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The Nation's Leading Newsletter on Real Estate Finance

Crittenden Research, Inc. • P.O. Box 1150 • Novato, CA 94948-1150 • Customer Service: (800) 421-3483

Vol. 37, No. 12 **June 27, 2011**

LCS PERFECT THE ART OF SELLING LOANS

With CMBS back in the game, life companies securitize loans once again — a good deal for borrowers looking for higher leverage or for LCs needing to make room on their books. Watch for **Cornerstone, ING Clarion, JP Morgan Chase, Wells Fargo, RBS** and **Goldman Sachs** to be running some of these transactions.

Working with a few choice conduits, life companies are back to creating a situation that looks to serve the interest of all parties: Some deals permit LCs to sell their loans to CMBS, while still acting as the primary servicer. There doesn't seem to be any particular loan type that is being sold, though for larger deals some life companies are considering selling parts of deals on a *pari passu* basis. Buzz suggests **Prudential** is originating for Wells, while **Principal** and **John Hancock** are securing deals for other big bank conduits. The bank securitizes the loan and the life company gets paid for the deal, while their books remain free of extra loan weight. Terms vary across the board, as some conduits want to remain in the background and others want everything for themselves. Of course some smaller LCs, as well as giants such as **MetLife**, are

HOSPITALITY ACQUISITION FINANCING LOOSENS...

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Conduits and national lenders continue to fancy the big brands, including Marriott, Hilton, Hyatt, Starwood and IHG, but smaller boutique players will also start to see financing options for purchases. A trend toward smaller buyers will emerge when CMBS gets more active with acquisition loans. Mid-size players will now have access to lower-priced financing and will finally be able to compete with the REITs, who have been dominating the transaction arena during the last 18 months with all-cash bids.

LIGHT AT THE END OF THE RETAIL TUNNEL

The retail sector shows signs of life again as spreads compress and market fundamentals point to further improvement. Life companies and CMBS should both be very busy in retail in the months to come, although borrowers who are seeking short-term financing can probably find the best terms with banks, which are slowly reemerging in the sector. Lenders are currently on the lookout for quality retail assets of Class B or above with strong sponsorship. Retail deals are now even getting done in some of the hardest hit markets such as Florida and Arizona, however, properties under B- will have a tough time finding financing for now.

Retail lenders prefer borrowers with liquidity of at least 15% of the loan amount or a net worth of several times the loan amount. Underwriting terms today will see LTVs up to 75%. For a retail deal through a life company, cap rate floors should land between 7.5% and 8.5%. On CMBS retail deals, debt yields have dropped to around 9.5%, and even as low as 9% in some cases.

Count on life companies to pursue top quality assets and will price aggressively to win these deals. **Thrivent Financial** and **Sun Life** both put together recent retail loans. While, **StanCorp Mortgage Investors** is on track for about $1B in total originations for 2011, with 30% of originations anticipated for retail properties.

Life companies' interest in retail has increased significantly as fundamentals in the sector have improved in the past year. Most LCs took a cautious approach to retail after the recession and didn't want to run back into the market right away. Competition for multifamily loans from the agencies has left many life companies looking at retail, along with industrial and office, for potential deals. However, the office market is still tough, so count on LCs to dole out the most money to retail and industrial.

CMBS will be busy but probably won't be as aggressive in regards to top quality properties. Although LCs can usually offer the best rates, CMBS has higher leverage, larger loan amounts and longer amortizations. Furthermore, the past few months have seen CMBS lenders lowering their minimum loan amounts. After the downturn, conduits only went after retail deals of $20M and above. Eventually, conduits lowered that number down to $10M and above, and today, they will look at retail deals starting at $5M. CMBS will focus on debt yield, while LCs will utilize a cap rate floor when assessing a deal in many cases.

Lenders will go after deals involving sponsors who have a proven ability in retail. They prefer properties with multiple tenants and staggered rollover or a strong anchored tenant with a long-term lease. In addition to sponsorship, location is a huge factor. On unanchored strip retail, lenders will focus on the property's access, visibility and parking. For a mall or shopping center, lenders will look at tenant mix and demographics. Traffic counts are also important to consider.

Some lenders require a major credit tenant or investment-grade anchor. Lower-class properties seeking financing usually have to be in an excellent location, but some lenders will take on lower-quality properties if there is an attractive price per square foot. Deals without a grocer will likely have to seek a lower leverage and need to offer a decent price per square foot. Lenders should steer clear of unanchored strip centers on the edge of town or mom-and-pop retail stores in tertiary markets.

Lay odds on a continued path toward recovery and expect demand for retail financing to build. The return of CMBS has boosted the retail sector and LCs have bigger budgets and more money to go out.

