The **CRITTENDEN REPORT**® Real Estate Financing

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CMBS DOWN, NOT OUT

Conduit lenders will provide leverage in the 70% to 75% range for multifamily once pricing and volatility in the sector settle down. Industrial will start to fetch a 65% to 70% LTV in the next few months, while office and retail will see leverage at 60% to 65%. Hotels will be the most challenging due to the recent setback of a hotel heavy tranche that was downgraded. For the next few months the majority of hotels will see leverage in the 40% to 50% range, with the best deals coming in north of 60%. CMBS will triple this year compared to 2010. Odds are it could triple again next year to reach $100B. Peak levels of $250B to $300B may never return.

Watch for a few deals to hit the market by the end of the month, which should provide some clarity of what will happen during the rest of this year. The most recent count points to 23 CMBS shops actively quoting deals. The banks' conduit arms will do well going forward since they have flexibility and can hold onto the loans longer. The smaller conduits backed by credit facilities will have a tougher time and will not have the same flexibility.

Expect **JP Morgan Chase, Wells Fargo, RBS** and **Cantor** to be active originating loans. **Deutsche** recently put together 10-year, fixed-rate financing for two separate loans toward a community shopping [redacted]

HOTELIERS SEE INCREASE IN LENDERS...

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DEALMAKER DATABANK	
Aztec Group 2665 S. Bayshore Drive, PH-2A, Coconut Grove, FL 33133 Howard Taft, Senior Managing Director; Charles Penan, Director (305) 854-5000 htaft@aztecgroup.com; cpenan@aztecgroup.com	Basis Investment Group puts together $7M in acquisition financing for Westchase Corporate Park in Houston. LTC was 70% for the office and industrial property. Interest is fixed for five years at 6.03%. The borrower was a JV between TriGate Capital and Adler Real Estate Fund.
City National Bank 555 S. Flower St., 25th Floor, Los Angeles, CA 90071 Mark Forbes, EVP-Real Estate (213) 673-8222 mark.forbes@cnb.com	Will target industrial, retail, office, multifamily and mini storage, primarily in California. Loans will fall in the $5M to $25M range. Targeted borrower net worth is $10M and up and liquidity is $2M and up.
Comerica Bank 333 W. Santa Clara St., San Jose, CA 95113 Steve Burich, SVP (408) 556-5323 stephen_d_burich@comerica.com	Expect $400M to $500M in new business this year. Will do loans in the $10M to $30M range. Active in apartments, for-sale housing, office and retail. Most of the business is in Northern California but other markets are client driven.
Donaldson Group, The 15245 Shady Grove Road, Suite 160, Rockville, MD 20850 Carlton Einsel, EVP (240) 912-3104 ceinsel@thedonaldsongroup.com	The full-service real estate management and investment company grabs a $27M acquisition and loan with Wells Fargo Bank for an apartment community in Forestville, Md. This was a three-year, floating-rate loan.
Fidelity Bank 100 E. English, Wichita, KS 67201 Mike Smith, SVP/Manager Commercial Real Estate (316) 268-7386 mesmith@fidelitybank.com	Count on $50M in allocations for the remainder of the fiscal year, ending in March. Loans can be up to $10M, with a $4M to $5M average. Will consider construction money within its primary and secondary market areas.
HFF 1 Oxford Centre, Suite 600, 301 Grant St., Pittsburg, PA 15219 Gerard Sansosti, Executive Managing Director (412) 281-8714 gsansosti@hfflp.com	Recently completed acquisition financing on 1101 K Street with Prudential and 700 6th Street with Allstate. Both properties were Class A CBD office buildings in Washington, D.C. Both loans were 50% LTC/LTV.
Hotel Financial Strategies 9107 Wilshire Blvd., Suite 250, Beverly Hills, CA 90210 Steve Gold, Managing Director/Co-Founder (310) 247-2101	Gold works on closing construction financing for hotel deals in the Pacific Northwest. He also looks to close a development loan for a Residence Inn in the Southeast.
Liberty Group of Companies 13577 Feather Sound Drive, Suite 520, Clearwater, FL 33762 Punit Shah, President/COO (727) 866-7999	Liberty has made 15 all-cash hotel purchases in the last 18 months. More transactions are in the works for this year. Typically financing is added 90 to 180 days after the purchase.
Love Funding 1250 Connecticut Ave. N.W., Suite 310, Washington, DC 20036 Holly Bray, First VP/Senior Loan Originator (202) 887-1849 hbray@lovefunding.com	Love Funding will put together FHA refinances for multifamily properties, including nursing and assisted living facilities, nationwide. Love Funding clarifies that cash outs loans are not permitted for healthcare facilities under FHA's 232 program.
Melvin Mark Capital Group 111 S.W. Columbia, Suite 1310, Portland, OR 97201 David Schaffer, VP (503) 546-4780 dschaffer@melvinmarkcapital.com	RBS lends $20M for the refinance of 2201 Broadway, an office building in Oakland, Calif. The non-recourse loan has a 10-year term and 30-year amortization.

