

## LCs BEAT ALLOCATION GOALS

Expect overall allocations from the life companies to total \$40B to \$50B in 2012. Leverage will land between 60% and 65%, while a few LCs could go up to 70% on the most attractive deals. Look for 2011 to close with \$40B in total originations from the life companies. Many LCs will end this year with higher allocations than originally planned as competition from the conduits weaned in the summer leaving plenty of attractive deals in the market. Watch for the majority of LCs to keep pipelines flowing next year and beat originations for 2011.

Nearly all the life companies will be flushed with cash and there will be a need to reinvest premiums, which should get money out the door. While most will focus on multifamily, industrial, retail and office, some will begin to dip their toes outside the four food groups into hospitality and self storage. Strong relative values compared to other fixed-income alternatives and favorable underwriting standards should fill pipelines. Watch for a few LCs to even change loan terms and underwriting to get deals finalized.

**Northwestern Mutual Real Estate Investments** will finish the year with \$4.5B in allocations, up slightly from the \$4.3B planned at the beginning of the year. The company saw the favorable relative value in comparison to other investment alternatives, which is why it exceeded its goal. Count on the LC to match 2011 allocations with around \$4.5B projected for next year. **Cornerstone Real Estate Advisers** will finish the year with \$3.5B in commercial loan originations, a record year for production. Look for roughly \$4B from the company in 2012. Retail, hotels, industrial, office and multifamily will be on the docket.

**ING Investment Management Americas** will finish the year on track with \$2.1B in allocations. The company will up the ante with plans to loan out up to \$2.5B in 2012. Apartments, multifamily, industrial and office will be targeted. **Pacific Life** will finish the year with nearly \$3B in loan commitments. This is a bit higher than the announced goal at the beginning of the year. The Q4 pipeline surpassed expectations and the LC did some deals it did not anticipate. Pacific Life desires best-in-class office, apartments and regional malls.

**Principal Life** will allocate \$1.7B to \$1.8B this year, which marks a slight increase over expected numbers based on the strong relative value in commercial mortgage. Count on around \$1.8B next year as well. **Allianz** will finish the year with \$1B in commercial real estate loans. Plans call for \$1.3B to \$1.5B next year. Look for Allianz to start to offer three- to seven-year money in 2012. The LC has historically stuck to 10-year loans in the past. This move will accommodate clients that have shorter-term liabilities and others could follow suit.

## LENDERS FILL HOTEL VOID

Hoteliers will see a wider variety of options for financing going into the New Year. Private, portfolio and fund lenders will consider deals with sub-10% debt yield in 2012, as long as the owner provides a strong story for upswing. Hyatt, Hilton, Marriott and Starwood properties will receive the most attention, but higher-end IHG and Choice properties will see some interest from lenders as well. Hotel lenders, including **Starwood Property Trust**, **Mesa West Capital**, **RockBridge Capital** and **Blackstone** will underwrite a variety of hotel loans next year. Rates will likely be at a minimum of 6% to 8%. There will be less expensive sources of capital available but these companies will provide relief for hoteliers with cash flow problems.

**RockBridge** will underwrite hotel loans for debt and equity. The company likes higher yield mezz loans and rescue capital deals. Loans will be between \$10M and \$50M. Leverage tops out at 65%, but deals could reach 75% with equity. Deals with a maximum LTV of 65% based on the real estate could see another 15% of preferred equity on top of the capital stack.

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## LENDERS FILL HOTEL VOID...

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RockBridge will not only look at the trailing-12, but also take projections into account. The lender prefers deals in the top 50 MSAs but will selectively ink loans in other markets.

Starwood Capital will target loans at \$30M and up. The company will originate throughout the capital stack, underwriting senior pieces, mezz and preferred equity. Starwood favors cash-flowing assets and avoids construction deals. The company looks for repositioning deals, discounted pay offs, acquisition loans and refis. Typical terms will be for three to 10 years with leverage up to 75%. Starwood will take NOI projections into account for capital starved assets in need of reflagging, repositioning or renovating.

