

Vol. 38, No. 14

July 30, 2012

## MORE JV EQUITY PLAYERS EMERGE

Count on a slow and steady increase in JV equity for development and acquisitions throughout year's end. Fund managers will look at more deals, as the appetite to invest improves and some investors will be willing to take a high degree of risk to obtain yield. With few acquisitions coming to the market, select investors that can't find suitable purchases will turn toward JV equity to get capital out. Watch for investors not previously involved in this space to warm to JV equity this year. Sponsors will generally contribute around 10% of the required equity with up to 90% coming from a JV equity investor. Look for select JV equity investors to hit 93% leverage of the total capital stack.

JV investors will want the sponsor to provide between 5% and 20% of the required equity. On deals leveraged at 60%, the sponsor will contribute 2% to 8% of the total transaction costs. Pricing will be slightly higher than other forms of subordinate debt, as JV equity investors will be taking the last dollar of risk. JV investors will want a minimum 20% IRR and 10% to 12% preferred returns. Higher core-plus assets will see 15% to 17% returns. Ground-up development will receive 20% or better returns. IRR will start in the mid-teens.

Private lender **Partners Capital Solutions** will provide JV equity from its equity fund, as long as the sponsor puts some money in the deal. Most property types will be considered, sans hotels or assisted living. **JCR Capital** rolls out a larger platform for JV equity, offering deals from \$5M to \$25M, higher than its former \$2M to \$7M target. JCR looks at multifamily, industrial, retail and land deals. **Cambridge Realty Capital** will get involved in JV equity for senior housing properties. The investor will also consider value-add properties and assets with low occupancies.

Equity funds, private funds and institutional funds will provide JV equity. **Dominion Corporation** will work on JV equity deals for multifamily, self storage, industrial, student housing and office properties, with a minimum investment of \$2M. **Buchanan Street Partners** aims to invest at least \$10M of equity in any deal. Office, retail, multifamily and industrial will be considered. **UC Funding** and **Aries Capital** will also look into JV equity deals. **Starwood Capital Group** will be active through its opportunity fund.

Ground-up projects will possess high demand for JV equity due to low LTCs provided by the limited pool of construction lenders. Many developers will be dealing with balance sheets that have taken a hit and seek out JV equity investors to help cover the gap to get the project funded. In addition to capital, JV equity will be a way to bring in another investor's expertise and experience to a project.

Keep an eye out for a growing demand for mid-sized deals. JV equity investors will have a hard time finding qualified sponsors on the middle market deals. Capital will be more difficult to raise than in the past and sponsors will be expected to co-invest more money in the deal. The days of raising all the equity at the country club appear to be over, so sponsors will look toward equity investors. Middle market developers with capital restraints will be able to get the maximum mileage out of limited investable capital through JV equity.

In an uncertain environment, equity will serve as a favorable alternative to debt because it provides a cushion if there is an unexpected drop in values or cash flow. JV investors will be aligned in the borrowers' interest and be able to remargin the loan or pay for unexpected costs. As capital consolidates, some borrowers that raised money quickly in the past will look toward one-off JV deals. A partner will behave differently than a lender in a time of crisis.

**“SMALLER” DEAL OF THE WEEK**

Property Type: Buttonwood Village, a mobile home park in Punta Gorda, Fla.  
Loan: \$2.1M Refi  
Lender: Symetra  
Leverage: 50%  
Rate: 5.95%

**BANKS & LENDERS**

AIG (SunAmerica): 1999 Avenue of the Stars, 37<sup>th</sup> Floor, Los Angeles, CA 90067. Todd Bedingfield, Managing Director, (310) 772-6465.

Apollo Trust Company: 201 N. Warren Ave., Apollo, PA 15613. Candace Worobe, VP/Chief Lending Officer, (724) 478-3151. cworobe@apollotrust.com

Blackstone Group, The: 345 Park Ave., New York, NY 10154. Michael Nash, Chief Investment Officer, (212) 583-5000. nash@blackstone.com

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

Dominion Corporation: 11355 W. Olympic Blvd., Suite 210, Los Angeles, CA 90064. Keith Olson, SVP, (310) 477-3041. keitho@dominfin.com

Lincoln Financial (Mortgage & Real Estate Department): 100 N. Greene St., Greensboro, NC 27041. Don Dibble, SVP, (336) 691-3749.

Lowe Enterprises: 11777 San Vicente Blvd., Suite 900, Los Angeles, CA 90049. Thomas Whitesell, SVP-Debt, (310) 571-4245. twhitesell@loweenterprises.com

Partners Capital Solutions: 26901 Agoura Road, Suite 180, Calabasas, CA 91301. Michael Klein, Managing Director, (818) 914-2699. mklein@pcs-funds.com

Pearlmark Real Estate Partners: 200 W. Madison, Suite 3200, Chicago, IL 60606. Doug Lyons, Managing Director, (312) 499-1952. dlyons@pearlmarkrealestate.com

RBS (Citizens Bank): 1 Citizens Plaza, Providence, RI 02903. Patrick Burns, EVP, (401) 282-7994.

