The **CRITTENDEN REPORT**® **Real Estate Financing**

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. 21 **November 28, 2011**

BANKS SELECTIVE WITH CONSTRUCTION DOLLARS

Bankers will give the most attention to multifamily when originating construction loans as this sector has not only recovered but improved beyond the prior peak in some markets. Senior housing could also catch bankers' eyes as there will most likely be an uptick in construction in 2012. Banks will hand out leverage around 60% to 65% on construction loans for apartment projects going forward. Some will quote LTC up to 80% but that number will most likely fall once underwriting actually gets started. DSC will be in the 1.15x to 1.30x range.

Some of the big banks, including **Wells Fargo**, **BofA** and **JP Morgan Chase** will be active on the [redacted]

HOTELIERS LOOK FOR REFIS...

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CMBS moves forward with hotel deals but the terms will be less favorable than other asset classes. **Wells Fargo, Cantor Fitzgerald, Morgan Stanley, BofA** and **Goldman Sachs** will be among the conduits lending on hotels. Interest rates will be 6% to 8%. The most bullish conduits may increase hotels to 15% to 18% of tranches as soon as Q1 2012, but few will increase beyond that until the volatility in the sector settles. Debt yield for hotels will be in the 12% to 13% range for the rest of this year. Don't be surprised to see that number stay above 11.5% in the first half of 2012. Conduits will look for strongly branded hotels, solely limited to Hilton, Hyatt, Marriott and Starwood.

Watch for regional banks to also be a consistent source of financing in the sector and fund a wider variety of hotel loans next year. **BB&T, Fifth Third, California Bank & Trust, Harris Bank, Sovereign Bank, East West Bank, Applied Bank** and **Bank of Hawaii** will all look at hotel loans. Look for regional banks to lower recourse requirements in the New Year. Some regionals began to reduce recourse to 50% this year, while others will drop recourse to 25% starting in January.

Regional banks will be extremely relationship driven. Most will view a hotel loan as more of a relationship loan with a borrower than a loan to that asset type. They will be more focused on local borrowers and want the full lending relationship. Borrowers without existing relationships with regional banks will need to find an equity partner to infuse new capital into the deal.

LENDERS SEE VALUE IN MIXED-USE

Look for an increase in the variety and amount of lenders financing mixed-use properties going forward. Leverage will typically be 65% to 75% of total capitalization. **Wells Fargo, M&T Bank, Signature Bank** and **TD Bank** will work on mixed-use with a larger level of risk for higher pricing and recourse. Smaller regional banks will most likely play with leverage under 65%. Local/regional banks, including **New York Community Bank, Sovereign Bank** and **Astoria Federal Savings** will do five-, seven- and 10-year terms.

Apple Bank targets a wide spectrum of loan amounts from $1M up to $80M and offers fixed and floating rates. Lower leverage loans will be preferred with many under 50%. **Apartment Bank** will underwrite up to 70% leverage in the core markets. Refis will get 65%. DSC should be around 1.35x.

Expect banks and life companies to provide the lower cost loans for mixed-use properties with strong, stable in-place cash flow and attractive sponsors. Count on LCs such as **New York Life, Prudential** and **American Family Life** to loan on this product. Private money lenders will also be very aggressive for mixed-use. **StoneTree Financial** will look for loans in the $1M to $16M range with leverage up to 65% of value. Rates will be 9% to 12% interest only for a term of one to five years. Bridge lenders should also get involved in this product type.

Lenders that deal with non-stabilized or distressed product, including **Canyon Capital Realty Advisors** and **W Financial Fund** will see favorable opportunities on these deals. Canyon will consider transitional assets, which may be the result of construction completion, lease-up or sell-out. The lender will look at loans from $15M to $200M. W Financial will put together one- to three-year loans with LTV up to 75%.

Lenders will be selective, but there will be plenty of money out there for mixed-use deals when they hit the market. The biggest factor lenders look for will be to make sure the commercial component meshes well with the residential one. The uses have to be complimentary such as apartments with daily-needs retail. Count on lenders to be drawn to ground floor retail or office under apartments. There will be plenty of mixed-use lending needs in major metros such as New York City, Chicago and Boston since most of the buildings have more than one use. So anticipate regional lenders to be more than willing to consider this loan type. Some will stay away from properties in rural areas.

