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CONDUITS GET COMPETITIVE IN 2012

CMBS lenders will be more active going forward as spreads begin to lighten considerably. Expect to see the conduits underwrite leverage in the 70% to 75% range through year's end. Look for this number to likely be closer to 70% based on debt yield. Leverage could go reach 80% for multifamily in the next few quarters once the CMBS market picks back up. Debt yield requirements will be a bit higher because of volatility and will come in around 10%. Count on it fall back in the 9% to 9.5% range for the right properties as the demand for bonds returns. Once that happens, underwriting will get competitive quickly.

Anticipate approximately \$45B to \$75B of CMBS originations next year with around 26 companies claiming they will quote deals. CMBS allocations should hit \$35B this year. Current CMBS shops are not adequately staffed to handle much more and have pulled back the reins on hiring for the time being.

Expect **JP Morgan Chase, BofA, RBS, Goldman Sachs, Wells Fargo, Citi and CIBC** to be the most active in the next few quarters. **Morgan Stanley** recently put together \$5M for the acquisition of a mixed-use property in Portland, Ore. **Deutsche** will not slow down one bit and recently originated \$25M in two loans for a retail center in San Diego. Some of the larger LCs such as **Prudential, Principal and John Hancock** could put together securitized loans next year. CMBS lending offers LCs the ability to get yield beyond investment grade corporate bonds, while diverting the risk of the whole loan.

Count the conduits to target strong assets in core markets with first-rate sponsorship. CMBS favors grocery-anchored retail and office space with favorable occupancy in core markets. Borrowers will start to gravitate to CMBS over balance sheet lenders as the sector stabilizes. Keep an eye for the conduits to pick up loans for multifamily, retail, office and industrial properties that life companies pass on, including Class B assets in secondary locations and/or third-tier markets. Rates will be mid-5% to 6%. Loans will have five- to 10-year terms and 25-year to 30-year amortization.

MEZZ: THE LOGICAL OFFSHOOT

Count on mezz lenders to provide up to 90% leverage for the right deal. Borrowers strongly desire 90% leverage on all deals but most will land in 75% to 80% range. Rates will typically be 9% to 12%. Interest could reach the mid-teens or all the way to 18% on the riskiest deals. Underwriting on mezz will be thicker than it used to be and will start higher up on the capital structure. Terms will depend on where it lands in capital stack, the degree of risk and the legal position. DSC on mezz loans will be 1.05x to 1.10x. These loans will be interest only with short amortization periods.

Look for opportunity and hedge funds, distressed debt buyers, mortgage REITs, Wall Street lenders and private lenders with equity looking for big returns to all be active in allocating mezz loans. There could be more mezz lenders coming to the table next year because of the favorable returns. **Edgewood Capital, StoneTree Financial, First Capital Partners, Canyon Capital Realty Advisors, Buchanan Street Partners, Prime Finance, Terra Capital Partners, Five Mile Capital Partners, Square Mile Capital, Tremont Realty Capital and Deutsche Bank-affiliate PB Capital** should all be quoting mezz loans.

CIBC works with **Blackstone Real Estate Debt Strategies** as one of its preferred mezzanine providers. Count on the two to partner up on many deals going forward. **CIBC** will be involved with \$275M of mezz debt associated with their senior loans by year's end. **Red Capital Group** will consider doing these deals for multifamily properties and sees the most demand from mid-sized senior housing owners. Private money lender **Newport Capital Advisors** considers mezz loans as low as \$1M and focuses on multifamily because the first mortgage market is so liquid. Keep an eye out for **GE Capital** to reenter the space.

