

Vol. 38, No. 2

January 23, 2012

MULTIFAMILY LENDERS ANSWER REFI NEED

Lenders get aggressive with multifamily refis, which will ease demand from the large wave of multifamily loans coming due in the next three years. A plethora of 10-year money, as well as five-year loans done in the 2007 boom will need recapitalization. Lenders will offer up to 80% leverage for non cash-out refis, while cash-out refis will go up to 75%. Class C properties will be in the 70% range. Look for **Fannie Mae, Freddie Mac** and **HUD** to pick up the bulk of the market share, especially the Class A and B assets. Freddie will stick to loans greater than \$10M. Fannie lenders will be more flexible and could do some smaller loans this year.

Count on the LCs, including **Prudential, Allianz, Principal, Pacific Life** and **Northwestern Mutual** to focus on the Class A product with lower leverage. **AIG Asset Management** doles out \$26M in five-year, fixed-rate refinancing for a community in Reno, Nev. **JP Morgan Chase, Deutsche Bank** and **Wells Fargo** will be the most aggressive multifamily conduits, while others such as **BofA, Morgan Stanley** and **Goldman Sachs** will also consider these deals. The conduits will swoop up the Class B and Class C assets. CMBS lenders will underwrite as many multifamily deals as possible, but will not be able to compete on pricing and leverage.

Agency lenders, including **Walker & Dunlop, Beech Street Capital** and **Berkadia Commercial Mortgage** will be extremely busy with refis as well. Bank lender **M&T Realty Capital Corp.** puts together \$14.85M for a property in Oceanside, Calif., with a 3.95% rate. **CapitalSource Bank** will do small-balance refis for multifamily. Private lender **Prime Finance** provides a \$24.8M non-recourse loan for a property in Greenville, S.C.

Borrowers will benefit from finishing their refinances in the first half of the year, while rates will be low. The challenge for lenders will be dealing with the loans done in the peak, which had aggressive underwriting. Lower DSC ratios and looser standards from before will result in a need for private equity and mezz loans to fill the gaps. DSC for refis will be right at 1.25x, with a few going up to 1.30x. Loans with 10-year terms will carry interest rates in the 4% to 4.25% area. Five-year loans will also see rates in the low to mid-4% range. The market could see some interest-only loans coming for high leveraged 10-year money. Count on an increase in demand for small-balance refis this year.

LENDERS RAISE LTC FOR CONSTRUCTION

A slew of multifamily projects will break ground this year in prime markets with sub-5% vacancy rates. These projects will see LTC up to 75% to 80% at takeout. Lenders will also favor mixed-use developments in 2012. Projects with residential, retail and hotel components will see LTC up to 70%. A few lenders will begin to fund hotel development projects in underserved markets with LTC up to 65% to 70%. Construction financing will be led by the larger regional and national banks, including **Wells Fargo, JP Morgan Chase, Citigroup, US Bank, BofA** and **BB&T**. Many of these banks built up an excess of cash and will look to mortgages as the best way to generate fees.

Expect to see more mid-sized regional banks allocating construction loans in the New Year. **KeyBank** aims to lend \$3B this year. Expect the lender to consider construction money for multifamily, mixed-use and possibly healthcare. **Valley National Bank** underwrites construction loans for Class A apartments in the Northeast. **M&T Bank** will be active with development loans this year. The lender favors LTC at 65%. **People's United Bank** targets industrial, multifamily, office and retail for construction deals up to \$20M. **Frost National Bank** primarily does construction financing and may require pending take-out. **Comerica Bank** targets construction loans in California and Texas. **Preferred Bank** looks to lend \$300M to \$400M in 2012.

LENDER COMPETITION HEATS FOR OFFICE

Many lenders will provide well-underwritten loans for office properties this year. Leverage will be a wide range, but most deals will fall between 60% and 65%. CMBS lenders could go up to 70% to 75%. LCs will range from 60% to 70%. Strong markets will see 65% to 70% leverage. Areas where the market is not strong will get 60% or less. Don't expect any loans to go up to 80%, unless there is a mezz or high yield piece involved.