DEALMAKER DATABANK

Mumford Companies Steve Kirby, Principal (757) 873-0962 skirby@mumfordcompany.com	Recently closed the sale of a Radisson in New London, Conn., using a combo of conventional funding and SBA. The company also sold a Courtyard property in an all-cash, REO deal.
NorthMarq Capital 1401 S. Brentwood Blvd., Suite 600, St. Louis, MO 63144 Jeff Chaney, SVP/Managing Director (314) 301-1803 jchaney@northmarq.com	Ohio National Life Insurance loans out $1.6M for a Shop N Save in Wood River, Ill. This is a fully-amortizing loan with a 10-year term. Interest was in the mid-5% area. Also, look for a grocery-anchored deal with PPM American.
NorthMarq Capital 1401 S. Brentwood Blvd., Suite 600, St. Louis, MO 63144 David Garfinkel, SVP/Managing Director (314) 301-1808 dgarfinkel@northmarq.com	John Hancock Life Insurance Co. puts together $7M for a retail center in St. Louis. The loan had a 10-year term and 20-year amm. LTV was 40% and interest was 5.35%. DSC was 2.5x and debt yield was over 20%.
NorthMarq Capital 125 Jericho Turnpike, Suite 302, Jericho, NY 11753 Charles Cotsalas, SVP/Senior Director (561) 333-4034 ccotsalas@northmarq.com	Allstate loans $6M for the refinance of a Stop & Shop in Woodbury, N.Y. LTV was sub 60% and interest was 4.75%. DSC was 1.50x. This is a 10-year loan with a 30-year amortization.
Pearlmark Real Estate Partners 200 W. Madison, Suite 3200, Chicago, IL 60606 Stephen Quazzo, CEO (312) 499-1956 squazzo@pearlmarkrealestate.com	Active buyer in all commercial real estate with plans to buy a total of $700M to $750M this year. Recently received a $32M CMBS loan from Cantor Commercial Real Estate for the purchase of an office/R&D building in Santa Clara, Calif.
Q10 Triad Capital Advisors Cincinnati 4625 Red Bank Road, Suite 101, Cincinnati, OH 45227 Susan Branscome, President (513) 985-2266 sbranscome@q10triad.com	PPM Finance originates $17.6M for apartments in West Chester, Ohio. Allstate puts together two multifamily loans: $19.2M for Village of Wildwood in Fairfield, Ohio, and $12M for Deercross Apartments in Indianapolis.
Red Mountain Retail Group 1234 E. 17th St., Santa Ana, CA 92701 Michael Mugel, CEO (714) 245-7400 mmugel@rmrginc.com	The commercial real estate investor nails down a $108M refi loan with John Hancock secured by a shopping center portfolio. This was a 15-year loan with five years of interest only then reverts to 25-year amm. Interest was fixed at 6.4%.
StarPoint Properties 450 N. Roxbury Drive, Suite 1050, Beverly Hills, CA 90210 Paul Daneshrad, President/CEO (310) 247-0550	StarPoint has purchased $150M of real estate this year and will most likely pick up another $50M by year's end. The focus is on multifamily properties in California and the company has

LENDERS CONSIDER CONSTRUCTION LOANS

Developers in gateway markets will be able to fetch 50% to 70% leverage on new construction loans for mixed-use, hotels and retail by year's end. Infill deals in the top 15 markets including, New York City, Los Angeles, Dallas, San Francisco, Washington, D.C., and Boston will obtain the highest LTCs. Leverage for multifamily deals in the top 10 markets will reach 75% to 80%. National lenders, including **Wells Fargo, KeyBank, HSBC** and **JP Morgan Chase** shop around for the best multifamily development deals.

Lenders begin to require 10-year cash flow projections in addition to two-year IRR projections from potential borrowers when underwriting construction loans. In the peak, two-year IRR projections were enough to get a development loan, but those days are gone. Expect to see longer holds on newly built properties due to the slower than predicted improvement of the economy. Many developers will prepare to hold the asset for up to 10 years, while waiting for acquisition pricing to vastly increase.

Regional banks will tackle $10M to $20M construction loans with recourse. **BB&T, Capital One, Citizens, Sovereign Bank, BBVA Compass** and **Amegy Bank** will be active with construction lending. Many borrowers need more than $20M to get their project off the ground and will seek out multiple banks. Assembling a group of banks on one project will be tricky and time consuming. Life companies will be able to do the larger loans and will only require limited recourse in most cases. **Pacific Life** and **Northwestern** may be the only two LCs actively quoting development deals this year. It's possible but not likely that **Principal** could reenter the construction loan scene.

