

Vol. 38, No. 11

June 11, 2012

BIG BANKS TURN TOWARD BALANCE SHEETS

Look for the major banks to offer leverage up to 75% on loans with some level of recourse, while it will run 65% to 70% for non-recourse deals. Big bank players will increase allocations and focus on balance-sheet lending during the second half of the year. **Chase, Wells Fargo, PNC, US Bank and HSBC** will be the most active. Keep an eye out for **Citigroup, BofA, RBC and M&T Bank** to originate loans as well. DSC will be between 1.20x and 1.25x, but drop to 1.15x for multifamily. Debt yield will be 10% and above. Five-year money will see rates around 3.5%. Rates on 10-year loans will come in at 4% to 4.25%.

Anticipate Wells Fargo to be consistently active throughout the remainder of the year. Wells never left the market, while other banks sat on the sidelines during the recession. Citi and BofA will be busy with balance-sheet lending and will most likely put more focus on the CMBS business. US Bank will increase allocation goals up to \$7B this year, compared to the \$5B to \$6B originally projected. The bank will consider industrial deals both large and small, office in the San Francisco Bay Area and retail in certain markets. US Bank will focus on location demand drivers more than the product type itself.

Chase will consider the four main food groups, with an emphasis on multifamily, in gateway cities such as Los Angeles, San Francisco and New York City. The average loan will be between \$2M and \$5M, with financing available up to \$25M-plus. Leverage can go up to 75% on stabilized apartment properties. Construction loans will also be on the docket for relationship borrowers with strong balance sheets. Chase will look at the borrower, credit and collateral. BofA will consider construction loans, while PNC will provide money for retail properties. RBC will look into Class A office in strong markets such as Boston.

Many of the major banks spent the last three to four years cleaning up balance sheets and will be ready to increase activity once again. Count on bankers to focus on multi-tenant office, grocery-anchored retail, industrial and multifamily. Don't expect too much activity for hotels, since these players have plenty already in their portfolios. Banks will compete with the life companies on deals with terms of five years or less by offering the option to swap a floating-rate loan into a fixed rate.

Going forward, look for banks to become comfortable with current rents and be able to more accurately underwrite property values, thereby ensuring appropriate loan proceeds. The major players will be the most active in primary markets on both coasts such as Washington, D.C., Chicago, New York City, Boston, Los Angeles, Seattle and San Francisco. Watch for some bankers to lend in their existing footprints until they become more comfortable with the real estate lending market overall. Banks will prefer deals with favorable sponsorship. Borrowers with experience that have been forthcoming and honest during the downturn will be highly sought after. Those with sizeable personal net worth will also be desired.

CMBS LOOKS AT ECONOMY HOTEL BRANDS

Expect to see conduits reach further and allocate funds to select-service hotels in a wider variety of markets. Leverage will range from 60% to 65%. As the year progresses, look for leverage to inch up

"SMALLER" DEAL OF THE WEEK

Property Type: Mixed-Use Property in West Hollywood, Calif.
Loan: \$3.7M Bridge Loan
Lender: **Wells Fargo**
Leverage: 75%
Rate: Less than 3%

This deal obtained a Libor-based rate leading to an interest rate under 3%, while many lenders of loans under \$5M will be Prime-based with an interest rate floor at around 5%. The initial leverage came in at 65% but increased to 75% thanks to upcoming property rehabs. Look for \$2.3M to be funded initially, with the rest to be released once the borrower starts the rehabs. The loan carries a 24-month term, with a one-year extension. The property comprises street-level retail and second-story office space.

The non-refundable seller was adamant to close the deal within 30 days on the vacant property. This pushed the borrower to complete the construction bids and architectural drawings for the rehab work in a short amount of time. The borrower also needed to present a cost analysis to the lender, which Wells Fargo pushed back post closing based on the borrower's background. The same borrower had obtained two bridge loans in 2007 that were refinanced in 2009 and 2010, showing the borrower was able to renovate and stabilize during the downturn. Wells Fargo was comfortable with the smaller loan size due to the borrower's experience in the market. The asset will also gain value and attract new tenants through the addition of rooftop parking. This marks Wells Fargo's third deal with the borrower.

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CMBS LOOKS AT ECONOMY HOTEL BRANDS...

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Smaller loans for economy and midscale brands marks a vast change from the first half of this year where CMBS lenders were only looking at deals with the top brands such as Hilton, Hyatt, Marriott, Starwood and IHG. With new looser underwriting, look for more loans to emerge for Choice Hotels, Best Western International and Wyndham Hotel Group.

