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The Nation's Leading Newsletter on Real Estate Finance

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ALL LENDERS COMPETE FOR MULTIFAMILY

Lenders will step up and become aggressive on multifamily acquisitions and refi loans. Borrowers of Class A and B complexes will see the most attention. Even distressed assets or properties with depressed NOIs will be able to find financing. Terms for distressed deals will be shorter, prices will be wider and leverage will be lower. However the money is available, which is a huge improvement.

Expect to see banks and LCs increase leverage up to 80% within the next year to compete with the agencies. **Fannie Mae** and **Freddie Mac** will quote deals at 80% LTV. At the moment, banks and life companies will go up to 75%.

Freddie will target the highest-quality borrowers and trophy assets. The aggressive lender prefers to ink loans for newer properties at more than $10M. Freddie will be hard to beat going forward. The agency recently closed a seven-year multifamily refi with 30-year amortization at a 3.75% interest rate. Fannie focuses on smaller, older and more generic properties. Fannie's small loan program will entertain loans from as low as $1M to $3M.

LCs will be very competitive with Fannie and Freddie but with lower leverages. **Pacific Life** and **Northwestern** compete for deals greater than $30M. **Allstate** and **Principle** target lower leveraged loans. Regional banks such **BB&T, Capital One, Opus Bank, Citizens** and **IronStone Bank** will be more forceful than national lenders on multifamily deals. Expect national banks, including **JP Morgan Chase, Wells Fargo** and **Union Bank** to target larger deals. Count on the life companies and agencies to put out long-term refis, while the banks cover the short-term needs up to five years.

LENDERS BRIDGE THE GAP

Look for bridge lenders to hit 75% leverage for the best deals, with most averaging just about the 60% mark. Acquisition bridge loans should be around 70% to 75% LTC. Some bridge lenders could go up to 80% leverage for deals with a second or mezzanine loan. Leverage on properties without cash flow such as an empty office or a broken unfinished condo project will be risk adjusted. Interest rates for these loans will be 5% to 7%. DSC should be approximately 1.25x. Count on bridge lenders to offer both recourse and non recourse.

The big banks such as **Well Fargo, Goldman Sachs, Deutsche** and **CIBC** will be competitive on bridge

LENDERS BRIDGE THE GAP...

Continued from Page 1

Specialty finance companies that were bullish in the past such as **GE Capital** and **Citi**, as well as mortgage REITs, including **iStar Financial** and **Gramercy Capital Corp.** have also slowed down on bridge lending. Life companies don't really play in the space since they want long-term, fixed-rate deals on stabilized properties.

The key to bridge lending is low leverage and location. Count on bridge lenders to be very active during the next five years with many more deals coming to the market that need valuation adjustments. Odds are financial institutions will loosen up and begin to dispose of REOs compared to prior years, which should spur a need for bridge money. Demand will be driven by the borrower's need to get a loan quickly.

Bridge lenders close deals at competitive interest rates and fill in until borrowers can qualify for long-term financing. Loans will vary and include cash-out refis, REOs, value-add assets, construction loans coming due, discounted pay offs, acquisitions and repositioning of debt. Bridge loans can give owners more time to lease up assets with low occupancies.

Look for buyers of underwater assets or borrowers with bad credit to seek bridge loans. Non-branded hotels and broken condo projects will have a strong need. Expect multifamily, retail and office to get the most attention from lenders. Bridge lending will help resolve a lot of challenges in the real estate market. Watch for the segment to grow and compliment the institutions.

BANKS TARGET SHORT-TERM RETAIL

Look for banks to dip their toes back into retail as the year progresses. Leverage will be in the 65% to 70% range, with some regionals considering up to 75%. Don't expect regional bankers to go beyond seven-year loans, with most targeting shorter three- to five-year terms. Retailers that desire more than seven-year money will have to look toward life companies and any active CMBS lenders. Debt service coverage will be around 1.25x.

Count on the core banks to be bullish on the bigger shopping centers. Some will likely start to look into construction loans and malls refinances. Lifestyle centers could also be in the cards with core relationship borrowers. **JP Morgan Chase** will do 10-year, fixed-rate loans followed by floating-rate periods based on Libor. **US Bank** looks for LTV to be 65% to 70% and 1.20x DSC. The bank will work with mid-sized borrowers to institutional investors. **Wells Fargo** and **BofA** will consider retail deals as well.