Most lenders will provide low leverage loans that support conservative DSC ratios for deals with strong sponsorship. Many will look for diversified rent roll and will avoid projects with too much concentration on rent from one of the components. In addition to the components involved, lenders will also look at coverage, sponsorship, leverage, location and the strength of the commercial element. The uses must be supported by the market sales per square foot. The retail or office components will also have to boast long-term leases for lenders to get involved.

BANKS & LENDERS

Apartment Bank
220 Newport Center Drive, Suite 11-268, Newport Beach, CA 92660
David Boyles, Senior Loan Officer-Income Property Lending
(949) 244-8614
dboyles@bofifederalbank.com

Apartment Bank puts together a $1.1M cash-out refi for a mixed-use property in San Diego. Count on the lender to put together $550M in 2012. Multifamily and mobile homes are the targeted product types.

Apple Bank
122 E. 42nd St., Ninth Floor, New York, NY 10168
Robin Thomson, SVP
(212) 244-6456
rthomson@apple-bank.com

Apple Bank will originate $800M this year, with another $800M expected in 2012. The bank focuses on the New York metro area but will consider low leverage transaction in other core markets. Leverage will be under 65%.

Applied Bank
601 Delaware Ave., Wilmington, DE 19801
Carl Kruelle, III, Chief Lending Officer
(302) 326-4200
carl_kruelle@appliedbank.com

Applied Bank specializes on financing for student housing, mixed-use properties and hotels. Target markets include the Mid-Atlantic and southeastern Florida, although the bank is selectively looking for strong deals in other areas.

Avant Capital
209 Bruce Park Ave., Second Floor, Greenwich, CT 06830
Dean Hienrich, Regional Director
(203) 526-3338
dheinrich@avant-capital.com

Avant Capital will loan $50M to 100M to distressed properties this year. Multifamily, industrial, office and retail are on the menu. Avant has a competitive bridge loan program that offers quick closing, competitive rates and interest-only payments.

B&A Capital Partners
1515 W. 190th St., Suite 455, Gardena, CA 90248
Brian Shniderson, Managing Director
(310) 463-0920
brian@rtiproperties.com

B&A will complete $120M in private bridge money this year and 70% will be for distressed properties. Will consider most commercial types, as well as condo projects. B&A stays away from ground up construction and special purpose real estate.

BBVA Compass
8080 N. Central Expressway, Suite 310, Dallas, TX 75206
Chris Cain, Institutional Real Estate-SVP
(214) 706-8031
chris.cain@bbvacompass.com

BBVA will do a total of $500M for senior housing by year's end, nationwide. Around $135M of that will be for construction loans. Look for those numbers to increase in 2012. The company will focus on needs-driven products.

Canyon Capital Realty Advisors
2000 Avenue of the Stars, 11th Floor, Los Angeles, CA 90067
Jonathan Roth, Principal
(310) 272-1555
jroth@canyoncapital.com

Canyon anticipates to loan around $500M to $750M in 2012. Count on $700M in debt facilities this year, with around 30% going for mixed-use properties. Will provide debt for properties in all stages of life cycle, including those not yet stabilized.

Comerica Bank
333 W. Santa Clara St., San Jose, CA 95113
Steve Burich, SVP
(408) 556-5323
sdburich@comerica.com

Comerica will complete around $350M in loan originations this year mostly in the Bay Area. All but $50M will be for construction. Expect around $450M total from the bank next year. The typical loan amount will be $10M to $35M.

Pacific Western Bank
401 W. A St., San Diego, CA 92101
Gerry Veal, EVP/Manager
(619) 338-1408
gveal@pwbonline.com

Pacific Western uses DSC as its preferred metric for sizing loans and desires deals coming in at 1.25x. The bank prefers owners with extra capital to fill in for snags during construction. Pacific's loans run from $15M to $50M.

Provident Bank
3756 Central Ave., Riverside, CA 92506
William M. O'Laverty, VP
(951) 782-6114
bolaverty@myprovident.com

Provident Bank plans to originate $70M in commercial and apartment loans in 2012 and will finish out this year with $25M in originations. Count on $1.8B for single-family lending this year and $1.3B in 2012.

