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LENDERS COMPETE WITH AGENCIES

Expect select non-agency lenders to push leverage up to 80% this year to win deals over **Fannie Mae** and **Freddie Mac**. The government-backed agencies will grab the lion's share of multifamily deals because they offer the lowest cost of capital and provide second mortgage capabilities. The GSEs won't work in every circumstance and many other lenders will be hungry for multifamily deals.

CMBS lenders will be able to compete with 70% to 80% leverage. Banks will focus on a 65% sweet spot, but a few will go up to 75% to win deals. Life companies will provide leverage at 60% to 70%. Non-agency lenders will offer DSC from 1.15x to 1.20x. Debt yield will be a minimum of 9%. Rates will

RETAIL LENDERS FOCUS ON CREDIT RATING...

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CMBS will underwrite interest at slightly less than 5%. Look for most LCs to lock rates, while the conduits float. DSC will be a minimum of 1.30x. Debt yield will average around 10% but could go as low as 8% for the most attractive deals.

Investment grade grocery-centers, BBB or better, will be the most sought after by the LCs. **John Hancock, Northwestern Mutual, Sun Life, Lincoln National, ING, Aetna, AEGON, Allstate, Thrivent Financial for Lutherans, State Farm and Ameriprise** will look at high-quality properties that have low to moderate leverage levels with strong sponsorship and/or institutional borrowers. **Stancorp** and **RiverSource** will consider loans under \$3M, while **Symetra** will look at deals less than \$5M. **Woodman of the World Life Insurance Society** and **AIG** will provide loans under \$10M. LCs will look closely at short-term lease rollover, something not done in the past.

CMBS lenders such as **UBS, Wells Fargo, BofA, RBS, Citigroup** and **Ladder Capital** will be comfortable with lower credit rated tenants, as long as the gross sales will be trending upward. The conduits will be flexible with asset class and location. Tertiary markets such as Naples, Gainesville and Tallahassee, Fla., will be considered with strong borrowers. CMBS lenders will contemplate Class B properties with the second or third ranked grocer in the market. Non-credit tenants or those below the BBB benchmark with financially strong borrowers will be considered with recourse by banks.

The number one draw will be strong grocery stores such as Whole Foods and Safeway, along with drug anchors Walgreens and CVS. Anticipate lenders to want the top grocery chain in the market. In Florida Publix is the top chain, while Albertsons and Winn Dixie will both be closing stores. S&P-rated grocery brands such as Kroger will be the most sought after. Those below the BBB rating will need to mitigate risk through shorter amortization, higher rates and/or lower leverage. Lenders will flock to centers that have a ground lease with Staples, Trader Joe's, McDonald's, Kohl's, Walmart, Target or ALDI.

Centers with major chains that will be closing locations such as Best Buy will be harder to finance. Assets with a theater or fitness center anchor will not be as financially strong and have a tough time closing loans. Credit ratings will be important to some lenders, while others look at the physical asset, sponsorship, leverage and how the tenant performs. Keep an eye out for many lenders to look closely at sales of the tenant. Low sales will force lenders to question if the tenant will leave soon, which will make it nearly impossible to get a loan. If sales are predicted to be favorable, the lender will be comfortable because that spot will be easy to fill even if the tenant vacates.

Retail occupancies will rise further this year, which will lead to a slight increase in rents going forward. As the retail market improves and cap rates compress, look for the gap between borrowers and lenders to tighten and lead to a much more competitive lending environment.

CMBS LENDS TO MORE TYPES OF HOTELS

Look for conduits to widen their scopes by underwriting more independent and business hotel deals this year. Non-flagged, cash-flowing assets in major metropolitans such as Manhattan, N.Y., Washington, D.C., Miami, Boston, Los Angeles and San Francisco will be able to access CMBS loans with rates from the mid-4% to high 5% range. Leverage will top at 70% for hotels, with most falling closer to 65%. **Wells Fargo, JP Morgan Chase, Citigroup, RBS, Cantor Fitzgerald, UBS, BofA, Morgan Stanley, Goldman Sachs** and **Deutsche Bank** will all look to fill 10% to 15% of their pools with hotels.

Expect conduits to favor strong independent hotels at four stars and higher, along with business traveler properties, including Embassy Suites, Hilton Garden Inn and Courtyard by Marriott. Watch for debt yield for these properties to drop to between 10% and 11% over the next few months. CMBS will hand out 30-year amortizations to extremely strong hotel assets in gateway markets as the year progresses. Lower leveraged deals at 50% to 55% will also be able to fetch 30-year amortization. Many of the deals done during the peak had 25-year amortizations, which tremendously helped borrowers keep their heads above water. Only the strongest brands and markets will be able to push 30-year amortizations this year.