Count on DSC to be 1.30x. Life companies will offer 10-year terms and rates in the 4.5% to 5.5% range. CMBS will target rates around 5.5%. Debt yield will be 10% on net cash flow. Banks will offer floating-rate loans based on LIBOR.

Life companies, including **MetLife, Prudential, Principal, Nationwide, Aetna, Aegon, Unum, John Hancock, ING, Sun Life and Cornerstone Real Estate Advisers** will all consider office. LCs will only look at the Class A product in CBDs or strong suburban markets. Count on investment banks, including **JP Morgan Chase, BofA, Morgan Stanley, Goldman Sachs and UBS** to get in the game with their conduit arms.

Pension fund **TIAA-CREF** will work on office deals. Regional bank lender **Washington Trust Company** will originate loans in New England and shoots for leverage at 70% or lower. **Apple Bank** will focus on office in the New York markets. **Comerica** targets office product in California and Texas. **GE Capital Real Estate** recently provided more than \$100M for an office portfolio in Southern California.

Most loans during the next 12 to 36 months will be refinances with some acquisition dollars going out as well. Don't count on any construction loans, unless it's for a built-to-suit building that is 100% preleased. Select markets such as Dallas or San Francisco will have a need for new office space. There will be demand for mezz on properties with leverage issues.

A handful of lenders will look at value-add, non-recourse bridge loans for high occupancy buildings with cash flow — something that lenders would not even consider two years ago. Most will be very interested in medical office buildings, especially those located near a major hospital.

This year, expect lenders to mainly focus on location, sponsorship and details of the property such as occupancy and age. Lenders will take a hard look at rent roll to get comfortable with tenants. Multitenant stabilized properties with long-term leases and good credit will be highly targeted. Assets with short-term leases or early termination clauses will be difficult to get financed.

Lenders will want occupancy of 80% or better. There will be money available for Class A and Class B products, but it will be tough for Class C assets to be financed this year. Buildings where the tenant base does not rely on one industry will also be strong. NOI should cover the debt plus a cushion.

CMBS LENDERS TO BE MORE MATURE

Expect conduits to lend up to \$40B by year's end, which will most likely beat the approximate \$30B that went out in 2011. Odds are **JP Morgan Chase** will be the busiest. Look for other investment banks, including **Deutsche, BofA, CIBC, Goldman Sachs, UBS, Morgan Stanley and Citigroup** to be active. **Ladder Capital and Cantor Fitzgerald** will also be busy. Most lenders will probably originate loans with 70% to 75% leverage. Some will go up to 80% or 85%, if there is a mezz piece, but those deals will be few and far between.

Rumor has it that some life companies such as **Prudential and Principle** might enter the conduit field this year. **PNC Bank and Barclays** could also consider getting involved. Don't expect anyone new to enter the game until the second half of the year. The most aggressive loans will see interest in the 6% area. DSC will be at 1.30x. Debt yield will be between 9% and 10%. Expect most loans to hold 25-year amortization schedules.

Continued on Page 4

BANKS & LENDERS

Beech Street Capital
33 Inverness Center, Suite 150, Birmingham, AL 35242
Damon Reed, VP
(205) 991-6700
dreed@beechstcap.com

Beech Street will close approximately \$3B this year, after finishing 2011 with \$2.1B in allocations. The focus will be on conventional garden-style multifamily loans; with some student housing deals as well.

Buchanan Street Partners
444 S. Flower St., Suite 2150, Los Angeles, CA 90071
Michael Hurst, Senior Director of Investments
(213) 236-3311
mhurst@buchananstreet.com

Buchanan Street Partners will complete between \$350M and \$500M in loans this year. The lender targets the four main food groups and will also consider storage and hotels nationwide. Historically, mezz makes up 25% of the debt portfolio.

Housing & Healthcare Finance
2 Wisconsin Circle, Suite 540, Chevy Chase, MD 20815
Erik Lindenaer, Director; Rich Lerner, Director
(301) 941-1667
elindenaer@hhcfinance.com; rlerner@hhcfinance.com

Housing & Healthcare Finance will originate \$650M this year. The lender specializes in senior housing and healthcare properties. Look for the lender to expand its mezz and bridge programs this year, as well as get involved in more multifamily property loans.