BANKS & LENDERS

Silo Financial Corp. 2 Landmark Square, Suite 208, Stamford, CT 06901 Jonathan Daniel, CEO (203) 327-3327 jdaniel@silo-financial.com	Silo Financial will complete $150M in originations this year, with $75M going toward distressed properties. Will do short-term, interest-only bridge loans from $1M to $10M. Loans could go higher in New York City.
StoneTree Financial 436 14th St., Suite 1118, Oakland, CA 94612 Frank Sanders, President (510) 268-4884 frank@stonetreefinancial.com	StoneTree has set a goal to loan out $16M to $18M next year, but that number could go higher if there is a need in the market. Will lend on income producing properties along the West Coast and in Nevada.
W Financial Fund 149 Madison Ave., Suite 701, New York, NY 10016 David Heiden, Managing Member (212) 684-8484 david@w-fund.com	W Financial will loan out a total of $80M this year, with half that amount going to mixed-use properties. Specializes in distressed property loans, including office, retail and multifamily, as well as some land and hotels in the New York area.
Webster Bank CityPlace II, 185 Asylum St., Harford, CT 06103 William Wrang, III, SVP (860) 692-1693 wwrang@websterbank.com	Webster Bank will do approximately $400M in total commitments this year. Around $80M will go toward construction loans. The territory includes Philadelphia to Boston. The bank is most aggressive in multifamily loans.

LEVERAGE BREAKDOWN: FOUR MAIN FOOD GROUPS

Borrowers will see leverage hold steady or rise modestly during the first quarter of 2012 for assets in the four main food groups. The best properties with all the bells and whistles should be able to score leverage at or above 65%. Multifamily will be the preferred product type next year. Multifamily borrowers will get the most attractive leverage at up to 80% with plenty of willing lender options. Retail and industrial will receive a moderate level of interest from lenders, while office will be more difficult to finance.

Multifamily

Borrowers will grasp LTVs at up to 80% from the agencies on acquisitions and refis. These loans will have the most competitive rates and 30-year amortization schedules. Count on **Fannie, Freddie** and **HUD** to increase activity next year, which will keep the other major lending sources on their toes. Life companies such as **Prudential, Principal, Northwestern** and **Allstate** will try and pick up more multifamily in the New Year and could bring up leverage above 70%, maybe even up to 75%. LCs will also lower rates when underwriting, probably sub 6%, to win some deals.

Banks will come in around 65% to 70% on leverage. Many major banks such as **JP Morgan Chase, Capital One, Wells Fargo, BofA, Union Bank** and **BB&T** will be aggressive to win multifamily deals. Many of these banks will begin to lower rates on five-year money to sub 5% to compete. Some CMBS players will get involved on the B- to C+ properties with 65% to 70% leverage. Rates will be around 6.5% with 10-year terms and 25-year amortization.

Retail

Investors of retail centers with a drug store or grocery anchor could see LTVs up to 75% next year. Most properties will land right around 70%. Some lenders will be overexposed in retail so they might not be as bullish on it compared to some of the other asset types. Leverage could jump back up to 75% across the board later next year, much like it did this past summer. Count on these numbers to reach 80% if there is a mezzanine piece involved on the loan.

Life companies such as **Stancorp., Ohio National** and **Symetra** will target the smaller loans and stick to 70% leverage on 10-year money with 5.25% rates in 2012. The conduits will be the most active on retail in the secondary and tertiary markets with leverage around 65%. Banks will be selective when working with retail but Union Bank, JP Morgan Chase and BofA will all consider it.

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DEALMAKER DATABANK

Cassidy Turley BRE Commercial
4350 La Jolla Village Drive, Suite 500, San Diego CA 92122
Gary Goss, Debt Placement Services
(858) 546-5452
ggoss@breb.com

Cassidy Turley works with JP Morgan Chase on a $6M loan for an industrial building in Carlsbad, Calif. The cash-out refi has a 10-year term, with 30-years amortization. Interest was 4.75%. The lender liked the low leverage on the deal, which came in at 48%.

CBRE HMF
1420 Fifth Ave., Suite 1720, Seattle, WA 98101
John Taylor, First VP
(206) 830-6495
john.taylor@cbre.com

CBRE HMF arranges $24.9M in construction financing for Aldara Apartment Homes in Saratoga Springs, Utah, through HUD. Current LTC was 83.3%. Interest was 4.7% for both the construction and perm loan. DSC was 1.34x.