Mesa West will solely underwrite senior debt with leverage at 60% to 65% of cost or value. Loans range from \$15M to \$100M and the company prefers assets in the top one-third of their competitive set. Transitional assets will be considered as long as repositioning will get the asset to stabilization. The company will target full and select-service properties and will steer clear of resorts and true limited service assets. Rates range from 6% to 8%. Mesa West looks at transitional assets with a solid turnaround story not reliant on the economy or market.

Blackstone will allocate up to 40% of yearly lending to the hotel sector. The company solely provides mezz debt. Leverage will range from 50% to 75%. Blackstone mainly targets hotels in the top 15 markets but will do some secondary assets as part of portfolio deals. The lender will underwrite hotel loans for resorts and independent assets, as well as the brands.

## BANKERS LOOK CLOSELY AT BORROWERS

Banks will focus on a borrower's global cash flow and liquidity when underwriting loans next year. Net worth and liquidity will be relative to the size of the loan. Many bankers require liquidity and global cash flow from sources other than the property itself. These numbers must equal one year of debt service coverage. Others will focus on net worth equal to the loan amount and liquidity at around 10% of the loan amount. Count on banks to offer leverage in the 65% to 70% range next year.

**Provident Bank** needs a net worth around 1.50% times the loan amount. For loans that fall in the \$3M to \$7M range, **Comerica Bank** requires net worth of \$25M to \$50M; \$5M in liquidity; and \$1M to \$2M in cash flow. For the smaller deals, Comerica seeks between \$5M and \$10M of net worth and liquidity of \$500K plus cash flow on stabilized income properties. **US Bank** will be less concerned with net worth and/or liquidity but focuses more on the borrower's risk.

**ViewPoint Bank** bases net worth and liquidity on the size of the loan, experience of the borrower and the expected capital expenses. **Apple Bank** makes sure that net worth and liquidity will commensurate with the amount of the loan. The main focus will be on the real estate itself rather than the borrower for repayment. Apple Bank will not rely on guarantees or borrower contributions to carry a loan. **Applied Bank** looks at cash flow and targets sponsors with the strength and wherewithal to stand behind the property. **Webster Bank** puts strong focus on sponsorship analysis. **City National Bank** holds no set target for liquidity or net worth and will consider the borrower on a deal-by-deal basis.

Anticipate the majority of banks to focus on the sponsor and personal financial statements before they look at the property. Cash flow and positive NOI will be important. Banks will be conservative and will do global cash flow analysis. They don't want any blemishes and will want to know if the borrower has properties with defaults. The smaller regional players will only work on low-leverage deals on completed, multi-tenant, cash-flowing properties that cover the debt adequately on their own. Banks could focus on owner-occupied properties and SBA loans next year and may not be as interested in larger and longer-term loans.



CRITTENDEN



**BANKS & LENDERS**

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Allianz will originate \$1B in commercial real estate loans this year. Expect \$1.3 to \$1.5B next year. Look for the company to offer shorter three- to seven-year terms in 2012. Office, retail, multifamily, industrial and medical office will all be targeted.

**Berkadia Commercial Mortgage**  
118 Welsh Road, Horsham, PA 19044  
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Berkadia will finish the year with \$5B in loans. The lender is active in multifamily and is one of the top three Freddie Mac producers. Target markets include Texas, Florida and the Midwest.

**City National Bank**  
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Gary Fitzgerald, EVP/Real Estate and Private Client Group Executive  
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gary.fitzgerald@citynational.com

City National budgets a total of \$300M of new commercial real estate loan commitments in 2012. Around \$250M will close this year. All property types are considered other than land. City National prefers to work in Florida.

**Cornerstone Real Estate Advisers**  
1 Financial Plaza, Suite 1700, Hartford, CT 06103  
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Count on Cornerstone to finish the year with around \$3.5B of commercial loan origination. Plans call for \$4B in 2012. The LC will target retail, hotels, office, industrial and multifamily. Cornerstone prefers 15- to 20-year loan terms.

**ING Investment Management Americas**  
5780 Powers Ferry Road, Suite 300, Atlanta, GA 30327  
Gregory Michaud, SVP-Head of Real Estate Finance  
greg.michaud@inginvestment.com

ING will finish the year with around \$2.1B in allocations. Anticipate \$2B to \$2.5B is expected in 2012. The company will target the four main food groups.