Relationship lending will be very important to help get these deals done. New lender/borrower relationships will be few and far between. Bankers will ink deals with new clients only if there is a chance to build a relationship. Developers will need to come up with about 25% to 40% of the project's cost, depending on asset type. Equity financing will be preferred when the borrower has an institutional investment partner. Borrowers without partners need to possess a stellar track record, proven experience in similar markets and a high net worth. Watch for money to be available for experienced local and regional developers that have built-up portfolios and want to construct their next project.

BORROWER GAME PLAN

Lenders will underwrite 75% leverage for the right borrower but most deals will bottleneck at 65% to 70% going forward. It will be is easier for life companies to get comfortable with investors looking for 65% leverage. When the conduits ramp up again, count on CMBS to do 75% LTVs all day long. Banks could possibly reach 75% but most will be conservative and only underwrite terms for five-years or less. The agencies will go up to 75%, provided debt coverage ratios can still be met.

Borrowers will see multiple pockets of debt capital available for good real estate with favorable cash flow and sensible debt yield. This is a great time to be a borrower due to very low rates. Investors with loans coming due in the next 12 to 24 months should put new financing in place today, as there is no telling what will happen in the next two years. Borrowers would be smart to lock in long-term rates and not take the risk of an uncertain future.

Life companies or regional banks will be the easiest for borrowers to work with. These lenders look for quality real estate and minimal risk in the income stream. Expect B and C properties to have a tougher time. Apartments will see the most attention from LCs and banks big and small, along with agency lenders. The agencies will mostly work with the larger quality asset and avoid Class C product in tertiary markets.

Lender relationships will be key to long-term success. A longstanding relationship with a lender will help the borrower easily work through any issues on the loan to reach a mutually beneficial goal line. Going forward, it will be all about cash flow and the borrower's track record. On loans where the borrower is repositioning the property, lenders will look at rent growth. Deep value-add transactions will dial down leverage into the 50% range.

Some of the busiest lenders this year include **Wells Fargo** that plans to loan out approximately $5B by year's end. **JP Morgan** could also be a good choice for borrowers with plans to loan a total of $10B this year. The larger LCs such as **Prudential, Northwestern Mutual, Cornerstone, New York Life, ING, Pacific Life, Principal** and **Allianz** will be busy. **MetLife** plans to lend more than $10B by year's end.

REGIONALS HAVE LEG UP ON MULTIFAMILY

Local and regional banks will leverage five-year loans up to 75% for multifamily assets going forward. Expect regional banks to do some larger multifamily loans up to $20M but also shine on the smaller loans because of the favorable costs. Look for **Sterling Savings Bank** to be one of the few portfolio lenders to offer non-recourse loans at higher leverage up to 75%. Keep an eye on other regional banks to follow suit by unveiling loans with limited to no recourse. **First Fidelity Bank** will also do shorter non-recourse loans for smaller multifamily products.

Apartment Bank, Lutheran Burbank Savings, Fidelity Bank and **Opus Bank** all have pre-set apartment programs making for quick and inexpensive execution. **City National Bank** targets infill properties in major metropolitan markets with debt yield of 9.5% plus. **Comerica Bank** will do loans for new construction and acquisition financing for existing clients. Rates should be as low as mid-4% capping out at 6%, with minimal execution costs. Debt service coverage ratios will fall in the 1.15x to 1.20x range, with a few going up to 1.35x. Borrower net worth should be equal to the loan amount and targeted liquidity is 10%, although some will go as low as 5%.

For the near future, banks will put their attention on expanding their client base and will not be as concerned about expanding their loan portfolio. Most local and regional banks will focus on relationships and look for the ability to have repeat clients and longevity. Few bankers are interested in one-off deals.

Local and regional banks hold an advantage over the major players since they can be more flexible with geographical areas and characteristics of the property. They offer an easy execution, as borrowers only need an appraisal and environment screen. In today's market, flexibility with prepayment is huge. Expect to see the banks be confident in the strength of the apartment markets and focus on growing their apartment portfolios; they will be less confident in underlying demand characteristics for office, industrial and retail. Regionals prefer to work with properties around 90% occupied. Garden-style apartments, built after 1980, will get the most attention.

Borrowers begin to view banks as a more steady and reliable option after the recent pullback of the conduits because it shows that if there is any hiccup then the Wall Street guys scatter. Banks will always be here with the same pricing and terms as the other lenders tread lightly. Regional banks will have