The majority of these deals will be for refis but expect the acquisition arena to pick up later this year. Lenders will target hotels that perform well within their competitive set. Conduits will start to consider a wider variety of cities, including deals in Western Pennsylvania, St. Louis, Nashville, Tenn., Columbus, Ohio, and even smaller markets such as Scranton, Pa.

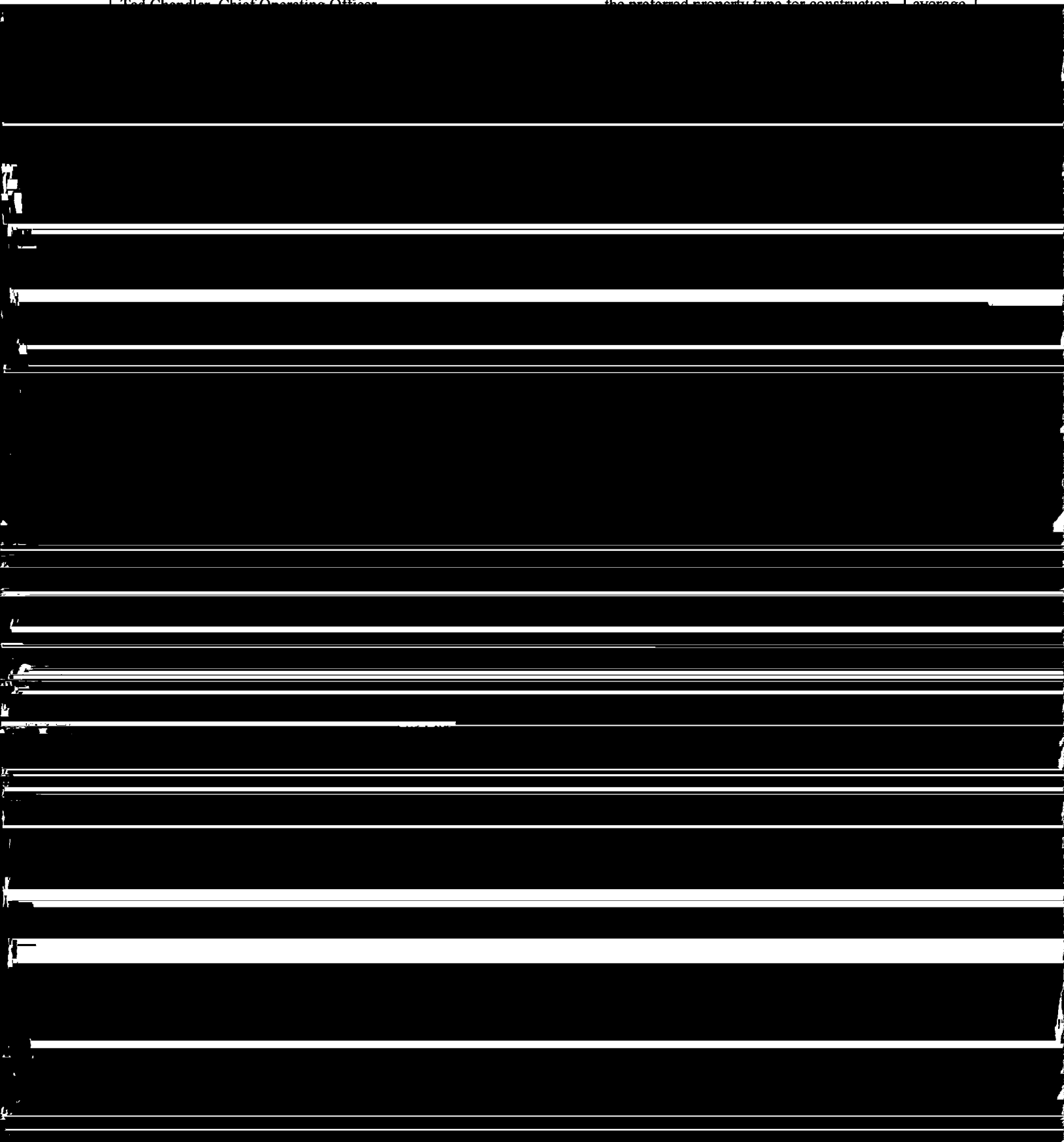
LENDERS ANSWER CALL FOR TI FINANCING

Expect tenant improvement (TI) financing to become an important issue in the next two years, thanks to the wave of mortgages coming due. Office, retail and industrial assets with upcoming lease expirations could experience a tough time finding refs. While a few banks such as **Fifth Third** and **Regions Bank** have