Hudson Realty Capital
250 Park Ave. S., Third Floor, New York, NY 10003
Spencer Garfield, Managing Director
(212) 532-3553
sgarfield@hudsoncap.com

Hudson Realty Capital completed more than \$500M of business last year with similar goals for 2012. Loans will fall in the \$5M to \$35M area and will primarily be senior debt or distressed loans.

Morrison Street Capital
121 S.W. Morrison, Suite 1875, Portland, OR 97204
Justin Dennett, SVP
(503) 952-0794
jdennett@morrisonstreetcapital.com

Morrison Street Capital expects to invest around \$30M this year in subordinate debt. The average investment will be slightly under \$3M. The lender targets multifamily, office, industrial and retail properties, usually in the Western U.S.

NY Urban
800 Central Blvd., Suite D, Carlstadt, NJ 07072
Chris Lama, Principal
(212) 527-8453
clama@nyurban.net

NY Urban will finance between \$40M and \$50M in 2012, through its bridge and mezz vehicle. Loans will include first and second mortgages, as well as mezz. Look for three loans to close this month.

Terra Capital
805 Third Ave., Eighth Floor, New York, NY 10022
Dan Cooperman, Managing Director/Head of Originations
(212) 753-5100
dcooperman@tcp-us.com

Terra Capital will close between \$100M and \$150M in mezz and preferred equity by year's end. The lender will work with all property types but is the most comfortable with multifamily. Loans will be in the \$3M to \$5M range.

Walker & Dunlop
7501 Wisconsin Ave., Suite 1200E, Bethesda, MD 20814
Brendan Coleman, VP
(301) 215-5595
bcoleman@walkerdunlop.com

Walker & Dunlop originated \$4B of loans in 2011. The lender will be bullish on multifamily lending in 2012 through its Fannie Mae, Freddie Mac and HUD lending programs. Coleman recently completed a \$36M loan for a refi of an apartment in the Northeast.

Washington Trust Company, The

Washington Trust Company puts together a \$6M refi

CMBS LENDERS TO BE MORE MATURE...

Continued from Page 2

Lenders and borrowers alike begin to feel more comfortable with the CMBS market but it will take time for confidence to fully return. Count on conduits to be more mature in underwriting this year and, although there will not be a boom, plenty of money will be available. Lenders that have yet to ramp up personnel could have a hard time keeping up with demand.

Anticipate a vast amount of conduit activity in South Florida, California, Texas and New York City. The life companies will dominate the most favorable deals in the top-tier markets. In order to win deals on high quality product, the conduits will consider secondary markets.

Retail, office, hotels and industrial will be on the docket. The conduits would also like to do multifamily loans, but will be hindered by competition from the agencies and life companies. Grocery-anchored retail with a sales history; leased office buildings in CBDs; branded hotels in prime locations; and multitenant industrial will be the most sought after products. Don't expect conduits to consider unanchored retail or single-tenant properties. CMBS will work with all types of borrowers from the REITs to the one-off owners.

DSCRs TO SOFTEN

Look for select lenders to ease slightly on debt service coverage ratios this year to win the top deals in this competitive market. Spreads will compress, which will cause DSC to condense as well. While DSC will drop, don't expect a vast change until cap rates move down or interest rates spike. Multifamily and industrial properties will be considered safe investments, which will lead to tighter coverage.

Count on **New York Life** and **Cornerstone Real Estate Advisers** to shoot for a minimum DSC of 1.35x. **Morgan Stanley** will target a minimum 1.30x DSC. **Goldman Sachs** and **HSBC** will desire 1.25x. **Deutsche Bank**, **US Bank** and **Union Bank** will want 1.20x.

Count on multifamily to get the lowest DSC, with most deals coming in around 1.20x to 1.30x. Some lenders could go down to 1.15x for properties in primary markets. **Freddie Mac** and **Fannie Mac** will do 1.25x this year. Industrial will be considered a good bet for lenders and will see 1.25x DSC for multitenant properties. Ratios will go a bit wider for single-tenant assets. Owner-user industrial properties will be at 1.25x or greater.