Helios Capital
900 Route 9 N., Woodbridge, NJ 07095
Steven Schultz, CEO
(732) 362-8282
sschultz@heliosca.com

Helios closes the sale of a non-performing note for a 200-unit multifamily property in Allentown, Pa. Helios was the exclusive advisor to a New Jersey bank and secured Diversified Realty Advisors as the winning bid.

HFF
8401 N. Central Expressway, Suite 700, Dallas, TX 75225
Mark West, Senior Managing Director
(469) 232-1974
mwest@hfflp.com

HFF works with Wells Fargo Bank to provide an acquisition and construction loan for United Supermarket to purchase land and construct a store in Lubbock Texas. LTC was 70% and this was a five-year deal with 25-year amm.

HFF
301 Grant St., Suite 600, Pittsburgh, PA 15219
Mark Popovich, Senior Managing Director
(412) 281-8714, Ext. 2026
mpopovich@hfflp.com

Popovich works on a large hotel construction loan in a gateway city.

NorthMarq
4890 Alpha Road, Suite 200, Dallas, TX 75244
Bart Dickinson, VP
(972) 455-1947
bdickinson@northmarq.com

NorthMarq arrange a $9.5M refi with Sun Life of Canada for an industrial property in Dallas. LTV was 61% and interest came in at 5.9%. Debt yield was 11.9% and DSC was 1.56x.

LEVERAGE BREAKDOWN: FOUR MAIN FOOD GROUPS...

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Industrial

Look for industrial borrowers to see leverage from 65% to 70% next year. The highest-quality Class A properties may start to notice leverage emerge at 75% from the LCs and CMBS players. Expect the small to mid-sized life companies to be the most active on industrial. **Allianz, Aviva, Sun Life, American Equity** and

PRIVATE MONEY TARGETS DISTRESSED

Watch for private money lenders to offer 65% to 70% leverage on distressed and REO properties. Some could even go as high as 75%. Rates will tend to be somewhat higher on these riskier products ranging anywhere from 8% to 14%. Debt yield will be up to 14%, depending on the rate. Count on fees to be two points up to 4% on these deals. With a plethora of money set to mature, distressed property lenders should see plenty of opportunities next year as banks shed troubled loans.

W Financial Fund will consider all kinds of distressed properties, including office, retail, multifamily and mixed-use, along with land and hotels in the New York area. LTV will max out at 75% and rates will be 8% to 12%. **Silo Financial** will put together loans with one- to three-year terms and most will have debt yield of 11% plus. Loans will be $1M to $10M. **B&A Capital** prefers apartment and retail but will also consider self storage. Rates start in the high single digits up to the teens. **JCR Capital** will also work with distressed.

Some of the healthier regional banks could finance distressed loans but they will require the right leverage and sponsorship. Many borrowers will turn to bridge lenders to put money on the property, while they take time to stabilize it. **Avant Capital**'s bridge program for distressed properties offers loans from $1M to $20M. Hard money lenders will be active for distressed property loans but there will be less expensive options out there for borrowers in need.

Investors will be scrambling to reposition properties until the market takes off, so there will be plenty of need for lenders that will work on distressed asset loans. Multifamily and retail will most likely get the most attention from lenders. A strong exit strategy, as well as a favorable market and location will be the most important factors. Properties will need a favorable price per pound; lead time to lease up or reposition; strong sponsorship with expertise; significant skin in the game; strong guarantors with liquidity; and global cash flow. Lenders will like sponsor equity in the deals.

Lenders' biggest risks will be the execution of the exit strategy and the ability of the sponsor to efficiently and effectively manage the repositioning of the product. Other factors that could hinder the loan would be the further deterioration of the local market, along with the timeline to complete renovations and lease-up not being met. Lenders will structure the loan value based on what needs to be done to stabilize the asset.

To mitigate the risk, watch for lenders to closely monitor renovation draws and inspections, analyze market statistics and trends and require financial strength from the guarantors. These lenders will look at the loan from several angles in the event of default, therefore sizing up the risks. Count on some to build an interest reserve into the loan to cover the DSC, as well as the property taxes, insurance and reserves.

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The Crittenden Report on Real Estate Financing™ is published by Crittenden Research, Inc., 45 Leveroni Court, Suite 204, Novato, CA 94949. Send address changes to *The Crittenden Report on Real Estate Financing*™, P.O. Box 1150, Novato, CA 94948-1150.