**JP Morgan Chase**  
3 Park Plaza, Suite 1000, Irvine, CA 92614  
Alfred R. Brooks, President-Chase Commercial Term Lending  
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JP Morgan Chase is bullish on multifamily lending and completed more than \$7.2B in production through the end of November. Count on big production targets for multifamily in 2012.

**Northwestern Mutual Real Estate Investments**  
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Northwestern will originate \$4.5B for commercial real estate this year. Expect the LC to exceed that number next year. Multifamily, fortress malls and industrial will all be targeted but the company will analyze each investment opportunity.

**Pacific Life Insurance Company**  
700 Newport Center Drive, Newport Beach, CA 92660  
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Count on nearly \$3B in loan commitments this year from Pacific Life, with around \$2.5B projected for 2012. The company focuses on high quality office, apartments and best-in-class regional malls but will consider most deals.

**Principal Real Estate Investors**  
801 Grand Ave, Des Moines, IA 50392  
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Principal Life will loan out a total of \$1.7B to \$1.8B this year. Plans are to loan out \$1.8B next year. The four core properties will be targeted.

**Provident Bank**  
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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.

## MORE LENDERS STEP UP FOR MULTIFAMILY

Lenders will originate a total of \$60B to \$65B for multifamily properties by year's end. There will be plenty of money out there for multifamily properties at competitive rates next year. Fundamentals will be strong, which will attract lenders of all shapes and sizes. Look for lenders to dip their toes into smaller markets to pick up loans. Many will start to consider outlying areas near major metros. Borrowers will be able to get leverage up to 80% with the GSEs. The LCs and banks will stay in the 65% to 70% area. CMBS lenders will go up to 75% once they fully return to the market.

Debt yield will be around 1.25x for the majority of multifamily assets. Product in the hottest markets will get a 1.20x DSC and 5% cap rates. The tougher markets will get a 1.30x DSC. Interest will go as low as 4% on the most favorable deals. Debt yield should be 8% to 9%, depending on the lender.

**Fannie Mae, Freddie Mac and HUD** will be active but whispers of possibly privatizing the GSEs could lead to more conservative lending. The agencies will stick to the bread-and-butter deals. Private and GSE lenders such as **Berkadia Commercial Mortgage, Walker & Dunlop, Love Funding and CBRE** will also be bullish next year. Expect the conduits to become players in the multifamily arena and look for the big guys, including **Deutsche, Wells Fargo and JP Morgan Chase** to be actively looking for deals.

Banks will need to get money on the street next year. **Wells Fargo, Union Bank, Sterling Savings and Luther Burbank Savings** set up programs for multifamily and will be active on the \$500K to \$10M loans. These banks will be favorable for the mom-and-pop borrowers. Around 80% of the loans that JP Morgan Chase finances through its commercial term lending group goes toward multifamily properties.

Anticipate bankers to do the three-, five-, seven- and 10-year, fixed-rate deals that could roll into floating rate. Banks will offer less expensive closing costs and an easier process than some of the other lenders. Keep an eye out for a pickup in construction loans next year from the banks.

Life companies will stick to the stabilized product and could grab more market share in the New Year, especially on the lower-leverage deals. Count on the LCs to be very busy in Q1. **Prudential** will be active on the \$10M-and-up product. Count on **New York Life, Advantas, Allstate, Aegon, AIG, Aviva, Genworth Financial, Guardian Life, ING, Guggenheim Partners, John Hancock, MetLife, Northwestern Mutual, OneAmerica, PPM Finance and Principal** to all be bullish next year.

Lenders will pay attention to products in Boston, New York City, Washington, D.C., San Jose, Calif., San Francisco, Los Angeles, Seattle, Portland, Ore., Orange County, Calif., and markets in Texas. Major banks and life companies will favor Class A and B garden-style assets. Smaller banks will stick to the C+ and up communities. Lower-volume loans on Class B properties will get snapped up by the regional banks. Count on the conduits and HUD to swoop up the Class C properties.

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