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BANKS & LENDERS**A10 Capital**

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A10 Capital targets small to middle market loans in the \$1M to \$10M range, nationwide. Office, industrial, multifamily and retail will be the main focus but the company will look at other property types such as self storage as well.

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Apartment Bank focuses on multifamily, mixed-use properties and mobile home parks, nationwide. The under \$5M loans are the lender's bread and butter.

BMC Capital

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BMC plans to increase originations in 2012 by 15% to 25%. The lender will target all classes of multifamily assets with five to 300 units. BMC will consider properties in any market with a population of 50,000 or greater.

JP Morgan Chase

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Chase will be bullish on multifamily loans this year but will look into the other commercial property types as well. Adjustable- and fixed-rate loan programs are available from \$500K to \$25M-plus. Construction financing will also be considered.

Opus Bank

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Opus Bank will consider construction for multifamily and pre-leased industrial or retail. LTC can go up to 70%, with 30% equity from the borrower.

Prudential

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Prudential will be bullish on multifamily this year and provide new construction loans for market rate, affordable and healthcare properties through its agency program.

Seattle Funding Group

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Seattle Funding provides short-term loans from one to three years in the \$500K to \$6M range. Non-stabilized and value-add properties will be the private lender's specialty this year. Properties in primary markets on the West Coast will be targeted.

US Bank

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US Bank will be busy with construction lending this year. The bank will work with the four main food groups for construction, but keep an eye out for the bank to be cautious with multifamily loans.

CMBS LENDS TO MORE TYPES OF HOTELS...

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The CMBS market will become flooded with over-leveraged hotel refi deals through December and into 2013. Too many deals done in the peak at 70% to 75% leverage have seen values decrease. Loans for properties needing higher leverage will get done in CMBS but with a mezz piece at the time of closing. While most conduits will do hotel loans, there will be a plethora of deals to choose from. Deals with the strongest borrowers will see the most attention. Conduits will also favor acquisitions loans for cash-flowing assets due to lower leverages and strong operating fundamentals.

DEAL OF THE WEEK

Property Type: 19-property, Class C Multifamily Portfolio in Chicago
 Loan Amount: \$9.3M CMBS Loan
 Lender: Archetype Mortgage Capital
 Leverage: 80% LTC, 65% LTV
 Rate: High 5%

This refi loan originally was going to be \$8M but thanks to a higher than expected portfolio appraisal, the borrower was able to obtain \$9.3M. This also accounted for the vast difference in LTC and LTV. The properties were appraised at more than 100% of the purchase price due to rehabs and renovations done by the borrower, which resulted in the 80% LTC. Archetype was attracted to the deal because the owner raised occupancy to 95% from the sub-40% occupancy at the time of purchase.

Conduits will not usually provide 80% leverage. Archetype felt comfortable with the higher leverage due to the properties' increase in value after the purchase, favorable coverage on the loan and attractive track record of the management company. DSC was 1.45x and debt yield was between 12% and 13%. The loan proceeds will go toward the refi of the acquisition loan. This is a 10-year loan, with 30-year amortization.

There were not many bids on the deal because most lenders avoid non-recourse financing for Class C multifamily properties. The properties were small and scattered throughout Chicago, which kept the agencies from being interested.

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RATES WAIT ON ECONOMY

Count on interest to be at historically low levels from 3.5% to 5% throughout the remainder of the year and into 2013. Look for fully leveraged 10-year money to obtain rates around 4.25%. Five-year loans will see 5% rates. Lower leverage properties under 65% will receive the most favorable rates. Assets leveraged at 50% or below will grab rates in the high 3% range. There could be a slight dip in interest by year's end as lenders struggle to meet production goals and become more competitive. The market saw a scare a couple weeks ago when rates increased slightly but the Treasury re-adjusted back down to below 2%. These small hiccups could continue throughout the remainder of the year but don't expect any major changes.

Life companies, including **New York Life, MetLife, Northwestern Mutual** and **Prudential** will underwrite rates around 4%. Watch for interest to increase slightly in 2013 to between 4% and 4.5%. Anticipate LCs to be 0.75% to 1% lower on rates than conduits going forward.

CMBS lenders such as **JP Morgan Chase, UBS, RBS, Deutsche Bank, Cantor Fitzgerald** and **Credit Suisse** will hand out interest at 4.75% to 5%. **Morgan Stanley** will be somewhat lower at around 4.5%. CMBS rates will be between 5% and 5.5% next year. Expect conduits rates to be higher since they have to price in additional yield to protect against major swings in the market. They could pull interest back by 150 basis points by year's end.

Major banks including, **Wells Fargo, HSBC, Citigroup, BofA** and **BBVA Compass** will offer short-term loans with rates around 4.5%. **Fannie Mae** and **Freddie Mac** will be in the 3.5% to 5% range. Bridge lenders will be north of 6%. Mezz lenders will be in the high single digits to low double digits. Multifamily will receive the most favorable rates going forward due to the strength of the rental market. Grocery-anchored retail, multi-tenant office, multi-tenant retail and industrial will follow, in that order.