Retail's DSC will be modestly higher and will come in between 1.30x and 1.35x, as this market should stay soft in 2012. These will be underwritten on a case-by-case basis, but well-anchored properties in favorable locations can go as low as 1.25x. Office properties will be underwritten at a minimum 1.30x DSC on net cash flows. Lower LTV numbers will push DSC up to 1.40x to 1.50x for office.

Borrowers' ability to refinance loans will be greatly impacted by DSC in the New Year. Most of the loans expected to mature in the next couple years will carry a DSC of 1.40x or greater. Borrowers will have no problem refinancing these loans.

Looking forward, expect most loans maturing in 2017 to have in DSC of less than 1.40x. This will lead to a significant number of maturity defaults and loan extensions. Some lenders will look more closely at the borrower's financials, including credit, global cash flow and liquidity rather than DSC.



DEALMAKER DATABANK

Aztec Group
2655 S. Bayshore Drive, PH-2A, Coconut Grove, FL 33133
Charles Penan, Director
(305) 938-8621
openan@aztecgroup.com

Aztec Group puts together two loans with BankUnited. Biscayne Harbour Shops in Aventura, Fla., receives \$11M in first mortgage financing, with a 50% LTV. Gateway Center also in Florida obtains a \$6.4M discounted payoff. LTV was 75%.

CBRE
200 Park Ave., 19th Floor, New York, NY 10166
Michael Sherman, SVP-Debt & Equity Finance Group of Capital Markets; Patrick Kearn, Associate
(212) 984-6582; (212) 895-0909
michael.sherman@cbre.com; patrick.kearn@cbre.com

CBRE arranges a \$23.5M refinance with BofA for Commerce Center East, a Class A office building in Nashville, Tenn. LTV was 65%. DSC was underwritten to 1.40x, which provides ample coverage. This was a three-year, non-recourse loan with an all-in rate of 4%.

CBRE
189 S. Orange Ave., 19th Floor, Orlando, FL 32801
Glenn Housman, SVP
(407) 839-3112
glenn.housman@cbre.com

CBRE completes a \$34M refi for Abbey at Briar Forest in Houston with Freddie Mac. LTV was 80%. Interest came in at just over 4%. This was a seven-year loan. DSC was between 1.30x and 1.35x.

Cohen Financial
1717 McKinney Ave., Suite 900, Dallas, TX 75202
Joe Hevey, Managing Director
(877) 315-2310
jhevey@cohenfinancial.com

Cohen Financial works on a \$14M life company refi loan for three office buildings dubbed Centerpointe Office Campus, in Arlington, Texas. LTV was 60%. Interest was just over 5%. Keep an eye out for Hevey to close another LC office loan soon.

Cohen Financial
2 N. LaSalle St., Suite 800, Chicago, IL 60602
Chris Carroll, Partner/Managing Director
(312) 346-5680
ccarroll@cohenfinancial.com

Cohen Financial is a diversified, commercial real estate capital services firm offering debt and equity placement, investment brokerage, loan administration and advisory services.

HFF
1999 Avenue of the Stars, Suite 1200, Los Angeles, CA 90067
Mark Wintner, Managing Director
(310) 407-2100
mwintner@hfflp.com

HFF arranges \$124.9M for a four office building portfolio in Southern California. GE Capital Real Estate provided the \$104.9M senior loan and an institutional investment advisor put together \$20M in mezz financing.

Johnson Capital
1801 Century Park E., Suite 1550, Los Angeles, CA 90067
James Chapman, VP
(310) 286-7400
jamesdchapman@johnsoncapital.com

Johnson Capital arranges a \$2.9M refi for an apartment building in Santa Monica, Calif., with CapitalSource Bank. LTV was approximately 70%. DSC with all income was 1.24x. Debt yield was 9.25%. This was a 15-year loan, with 30-year amm.

Newmark Realty Capital
6060 Center Drive, Suite 800, Los Angeles, CA 90045
George Mitsanas, Principal
(310) 846-5299
gmitsanas@newmarkrealtycapital.com

Newmark has financed more than \$1B in construction perm deals for credit office properties over the last 18 months. The privately held firm recently put together a \$120M construction loan and a \$124M perm loan for an office property with TIAA-CREF.