Regional and local banks will swoop in on the smaller loans for mom-and-pop retailers that have had a tough time with life company or agency lenders. Watch for typical shopping center deals to land in the $3M to $5M area for the bread-and-butter product. **City National Bank** targets daily-needs retail with debt yield of 10.5% plus. **Fidelity Bank** likes investment grade anchors such as Walgreens or CVS. LTV/LTC can go up to 75% with up to 30-year amortization. Rates will fall between 5.5% and 6%, fixed for five years with five-year extensions.

M&T Bank focuses on urban neighborhood retail in New York City, as well as shopping centers with a grocery anchor. Debt yield varies but most will come in at 11%. Leverage will be 70% or below, with a 1.30x DSC. **Comerica Bank**'s LTV will not exceed 65% and LTC will top out at 70%. DSC will be anywhere from 1.20x to 1.65x. The bank targets the smaller centers. **Atlantic Capital Bank** and **State Bank & Trust**, as well as other local banks without legacy issues, also allocate retail loans.

Starting early this year, CMBS and life companies returned to the market fairly aggressively. Most LCs competed for loans based on lower interest rates, while CMBS attempted to capture market share through higher leverage. Expect CMBS to proceed at a slow pace for the time being.

When it comes to retail, banks could lose out to life companies due to their ability to ink non-recourse loans with longer terms. However, banks provide lower costs to execute and quick turnarounds. They will often be better at matching borrowers' needs.

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DEALMAKER DATABANK	
B&A Capital Partners 1515 W. 190th St., Suite 455, Gardena, CA 90248 Brian Sniderson, Managing Director (310) 532-9122 brian@rtiproperties.com	Plans to fund $120M in bridge loans this year. Around 75% has already gone out year to date. Most loans fall between $5M and $15M. All properties types are considered outside of special-purpose assets.
Berkadia Commercial Mortgage 477 Madison Ave., Suite 530, New York, NY 10022 Hugh Hall, Managing Director-Capital Markets (646) 600-7800 3 Bethesda Metro Center, Suite 700, Bethesda, MD 20814 Steve Ervin, SVP (301) 961-1582	Expects to loan out $200M to $300M in bridge loans in the first year of the program that started in March. Bridge loans will have a $10M to $25M sweet spot. The company just expanded its bridge lending program to senior housing and healthcare and is bullish in the sector.
BMC Capital 3100 Monticello Ave., Suite 400, Dallas, TX 75205 Keith Van Arsdale, President/CEO (214) 580-3154 kvanarsdale@bmccapital.com	Should do $25M to $50M in bridge loans this year, mostly multifamily assets. Will do all loan types except construction. Multifamily, single-tenant NNN, office, retail, warehouse, self storage and SBA deals are all targeted.
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. Floating-rate loans are preferred. Active in construction lending. Most of the business is in Northern California and other markets are client driven.
Cypress Equities 8343 Douglas Ave., Suite 200, Dallas TX 75225 Chris Maguire, CEO (214) 561-8897 chris.maguire@cypressequities.com	Recently obtained $98M in bridge financing from GE Capital for a mixed-use property in Fort Worth, Texas. This was a three-year, adjustable-rate loan. Count on another refi to close next month on ground-up development.
Edgewood Capital Advisors 132 Old Post Road, Southport, CT 06890 Jonathan Levirne, Managing Director (203) 255-1700 jon@edgewoodcapital.com	Count on $100M in bridge loans this year. Already originated $70M. Hotels and value-add multifamily are targeted. Recently put together a $10.25M bridge loan for the acquisition of three hotel properties. LTC was 70% and a 1.0x DSC.
HFF 1999 Avenue of the Stars, Suite 1200, Los Angeles, CA 90067 Mark Wintner, Managing Director (310) 407-2100 mwintner@hfflp.com	US Bank doles out $42M for the refinance of The Center at 600 Vine, an office building in Cincinnati. This was a 36-month, adjustable-rate loan that the borrower swapped and fixed the rate in the mid-3% range.
HFF 100 California St., Suite 720, San Francisco, CA 94111 Peter Smyslowski, Managing Director (415) 276-6950 psmyslowski@hfflp.com	Union Bank loans out $10M to Alberto Way Holdings for the refinance of a two-building office campus in Los Gatos, Calif. LTV was 65% and debt yield was 10%. This was a three-year loan with two one-year options.
HFF 3655 Nobel Drive, Suite 140, San Diego, CA 92122 Zachary Koucos, Associate Director (858) 812-2351 zkouso@hfflp.com	Deutsche Bank's CMBS arm puts together two loans totaling $25.6M for Rancho Penasquitos Towne Center Phase I and II, a retail center in San Diego. Both were 10-year, fixed-rate securitized loans.