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INDUSTRIAL FUNDAMENTALS ON THE RISE

The industrial market has been fairly quiet as of late, but increasing occupancies and other positive fundamentals could be signs of a sector on the rise. More lenders are reentering the sector every day, so look for increased volume and leverage as the year rolls on.

Rates on an industrial deal will typically fall between 4.75% and 6.25%, depending on LTV and DSC. Loans will go up to 75% LTV with five-, 10- and 20-year terms and 25- to 30-year amortization schedules. The sector shouldn't see one particular dominant player, as pretty much every type of lender wants to get involved, from conduits to community banks. Super regionals such as **Wells Fargo, JP Morgan Chase** and **BofA** will aggressively pursue SBA industrial deals, while LCs such as **Northwestern Mutual Life, Thrivent Financial** and **Principal Real Estate Investors** will be more than willing to lend on top-class assets. When assessing an industrial deal, Northwestern Managing Director **Greg Walz** will focus on the borrower's DSC, refinance rate and desired LTV.

Southern California should be a hotbed of industrial lending activity in the months to come. Softer markets are presenting buyers with many opportunities to pick up industrial properties at a solid value, so don't be surprised if there are a decent amount of acquisition deals in the works. Very few lenders, expect maybe banks, are willing to do construction loans for the time being.

Lenders are currently on the lookout for experienced, financially sound borrowers with a net worth of one to two times the loan amount. Strength of the borrower is typically the biggest factor in an industrial deal, but conservative LTVs will motivate many lenders today, especially banks. Lenders will also hone in on the property's location, design and tenancy. They prefer working with bigger box space industrial properties, while shying away from special-use properties, non-credit single tenant deals or those involving properties with a high percentage of office space.

One positive change anticipated for the sector down the road is the completion of the widening of the Panama Canal in 2014. As a result, the canal will be able to accommodate larger ships and allow for an increased volume of industrial imports and exports, which should boost port activity for East Coast and Gulf states. But, don't expect demand to get back to where it was in the height until there is a pick up in property acquisitions and new construction.

A CURE FOR HEALTHCARE LENDING

Lenders specializing in healthcare, and those who are simply well-versed in this niche, all ramp up to fund properties such as acute care hospitals and nursing homes, especially because of HUD's favorable healthcare facility loans.

They should have their pick of nursing-home refis in the best markets, such as New York, Illinois, Ohio and Los Angeles as the construction boom hit these areas years back. Due to the nine-month queue for HUD financing, bridge lenders should see plenty of activity from borrowers who want to snatch up healthcare while they still can.

Large companies insuring the debt of hospitals, such as AMBAC, FSA and MBIA, are no longer available, so the healthcare industry is in need of securities. Loans should also be pushed by HUD's record-low interest rates, up to 90% LTVs, no maximum loan amount, 25-year terms (plus construction period), fixed rates and no negative arbitrage. HUD's financial programs for long-term care facilities and assisted living, Section 232/223(f) and 232/223(a)(7), are the ones to watch. Interest rates can go as low as 4% on these deals. Count on 70% of these to be refi dollars. There's no other program like HUD that will do long-term financing up for to 35 years.

Even though the GNMA security is taxable for the investor, market conditions and worldwide investor appetites for yields with minimal risk has resulted in rates more favorable than tax-exempt bonds. These deals also allow for no-cash-equity contributions and with sufficient debt capacity and a minimum of 1.40x DSC, a hospital can now borrow the funds it needs. Highly favorable term rates complete the bevy of reasons to get in on this section of government financing.