BANKS & LENDERS

AFL-CIO Housing Investment Trust
2401 Pennsylvania Ave. N.W., Suite 200, Washington, DC 20037
Ted Chandler, Chief Operating Officer

AFL-CIO plans for a minimum of \$300M in construction loans by year's end. Multifamily will be the preferred property type for construction. Leverage



DEALMAKER DATABANK

Avison Young
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Eyzenberg currently works on a number of equity recapitalization opportunities focused on creating liquidity for existing investors or bringing in rescue capital to pay down maturing debt.

CBRE
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CBRE arranges two acquisition loans through Freddie Mac for apartment properties totaling more than \$64M. Lodge at Castle Pines in Castle Rock, Colo., obtains a \$40.5M loan and Legacy Point in Arlington, Texas, secures \$24.2M.

Cohen Financial
2 N. LaSalle St., Suite 800, Chicago, IL 60602
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Cohen teams up with a Chicago-based bank to provide a \$15M construction loan for retail development in Basalt, Colo. This was a 24-month loan, with one 12-month extension. LTC was below 50%, which included new retail space and land for development.

Eastern Union Commercial Real Estate
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Eastern Union completes a \$34M refinance and construction loan with M&T Bank for a nursing portfolio located in New Jersey and New York. Interest was 5.03% on the full-recourse, five-year loan. LTV was 75%.

George Smith Partners
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George Smith Partners works on an \$8M cash-out refi with a CMBS lender for an industrial property in Gardena, Calif. LTV was 67% and interest was sub-5%. This was a 10-year loan, with 30-year amortization. DSC was 1.34x.

HFF
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HFF arranges a \$13.6M refi with Cantor for Claremont Corporate Center, a Class A office building in Summit, N.J. LTV was 75%. Cantor liked that the building was 100% leased and had a high loan per square foot. This was a 10-year, fixed rate loan.

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HFF puts together a \$95M balance-sheet loan with RBC Real Estate Capital Partners for 116 Huntington Avenue, a Class A office property in Boston. The adjustable-rate loan went toward the refinance of the maturing first mortgage and mezz loans.

NorthMarq Capital
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NorthMarq completes a \$23M loan for Enterprise Park at Stapleton, a multitenant industrial park in Denver, with a life company lender. This was a refi of a construction loan. Interest was sub-5% on the 11.5-year loan.

PMZ Realty Capital LLC
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PMZ completes a \$63M construction loan for a hotel in Manhattan, N.Y. The company is currently in the process of closing approximately a dozen loans.

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Trinity One arranges \$5.9M with Ladder Capital Finance for the refi of a multifamily asset in Kalamazoo, Mich. LTV was 65% and LTC was 92%. DSC was 1.70x, with 13% debt yield. Interest was 5.4%. A minimum recourse of 16% was required.

DEAL OF THE WEEK

Property Type: Office Building in Chicago Sub-Market
 Loan Amount: \$7.5M Bridge Loan
 Lender: **Guggenheim Commercial Real Estate**
 Leverage: 60% LTC
 Rate: Approximately 6.5%

This Class B office building, located in Chicago's Rosemont neighborhood, faced financing challenges due to the significant vacancy of roughly 24% in the area. The 30-year-old building, dubbed 6400 Shafer Court, was only 67% leased. Guggenheim became comfortable with the deal as a result of the low LTC and modest loan amount of \$40/s.f. (around 25% of replacement costs). The stability in rent roll to cover debt also made the deal attractive. DSC came in between 1.20x and 1.25x.

Guggenheim liked that the new owner plans to be competitive and can charge slightly below market rent to lease up the building fast. Once leased, the borrower will see plenty of debt available. A CMBS takeout will be likely in the future. A portion of the loan will be used for future advances, including leasing and tenant improvements. The three-year loan holds an option to extend and flexible pre-payments.

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CONDUITS EXPAND UNDERWRITING

Keep an eye out for CMBS lenders to loosen underwriting standards and expand the box on property type and location. Most conduits will max out at 70% leverage, but the highest quality transactions will see 75%. Debt yield will be 9% to 10%. DSC will start at 1.25x. Interest will come in at 4.5% to 5%. Count on **Wells Fargo, Chase, Deutsche Bank, Citigroup, BofA, Cantor Fitzgerald, Goldman Sachs and Morgan Stanley** to represent most of the volume this year. **Archetype Mortgage Capital and Ladder Capital** will have a busy second half of the year. **CIBC, UBS and RBS** will also originate loans.