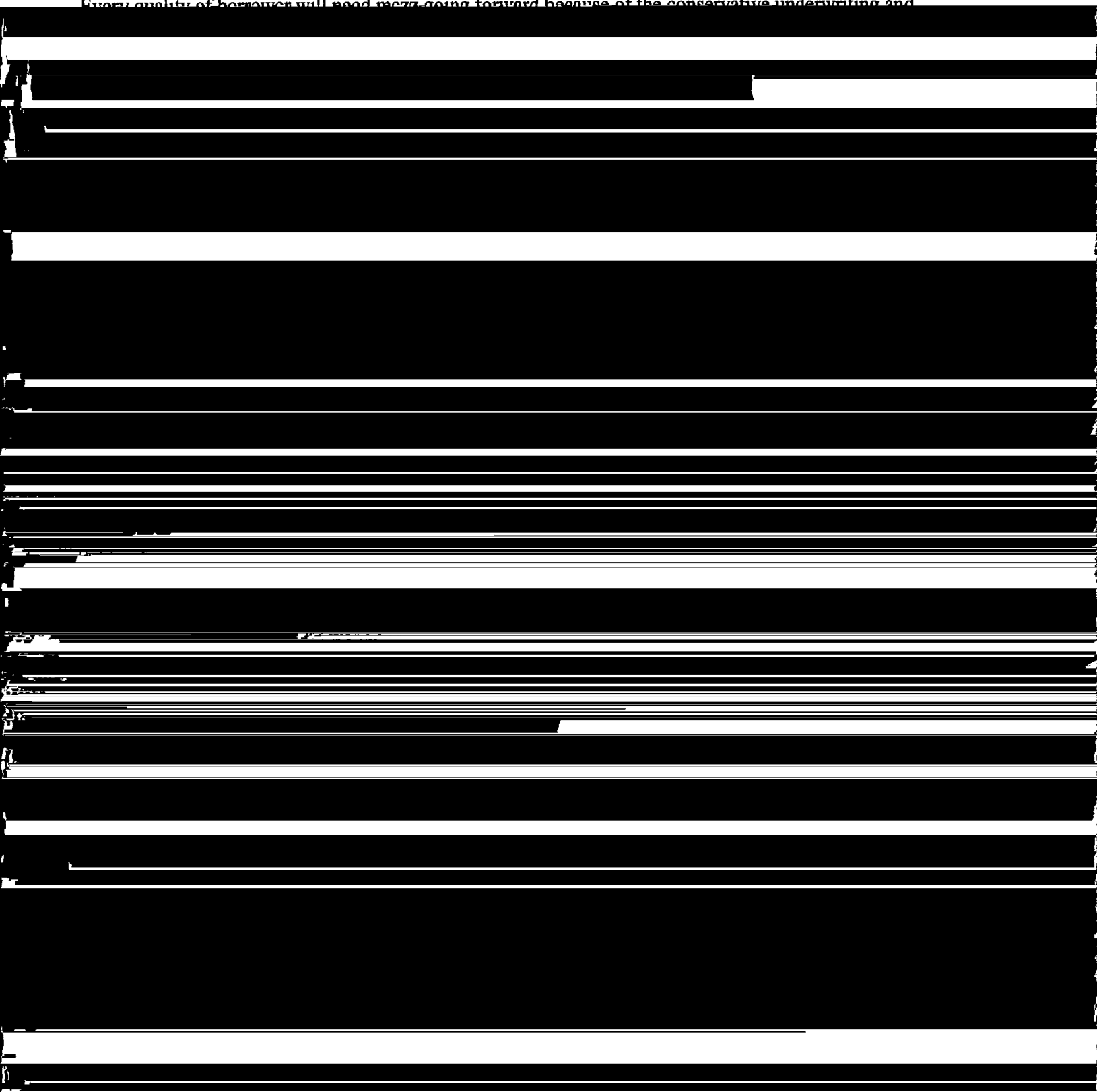
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MEZZ: THE LOGICAL OFFSHOOT...

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Office and hotels will likely have the most need for mezz since those deals tend to be larger and were impacted greatly by the slowdown in securitizations. Most loans that need a mezzanine piece will likely be refinances or recaps where there is a gap in the capital structure, especially because values today are different from when the loan was made. Expect conventional lenders to be a bit more conservative than the conduits on those property types. Count on demand for mezz to be driven by a pickup in construction during the next few years

The conservative first mortgage lending environment should push demand for mezz pieces through 2014. Every quality borrower will need mezz going forward because of the conservative underwriting and