Don't count on any major shifts in interest until after the election. The Fed plans to hold rates at this level until 2014. Changes in unemployment, inflation and the European sovereign debt crisis will all effect rates going forward. Long-term benchmarks will see some pressure with the improving economic environment. If Treasury rates do move up, expect some of the uptick to be cushioned by spread contraction. Anticipate interest to be between 2.26% and 2.47% over treasuries by the end of June.

DEALMAKER DATABANK

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CBRE arranges a \$36.6M refi with Principal for Fairway View and Palmetto Place, two Miami apartment communities. LTV was 50% and interest came in below 4%. This was a 15-year, fully-amortizing loan.

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CBRE works on a \$135M loan with HSBC Bank for the Annapolis Towne Centre in Annapolis, Md. The seven-year loan will refinance the existing construction loan. Leverage was in the mid-50% range. Interest came in at sub-4%.

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Cohen arranges debt and equity for borrowers through relationships with 40 to 50 different lenders. The firm has completed \$250M to \$300M so far this year.

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Cohen Financial secures a \$7.95M refi with Woodman of the World Life Insurance Society for Canyon Creek Plaza Shopping Center in San Jose, Calif. This was a 10-year, fixed-rate loan.

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Cohen Financial provides an \$8.5M non-recourse refi for Addison Mall in Chicago with AIG. LTV was 65%. Interest was north of 5.5%. This was a 10-year loan, with 25-year amortization. The property was shadow anchored by Target.

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Marcus & Millichap closes a \$5.5M refi for a multifamily property in Los Angeles with a bank lender. The five-year, interest-only loan has 30-year amortization. LTV was 75%. Interest came in at 4.5%. DSC was 1.20x.

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NorthMarq teams up with UBS to provide a \$4.81M CMBS refi loan for Shoppes of Fishhawk, a retail center in Lithia, Fla. LTV was 65% and interest came in around mid-5%. This is a 10-year loan, with 25-year amortization.

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NorthMarq works on \$13M in perm financing with John Hancock for The Oaks at University Business Park in San Antonio, Texas. LTV was 70%. Debt yield was 10% and DSC came in at 1.35x. This is a 15-year loan, with 25-year amortization.

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NorthMarq arranges an \$8.5M refi with Wells Fargo Bank for Castle Park, a grocery-anchored shopping center located in Chula Vista, Calif. The five-year loan had interest locked in the low 4% range. LTV was between 65% and 75%.

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PMZ closes a \$23.5M CMBS refi loan for two Holiday Inn properties in suburban New Orleans. Leverage came in at 65% to 70%. The rate was in the low 5% range, with 25-year amortization. The properties did not have a long operating history, as they were recently converted from office buildings.

MULTIFAMILY LENDERS OVERLY OPTIMISTIC?

Even though multifamily lending will be a main focus for major players such as **JP Morgan Chase, Prudential, Wells Fargo, BofA and Northwestern Mutual**, look for a handful of lenders, including **US Bank**, to be cautious on apartments going forward. US Bank will build a downside into pro forma numbers when underwriting multifamily loans in order to sustain any mild future setbacks. Some lenders will be concerned with multifamily absorption and rental growth for the next few years.

Low cap rates will cause future issues for multifamily financing. Interest rates will eventually go up, which will have a large effect on the value of multifamily properties that traded at low cap rates. Properties underwritten at a 4% or 5% cap rate will lose 20% to 25% of the value if interest increases by even 100 basis points. This will decrease property values and make it difficult when borrowers want to refinance in the next five to 10 years or obtain perm financing after a construction loan. Rising interest will impact multifamily more than the other property types because of low caps. Industrial and office buildings with 7% caps will only lose up to 15% of the value if interest rises 100 basis points.

Many lenders will be overly optimistic when underwriting multifamily because fundamentals have been very favorable during the last few quarters. To make construction loans work, lenders will assume a 3% to 5% compounded future rent growth and no change in the cap rate. Construction loans will typically have a three- to four-year timeframe for buildout so lenders need to really contemplate if these positive trends will continue for the next five years when underwriting development deals. Borrowers may have a hard time obtaining permanent financing.

Today's positive factors could blur borrowers' and lenders' visions going forward. Multifamily lenders play with rent predictions to make the pro forma work, which may not be feasible going forward. Lenders could run into problems when predicting rent expectations for the next five years, as most will probably be exceedingly hopeful. Rents rely on employment and wage growth.

The eventual market shift back to single-family ownership could pose another problem for multifamily. The temporary dynamics in today's market will change and will have a vast effect on occupancy, rents and cap rates.

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