Wells Fargo will consider retail loans under \$10M in third-tier markets such as Boynton Beach, Fla. Look for Houston, Dallas, Austin, Texas, Seattle, California's Silicon Valley and San Francisco to also make the list. Watch for Cantor to originate loans in coastal and mountain markets, as well as Denver, Chicago and Texas. Cantor will consider all property types but will be cautious on hotels. Big-box retail centers in Las Vegas will also be in the cards. Cantor prefers a \$5M to \$50M loan sweet spot. Anticipate a much deeper buyer pool in the secondary markets than in 2011.

Many conduits will increase staff and open new regional offices around the country to enter new cities and accommodate transaction activity. Markets such as Nashville, Tenn., St. Louis, Cleveland and Indianapolis should see activity before year's end. Salt Lake City, Phoenix, Austin, Texas, Denver and Colorado Springs, Colo., will see more action this year. Look for CMBS lenders to gravitate toward coastal cities and those just outside top-tier markets. Richmond, Va., Wilmington, Del., Hartford, Conn., Danbury, Conn., Worcester, Mass., and Lancaster, Pa., will be targeted.

Anchored retail will be the largest concentration, but keep an eye out for office deals to get some attention as well. Look for conservative office underwriting as a result of the volatility in the job market. CMBS won't be able to compete on multifamily due to favorable terms from the agencies and life companies. Industrial will be difficult for the conduits to aggregate since these loans tend to be small and the high-quality deals will be swooped up by the LCs and banks. Hotels and self-storage properties will also be in the cards.

CMBS lenders will look at borrower liquidity, bankruptcy issues and credit of the borrower, as well as the

LENDERS ENLARGE CONSTRUCTION LOANS

Keep an eye out for lenders to focus on major projects with the typical construction loan to be around \$30M. Multifamily deals will see the largest proceeds. Larger loans will be spurred from an increase in competition for the most sought after loans and from a trend of developers building more units. Typical leverage for multifamily will be around 70%, while credit enhanced multifamily FHA deals will receive leverage up to 83%. The other property types will see 65% to 70% LTCs. Strong projects, more than 85% preleased, could achieve 75% leverage. Developments outside of top-tier markets will need an experienced sponsor and will only be able to achieve a lower 50% to 60% LTC.

Count on banks to fund the lion's share of construction loans. **Wells Fargo**, **Citigroup** and **PNC** will be bullish on multifamily construction. **BofA** will consider office deals in major markets such as Chicago. **Chase** will look into construction for all property types, as long as a strong balance sheet is in place. **US Bank** will be active with construction loans, but will be cautious when it comes to multifamily. **M&T Bank** will consider nursing homes. Community banks will be active since they possess local expertise and can keep a close eye on the market.

AFL-CIO Housing Investment Trust will focus on multifamily, with a \$30M average loan. **Hudson Realty Capital** will provide loans in the \$5M to \$35M range. The lender will look into multifamily and preleased retail. A few life companies will consider deals at \$20M and up for Class A projects in healthy major markets such as New York City. With many first mortgage lenders only willing to allocate 50% or 60% leverage on construction deals, some borrowers will utilize mezz to achieve LTCs up to 80%.

Borrowers will need to invest 30% to 35% equity into the deal, depending on property type, level of preleasing, tenant credit and strength of the guarantee. DSC will be 1.25x for market-rate multifamily and 1.50x for income-restricted deals. Look for an increase in construction demand for market-rate multifamily projects in gateway cities such as Boston, New York City, Washington, D.C., Los Angeles, Chicago and the San Francisco Bay area.

Watch for a rise in Class A office development loans, especially in markets such as Chicago where there will be job growth. Expect a vast uptick in construction once unemployment drops. Some industrial loans could be on the books in markets with a need for newer facilities such as California's Inland Empire. Retail will need a strong anchor and market demand. Power centers will be tough to finance because tendency will be less consistent.

Lenders desire borrowers with experience in the product type, portfolios of strong properties, favorable cash flow and the ability to pay debt service until lease up. A guarantee of completion will also be desired. Count on 18-month lease up reserves to be standard on larger projects.

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

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