NorthMarq
500 Newport Center Drive, Suite 650, Newport Beach, CA 92660
Rob Hervey, Senior Managing Director
(949) 717-5210
rhervey@northmarq.com

NorthMarq arranges a \$12M refinance with Principal for Wilshire Medical Office Building in Beverly Hills, Calif. LTV was 40% and interest came in at 4%. This was a 10-year loan, with 25-year amortization.

MEZZ WILL PLAY IMPORTANT ROLE

Mezz lenders will see strong demand this year thanks to conservative senior debt underwriting, coupled with the high amount of loan expirations coming to the table. Count on most mezz loans to reach 80% to 85% leverage. A few aggressive lenders could hit 90%. Many mezz lenders will target returns in the 9% to 16% range, depending on the product, level of stabilization and sponsorship. Expect **Redwood Trust** to be one of the busiest lenders in the space. **NY Urban's** rates on mezz will vary from 12% to 20%. **Morrison Street Capital's** typical loan will be under \$3M, which usually represents a 10% to 20% tranche of the total debt stack.

Terra Capital prefers mezz loans in the \$3M to \$5M range. **Housing & Healthcare Finance** predicts an increase in demand for mezz in the senior housing and healthcare space. The lender will work on loans from \$500K to \$1M. **Buchanan Street Partners** targets a \$10M net investment, which will be on deals at \$25M and up. Equity and value-add fund lenders will also be major players. Some lenders such as **Hudson Realty Capital** will pull back slightly on mezz and will target other avenues to earn returns with less risk.

Expect rates at 10% or less for loans on stable properties with cash flow and 65% to 80% leverage. Rates will reach 11% to 15% for assets with 80% to 90% leverage and adequate cash flow. The higher priced 15%-plus deals will be for a special set of circumstances such as a construction loan. Mezz behind a conduit loan on a stable property will see rates in the 11% to 12% area. Value-add deals will see rates in the mid-teens plus. The minimum DSC will be in the range of 1.10x.

Subordinate debt will play an important role this year as 2012 will mark one of the highest levels of maturities. Most loans done at the peak of the market in 2006 and 2007 will require a mezz piece to deliver to the original position. This maturing leverage represents higher LTVs than today's conventional market will be willing to finance. There will be increasingly more maturing deals over the next few years that will need an infusion of additional equity. Mezz will be a favorable way to avoid putting in additional capital. Borrowers will use mezz as supplemental leverage for acquisitions; bridging the gap when refinancing existing senior loans; note purchases; discounted payoffs; and/or funding capital reserves.

The Crittenden Report
Email: editorcr@crittendennews.com

Customer Service
Tel: (800) 421-3483 Fax: (619) 923-3518
E-mail: membership@crittendenresearch.com



Newsroom Fax: (619) 923-3294

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. Contents copyright © 2012 Crittenden Research, Inc. Sample reports may be requested online at www.crittendenonline.com.

Crittenden publishes *The Apartment Report™*, *The Crittenden Report on Real Estate Financing™*, *Crittenden Real Estate Buyers™* and *Crittenden Retail Space™*. For more information on our reports go to www.crittendenonline.com.

The Crittenden Report on Real Estate Financing™ is protected by copyright. It is illegal under federal law to make and distribute copies of this report in any form without permission, including without limitation, photocopies, faxes, e-mails, digital scans and postings on an intranet site. Violators risk criminal penalties and up to \$100,000 in damages per offense. Please contact our customer service department at (800) 421-3483 for information regarding site licenses, to request reprints of articles or to inquire about permission to make copies.

Crittenden makes every effort to ensure the accuracy of the information published in *The Crittenden Report on Real Estate Financing™*. Crittenden uses only those sources it determines are accurate and reliable, but no guaranty or warranty with regard to the information is made or implied. Information in *The Crittenden Report on Real Estate Financing™* is subject to change. Crittenden does not accept fees nor is it a business partner with any companies or firms mentioned in this publication.