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Q10 Triad Capital Advisors Cincinnati Inc. 4625 Red Bank Road, Suite 101, Cincinnati, OH 45227 Susan Branscome, President (513) 985-2266 sbranscome@q10triad.com	Morgan Stanley puts together a $9.75M CMBS loan to finance the purchase of the Hillman Distribution Facility in Forest Park, Pa. LTV was 75% on the 10-year loan. Amortization is set at 25 years on the industrial property.
Stout Street Hospitality 818 17th St., Denver, CO 80202 Chris Scheer, CFO (303) 607-0707 cscheer@magnoliahotels.com	Stout Street has closed two CMBS refi deals for hotels in Dallas and Houston this year. Both deals were 10-year, fixed-rate, non-recourse loans. The company is working on a few transactions and hopes to acquire one or two hotels this year.
Talonvest Capital Inc. 2755 Bristol St., Suite 140, Costa Mesa, CA 92626 Eric Snyder, Principal (714) 556-5086 esnyder@talonvest.com	CMBS lender that targets self-storage properties, with $100M set to go out for this asset type this year. The lender has more than $80M in loans under application and should do a total of $250M by year's end throughout all commercial property types.
Thomas D. Wood and Company 7349 Professional Parkway E., Suite B, Sarasota, FL 34240 Brad Cox, SVP (941) 552-9731 bcox@tdwood.com	Stancorp. doles out $1.37M in perm financing for Dale Mabry Palms, a 40-unit apartment complex in Tampa, Fla. LTV was 65% and interest was 5.5%. This is a three-year loan with 25-year amortization. This will replace a hard money bridge loan.
Walker & Dunlop 200 Park Ave. S., Suite 1615, New York, NY 10003 Alan Bank, Assistant VP (212) 953-7302 ablank@walkerdunlop.com	Originates a $19.46M Freddie Mac loan for the acquisition of Millennium Apartments in Greenville, S.C. The floating-rate loan carries a seven-year term, with two years of interest only and 30-year amortization. LTV was 76% and DSC was 1.10x.
Wells Fargo Bank 333 S. Grand Ave., Seventh Floor, Los Angeles, CA 90071 Wayne Brandt, Managing Director (213) 253-3727 wayne.brandt@wellsfargo.com	Wells plans to lend about a total of $5B in 2011 in commercial real estate, predominately through its CMBS arm. Goals are for $200M to $300M to go toward self-storage properties. Wells likes to stay in primary and secondary markets.

A Cure For Healthcare Lending…

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Love Funding hires two healthcare specialists to get a leg up on all these loans hitting the FHA deck. **Steven Hunt**, a former HUD senior account executive for the agency's Office of Healthcare Programs and current Love VP of Hospital Finance, believes financing with Ginnie Mae is becoming more popular due to the skepticism surrounding healthcare reform, the fact that the capital market is still thawing and the onslaught of baby boomers who are in need of heightened medical facilities. All this equates to a need for hospital construction money, as well as the refinancing of older healthcare buildings.

Hunt agrees that right now FHA rates are just as favorable — or even more so — than tax-exempt bonds and sees interest rates at less than 5%. He also envisions construction growth for hospitals, merger acquisitions and refi activity on the horizon. Section 242, HUD's specific loan program for hospital construction, refi and expansion, has historically helped acute care facilities on the East Coast, so Love Funding would like to diversify its portfolio to also include these properties located in the western states.

Love isn't the only one getting in on the action; **Beech Street Capital** recently hired two industry experts in the field of healthcare too. By the end of 2012, the company's goal is to do $200M in healthcare and has a sweet spot between $5M and $10M for its

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CONDUITS SEEK SELF STORAGE TO FILL POOLS

CMBS lenders consider self-storage properties for the first time in three years and offer more attractive underwriting than regional and local banks. Almost every CMBS player will quote on self storage today, including **Wells Fargo, Citigroup, JP Morgan Chase, ORIX USA, Ladder Capital, Cantor** and **Talonvest Capital** as long as the loan amount is large enough to meet their minimums. Count on self storage to take up anywhere from 2% to 5.2% of the securitization pool.

Self storage LTVs will be right at 70%. Debt yield will be in the 10% area and DSC coverage is expected to come in at 1.45x. Rates will range from 175 to 250 basis points over 10-year swap, probably landing in between 5% and 6%. Underwriting will solely be based on the trailing numbers and historical occupancy rates.

The conduits are bullish with self storage because it is a quality product with a proven track record of being securitized. It is also a product type that underwrites fairly well. Look for most to target Class B and up stabilized properties, but the limiting factor on these deals will not really depend on the class or market but rather the loan size. CMBS would like $10M deals but most will fall in the $5M to $7M area. Smaller loans could get done toward the end of the pool to fill in any gaps. Self storage has one of the lowest default/loan delinquency rates and provides a more diversified set of assets in the issuance pool, which is appealing to bond investors. Also, since tenants are month to month owners can quickly increase rents as the economy improves.

Wells plans around $200M to $300M in self storage by year's end but Managing Director **Wayne Brandt** points out they have the capacity to do more. When it comes to self storage he will not consider anything under $1M and prefers primary and secondary markets, as tertiary will be tough for this product type. The minimum debt yield will be right about 10.5% and LTV will not exceed 70%. Loans will most likely have five- to 10-year terms and 25- to 30-year amortization. Most of the action will be in portfolios of $20M and up, which pencils out to four or five properties. Look for Wells to dole out $5B in all commercial real estate by year's end.

Talonvest will put out $100M this year toward self storage. High quality properties in infill locations will underwrite to 9.5% debt yield and 75% LTV. There is a loan minimum of $3M. Principal **Eric Snyder** will finance A and B quality assets in infill locations and will consider secondary markets near retail properties with good traffic counts. He keeps his distance from smaller properties in tertiary markets.

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