DEALMAKER DATABANK

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| <p>AFL-CIO Housing Trust 2501 Pennsylvania Ave. N.W., Suite 200, Washington, DC 20037 Ted Chandler, Chief Operating Officer (202) 331-8055 tchandler@aflcio-hit.com</p> | <p>Pension fund that will lend \$500M between now and the end of 2012, primarily for multifamily construction. Has set a goal of creating 15,000 union construction jobs by the end of 2012 and will only lend on projects with 100% union on-sight labor.</p> |
| <p>Arbor Commercial Mortgage 40 Broad St., Suite 510, Boston, MA 02109 John Edwards, VP (617) 619-7311 jedwards@arbor.com</p> | <p>Arbor has completed 12 affordable loans this year. Recently loaned out more than \$40M for property in Newark, N.J., through its Fannie Mae DUS Affordable Housing Loan product line. Will work with any multifamily properties.</p> |
| <p>CBRE HMF 1420 Fifth Ave., Suite 1720, Seattle, WA 98101 John Taylor, First VP (206) 830-6495 john.taylor@cbre.com</p> | <p>CBRE HMF puts together \$16.7M for the refi of Wedgewood Estates, an affordable housing complex in Seattle. DSC was 1.34x underwritten and interest was 4.1% plus MIP. This is a 35-year, fully-amortizing loan.</p> |
| <p>Centerline Capital Group 14850 Quorum Drive, Suite 150, Dallas, TX 75254 Phil Melton, Managing Director- Affordable Housing Debt Products Originations (972) 868-5700 pmelton@centerline.com</p> | <p>Will lend \$1.7B this year, with around \$200M for affordable housing. Loans in the coastal areas will be \$14M to \$17M, while the middle of the country will get loans in the \$7M to \$9M range. Most loans will be for multifamily assets.</p> |
| <p>CIBC World Markets 425 Lexington Ave., Fourth Floor, New York, NY 10017 Barry Schumacher, Managing Director (212) 667-7027 barry.schumacher@us.cibc.com</p> | <p>Will originate \$2.5B to \$3.5B by year's end and plans for \$4B to \$6B in 2012 through both its CMBS and balance sheet lending platforms. All the major property types will be targeted along with hotels, student and manufactured housing.</p> |
| <p>Edgewood Capital Advisors 132 Old Post Road, Southport, CT 06890 Jonathan Levirne, Managing Director (203) 255-1700 jon@edgewoodcapital.com</p> | <p>Count on \$100M in senior bridge loans this year. Hotels and value-add multifamily are targeted. Edgewood will also consider doing mezzanine loans on assets the lender is comfortable with.</p> |
| <p>Figuroa Capital Group 800 W. Sixth St., Suite 500, Los Angeles, CA 90017 Marcelo Bermúdez, President (213) 270-6213 mb@figcapgroup.com</p> | <p>A subsidiary of Charles Dunn Company, Figuroa puts together debt and equity solutions primarily in Southern California. Also, structures JV partnerships using in-house equity, as well as private investors and institutions.</p> |
| <p>HFF 3655 Nobel Drive, Suite 140, San Diego, CA 92122 Zachary Koucos, Associate Director (858) 812-2351 zkoucos@hfflp.com</p> | <p>Fannie Mae loans \$4.78M in fixed-rate financing for Sierra Vista Estates, an all ages manufactured home community in Visalia, Calif. Proceeds from the 10-year loan will provide cash out and replace maturing debt.</p> |
| <p>HREC Investment Advisors 1836 Sheridan Road, Encinitas, CA 92024 Michael Armstrong, Principal (760) 452-2255 marmstrong@hrec.com</p> | <p>HREC secures a \$7.1M CMBS loan for a Staybridge Suites in Houston. The five-year loan had a LTV of 65% with an interest rate in the low 6% range. The 122-unit hotel opened in 2005.</p> |
| <p>Love Funding 5 Hanover Square, 14th Floor, New York, NY 10004 Christopher Schilling, VP-Loan Originator (212) 953-0204 cschilling@lovetesting.com</p> | <p>Offers refinance, construction and acquisition financing programs for multifamily, senior housing and healthcare facilities. Recently put together \$54.4M in refinancing for a section 8 apartment property in West New York, N.J.</p> |

DEALMAKER DATABANK

Metropolitan Funding Corp.
28 W. 44th St., Suite 222, New York, NY 10036

Expects to originate \$100M in construction loans
this year. Recently loaned out \$22M in

LCs CONTEMPLATE OFFICE

Life company lenders will look into office loans with up to 70% leverage as the year comes to a close. Typically leverage will be plus or minus 65% on a case-by-case basis. DSC will be 1.25x to 1.50x, based on amortization. Most LCs plan to underwrite at a 10% debt yield. Interest will be anywhere from 5% to 6.5%. Loan terms could be as low as five years up to 20 years, depending on the company.

The big life companies such as **Pacific Life** and **Prudential** will look at the \$20M and up deals. **Allstate**, **Nationwide**, **PPM** and **ING** will play in the \$10M to \$20M arena. **John Hancock** puts together \$79M in refinancing for an office portfolio in Miami. **Cornerstone** doles out \$315M for a Midtown Manhattan office building. **American Equity Life**, **MetLife**, **Genworth**, **Sun Life Assurance of Canada**, **New York Life**, **Teachers Insurance** and **Hartford Life** will all also look into office loans.