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DEALMAKER DATABANK	
Johnson Capital Group 2603 Main St., Suite 200, Irvine, CA 92614	John Hancock doles out $11M in refinancing for Mandarin Plaza, a grocery-anchored retail

TOO MANY HOTELIERS SEEKING LOANS?

Expect to see the number of hotel investors looking for financing to increase significantly by year's end, as more loans come due. There will be too many hoteliers chasing loans and not enough capital for this sector. Investors with cash-flowing hotels will be able to get refis eventually, but it could take up to a year to find a deal. Bankers will look for leverage to be 60% to 70% for the immediate future with no increase probable this year. CMBS will cautiously ink hotel loans in the 50% leverage range, while LCs come in at 50% to 60%.

Borrowers with cash-flowing assets will see attention from national banks, including **Wells Fargo, BofA, Union Bank** and **HSBC**. Regional banks such as **Atlantic Capital** and **BB&T** will also show interest in hotels with stable NOI. Interest rates will be in the low to mid-6% range for hotel deals. Look for borrowers to have the most trouble inking financing for transitional assets in the red. Relationship lending

LENDERS STABILIZE FLOATING-RATE LOANS

Bankers will not exceed 65% to 70% leverage for floating-rate loans going forward. Watch for specialty financing to aim for 70% to 75% on these deals, while the agencies will underwrite up to 80%. A few life companies will consider floating rates with leverage around 65%.

Rates begin to land right around 3% on a floating basis, while fixed-perm loans will be in the 5.5% range, depending on the product type. So expect floating loans to be 2% to 2.5% lower than fixed money, as long as interest does not spike in the coming months. Count on floating-rate loans to have 1.15x DSC using 25-year amortization for office and retail and 30-year amortization for apartments.

Expect banks to be the most aggressive since this matches their source of funds. Most of the major banks will do floating, including **JP Morgan Chase, BofA, Wells Fargo, US Bank, PNC, HSBC, Fifth Third** and **Bank of the West**. The large banks generally favor floating and often give a borrower the option to swap to fixed. **M&T Bank** will be one of the few banks in New York City to put together this loan type. **Comerica** prefers to originate floating-rate loans. **First Merchants Bank** and **The National Bank of Indianapolis** were co-lenders on a recent five-year, floating-rate loan for an office tower.

Look for a few life companies to consider floating rates, including **Prudential, MetLife, Cornerstone** and **New York Life**. Some specialty financing companies such as **PCCP, Mesa West, Alliant Capital** and **Prime Finance** will also do this type of loan. Don't expect CMBS to get back to the days of 2006 and offer floating rates anytime soon.

Most floating-rate loans historically went toward transitional properties but this will start to change. Borrowers will begin to opt for adjustable loans on stable assets in the coming months since rates are so low with no signs of rising. Lenders would not have considered this three or four years ago. Many investors will pick up transitional properties in the hopes of achieving positive cash flow. Expect borrowers to be attracted to floating rates because the payment is low and the risk that the loan will become more expensive is small.

Borrowers without long-term hold strategies will benefit the most from floating rates. If they are thinking of disposing the property when the value appreciates, they could use floating rate to sell or pay off at no cost. Borrowers usually have the ability to convert to fixed after the first year. Underwriting will be very similar to fixed-rate loans except adjustable loans will be more debt yield driven. Lower leveraged loans in the 65% to 70% range could require a swap or cap.

As the demand for construction loans rises over the next six to 12 months, so will the number of floating-rate deals since these will almost always be adjustable. The Fed's recent announcement that it will push down long-term rates could spur more fixed-rate deals going forward.

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