Count on 75% of this total figure to be bridge loans. In the last 12 months, Hudson Realty Capital has loaned more than $200M and the company hopes doing another $100M to $200M before the year is out. Expect 50% of that amount allotted for bridge loans and the other half going

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CMBS, FANNIE, LCs AT HOME WITH MHC...

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Lenders will be on the lookout for well-kept properties and location is, of course, very important and access to quality amenities is preferred but not necessary. Key coastal MHC markets like Florida and California should continue to be the busiest, while Arizona could also get some attention. The Midwest poses some challenges for the sector.

Deals will require a strong sponsor with demonstrated strength in the sector. Lenders prefer a sponsor with a net worth equal to the loan amount but it's not a deciding factor in the deal. On properties that aren't rated as high, borrowers will need to demonstrate a great operating history and occupancy.

In the months to come, lay odds on manufactured housing to follow the lead of its multifamily kin and remain fairly stable. The sector has always had a fairly steady cash flow and has not traditionally suffered the same volatility as those such as office and retail. Plus, the rate of loan delinquencies on MHC is among the lowest of all sectors. Outlook in the sector appears promising and demand should remain strong.

Beech Street Capital EVP **Chad Hagwood** envisions around $2B in total originations for Beech Street in 2011, which is twice as much as they put out last year. Expect 10% to 15% of that to go to MHC. Rates on manufactured home deals will see LTVs up to 80% and DSC around 1.25x to 1.30x. Rates on a seven-year deal should fall in the low 5% range and mid-5% range for 10-year deals.

Mark One Capital's Director of Capital Markets **Glenn Gioseffi** counts on north of $1B in total originations this year, with around $500M already out. MHC loans land around 65% to 80% LTVs, with minimum DSC at 1.20x. Loans range between $1M and $10M for the nationwide lender.

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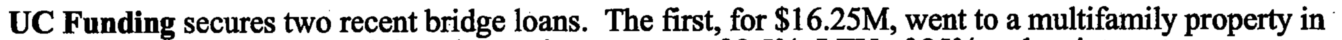
RECENT LOAN ROUND-UP

Prudential Mortgage Capital Company deploys $125M to Saul Centers for take-out construction financing for Clarendon Center in the greater D.C. market. The brand new 402,000-s.f. mixed-use development, located in Arlington, Va., includes retail, office and luxury rentals. The loan term is for 15 years with a 25-year amortization. Saul Centers has a long track record of success in Washington, D.C., and is an existing client of Prudential. The lender was pleased with this mixed-use project due to its infill location in a highly sought-after market. Saul Centers' strong sponsorship and talented management team also made this a highly desirable property to lend on.

United Overseas Bank Limited doles out a $61M loan for the refinance of 1130 Connecticut Avenue, a Class A office building in Washington, D.C. The foreign lender liked that the 218,571-s.f. building is located in the heart of a central business district, right across the street from the Mayflower Hotel and near a metro station. The borrower was private equity real estate investment company, Penzance, which has owned the building with a joint venture partner since 2004.

UC Funding secures two recent bridge loans. The first, for $16.25M, went to a multifamily property in



CMBS TARGETS THE LOWEST DEBT YIELD

Right now the conduits look for debt yield to be in the 9% to 10% range, depending on property type. This number has been all over the board this year, mostly driven by competition, and CMBS lenders could reduce it even further to stay in the game. **UBS** moves full steam ahead and is on track to deploy $4B to $5B this year, with $2.5B going out in the last six months. The most active lenders in the CMBS space are the major money center banks such as **JP Morgan**, **Deutsche**, **BofA**, **Wells** and **Citigroup**. But others are expected to step in, especially for the loans under $10M, although most CMBS players have not matured to do smaller loans just yet. **Talonvest Capital** plans to do up to $250M this year, with around $80M currently under application. Things are looking up and most of the conduits are starting to hire again, much like the early part of the last decade.

Due to where interest rates have been hovering, around 6.5% on 30-year money, there is the possibility that CMBS debt yields will drop even lower in the next few months, possibly to 8.5%. At the end of the day lenders will go to 75% LTV and 1.25x DSC, which allows them to push the envelope with debt yield. Some lenders are funding their own mezz loans and will go down to 9% yield. In a low interest rate environment, DSC is a less relevant metric because it does not fully address refi risk and underlying

Before this year, everyone was blind on property values so debt yield was applied in mid-2010. Debt yield was not talked about in CMBS 1.0 but now it is the main driver. At first, debt yield was in the 11% to 13% area and recently moved from a low of 10% to 9% for good quality properties with decent borrowers.

CMBS will be comfortable writing lower debt yields on well-leased institutional properties located in gateway cities. Debt yield for apartments will be at the lower end of the spectrum, even below 9% on the right property. Other commercial real estate property types will be varied in the 9% to 11% range. There is demand for industrial assets, even from the LCs, because of the low loan per square foot factor. Expect favorable debt yield, probably around 9.5%, from conduits on industrial assets even without a good rent roll. Retail is starting to get more attention if the asset has solid rent roll, longer-term leases with minimum rollover and decent tenants. Numbers may or may not get down to 9% but will most likely be in the lower 10% to 11% range. Count on high debt yields for office because it is still so expensive to own and is a painful product type right now. Some of West Coast markets such as San Francisco, Seattle and Orange County, Calif., are still not sure who will fill empty office space and when rents will get back to where they were. This will lead CMBS players to ink higher debt yield and lower LTV. Minimum debt yield requirements will remain high, at more than 10% for hotel and self storage properties.

Life companies, the GSEs and banks are less focused on this number, although, they will consider it when underwriting and stick to an 11% marker. Lenders will count on LTV, LTC and the DSC ratio since all of those are interrelated, but debt yield emerges as a simpler bottom line.

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