Some mid-tier life companies could pullback from office going forward because they already have too much of this product type in their portfolio. So, they will try to de-emphasize it. Overall, most life companies should be willing to work on office loans unless they have major exposure issues. If there is a property that fits into that box there will be plenty of LCs interested. Historically office has made up 40% of most life companies' business.

Major metros such as the San Francisco Bay Area, Los Angeles, Boston, New York City and Washington, D.C., should see the most LC interest for office loans. CBDs will be preferred over suburban properties. Don't expect rents to go up much if at all in the office sector. There will be a wide pricing gap between loans in the major markets and the harder hit cities. Markets where new development will be difficult or costly will get the most life company attention.

Life companies look for Class A quality product with high visibility and extensive frontage on a major interstate or highway. Full occupancy and low LTV will also be important. LCs want multitenant assets with staggered rent roll. They will be sensitive to the age of asset, so the newer the better. Properties with mass-transit connections are prized. Local borrowers with on-site management and good financial strength will be preferred. Existing relationships with the LCs won't hurt either.

AFFORDABLE HOUSING BORROWERS SEE HIGH LEVERAGE

Lenders will offer leverage between 80% and 90% for affordable housing properties. This will be somewhat higher than the conventional multifamily space due to the protection on these deals. Leverage will typically be 80% to 87% on the **Fannie Mae**- and **Freddie Mac**-backed deals. Refis on section 8 assets and new construction loans sub rehabilitation both see LTVs at 87% and a DSC of 1.15x. **FHA** and **HUD** lenders underwrite affordable deals slightly more favorably than market rate loans. Projects with rental assistance will see LTCs up to 90% and a 1.11x DSC. Acquisition rehabs will be around 85% of value with a 1.17x DSC. Construction on tax credit properties will get 87% of cost with a 1.15x DSC.

LARGER CONSTRUCTION LOANS ON THE HORIZON

Construction lenders including funds and private money will be very selective and will most likely keep leverage low in the 40% to 50% range on ground-up development. Banks will go a bit higher and offer 55% to 65% leverage. A few lenders could provide leverage up to 70% depending on the strength of the borrower and amount of preleased space. HUD lenders will underwrite up to 83.3% for new construction and sub-rehab projects through the 221(d)4 program.

Some national banks will ink development loans, including **Wells Fargo**, **M&T Bank** and **Capital One**. These lenders will target the most desirable product type, which will push the smaller lenders into less desirable markets and projects. Regional banks such as **PNC** and **BB&T** could be more active than some of the major banks, including **BofA** and **JP Morgan Chase**, which have slowed down on construction money. The regional lenders have a leg up since they understand the individual markets. **Builders Bank** and **First Enterprise Capital** will allocate development loans. **RBC** and **American Momentum Bank** recently teamed up to loan \$33.85M on a multifamily project in Florida.

Pension fund **AFL-CIO Housing Trust** will lend to multifamily projects with between 120 and 200 units and can offer leverage up to 83%. **Owens Financial** will consider bridge loans in California's Bay Area in the 60% to 65% LTC range. **Metropolitan Funding Corp.** will put together construction loans for multifamily, healthcare properties and hospitals nationwide. A few life companies should dip their toes back into the sector in the next few quarters.

The need for larger construction loans will increase going forward because the number of capital sources available will be smaller than it has been in the past. Two years ago it was rare to see a construction loan greater than \$50M but that is no longer the case. Construction lending will be market driven and the major MSAs will have the most activity. Employment needs to fall below 7% before there is a major pickup in construction.

Interest could be in the high 4% to low 5% range, but most will be mid-5% to 6%. Count on an 8% to 10% debt yield range and 1.25x to 1.30x DSC. Banks will need full completion guarantees and particular repayment guarantees. Bankers will offer one- to three-year terms and 30-year amortization. These will be variable rates with recourse. HUD will do interest only during construction and 40-year fixed, self-liquidating permanent mortgages. DSC will be 1.20x.

Well capitalized borrowers with proven experience in the market should have no problem finding willing lenders. The sector will be much more active than it was 18 months ago. It is important to have fresh equity in the deal. Borrowers need to make sure and bring the complete package to the lenders at the beginning. A history of experience with the asset type will be preferred.

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