RCG Longview: 7 Penn Plaza, Suite 512, New York, NY 10001. Chris LaBianca, President, (212) 356-9262. clabianca@rcglongview.com

Redwood Trust.: 1 Belvedere Place, Suite 300, Mill Valley, CA 94941. Martin Hughes, CEO, (415) 389-7373.

RGA Reinsurance Company: 1370 Timberlake Manor Parkway, Chesterfield, MO 63017. Greig Woodring, President/CEO, (636) 736-7302. gwoodring@rgare.com

Shem Creek Capital: 100 Franklin St., Eighth Floor, Boston, MA 02110. Robert Parsons, Managing Director, (617) 456-1977. rparsons@shemcreekcapital.com

Stancorp.: 19225 N.W. Tanasbourne Drive, Hillsboro, OR 97124. Ken Borst, Senior Mortgage Loan Officer, (971) 321-6263.

Symetra Life Company: 777 108<sup>th</sup> Ave. N.E., Suite 1200, Bellevue, WA 98004. Thomas Marra, President/CEO, (800) 796-3872. thomas.marra@symetra.com

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

UC Funding: 745 Boylston St., Suite 502, Boston, MA 02116. Daniel Palmier, President/CEO, (857) 288-2778. dp@ucfunds.com

Unum: 2211 Congress St., Portland, ME 04122. Shelley Carvel, VP, (207) 575-2211.

Woodmen of the World Life Company: 1700 Farnam St., Omaha, NE 68102. (877) 664-3332.

### DEAL OF THE WEEK

Property Type: Riverstone Marketplace, a grocery-anchored retail center in Vancouver, Wash.  
 Loan: \$20.15M Acquisition  
 Lender: **Prudential**  
 Leverage: 73% LTC  
 Rate: Below 5%

Prudential allocated this loan through its CMBS lending arm in order to provide higher leverage than a life company loan. Not many life companies will allocate conduit loans in today's market. Prudential was comfortable with the deal because of the grocery anchor, high-traffic location and the borrower's 45-year experience in the business. The lender was also confident in the new equity exchange through cash from the borrower. Arrobio was able to finalize the loan in a 45-day timeframe, which is quick for a CMBS acquisition loan. The 10-year, fixed-rate loan has 30-year amortization. Prudential used a 1.25x DSC minimum.

Johnson Capital: 7470 N. Figueroa St., Suite 102, Los Angeles, CA 90041. Geoffrey Arrobio, SVP,  
 (310) 229-0011. garrobio@johnsoncapital.com

### LENDERS SOFTEN INDUSTRIAL UNDERWRITING

Look for more life companies to ease pricing on industrial assets this year, with rates in the low 4% range. To win the most attractive deals, expect some LCs to increase leverage and underwrite deals at 70% to 75%. CMBS lenders will drop interest to the high 4% range, down from around 5.35% this time last year. Watch for conduits to provide leverage around 70% for multitenant assets. Debt yield can go as low as 8.5% on a fully leveraged deal; most loans will be around 9% to 10%. Competition will be high for best-in-class properties, as lenders scour the market looking for yield. DSC will be 1.20x to 1.35x.

Count on **Prudential**, **Genworth** and **Lincoln National** to quote favorable interest to win deals, including single-tenant assets. **New York Life**, **Cornerstone Real Estate Advisers**, **Northwestern Mutual** and **MetLife** will want larger cross-collateralized deals. **Symetra** and **American National Insurance** will also consider industrial. **Thrivent Financial for Lutherans** will work with single-tenant warehouse properties.

Conduits, including **RBS**, **Ladder Capital**, **Chase**, **Deutsche** and **Cantor** will bid on industrial. Private lender **Regional Capital Group** will provide 100% of capital on built-to-suit projects. The lender will offer leverage in the mid-70% range on a standard refi, and will consider both single- and multitenant properties. **Pearlmark Real Estate Partners** will provide mezz or B-note investments for industrial and prefers to be around 80% leverage on the last dollar. Banks will be competitive but typically require recourse.

Large online retailers, such as Amazon, will build or absorb large industrial distribution facilities fueling growth and lending needs. The number of available lending opportunities could be limited because core equity investors who typically don't use debt will seek industrial. Watch for lenders to favor industrial because of its stability. Larger Class A and Class B product will be preferred since it enables lenders to allocate funds more efficiently. The most sought after deals will possess 30-foot ceilings and be in the \$50M to \$100M range.

LCs will look closely at sponsorship and cash flow. CMBS will prefer multiple tenants with a staggered rent roll. Strong borrowers with solid ownership and operating experience will be targeted. Lenders will prefer properties with long-term leases. The credit of the tenant will be considered and investment-grade tenants will be in favor. Cash flow and sponsorship will also be important.

Watch for activity in West Coast markets such as greater Seattle and Portland, Ore., along with California areas, including Los Angeles, the Inland Empire, San Diego and the San Francisco Bay Area. Chicago and Salt Lake City will get attention and Phoenix could also see some action. Vacancy in these markets will be in the low to high single digits, so expect some new construction. Construction borrowers will need experience in the sector.

**DEALMAKER DATABANK****Baltimore Financial**

31 Commercial Blvd., Suite A, Novato, CA 94949  
Joseph Moore, President  
(415) 883-1593  
joseph@baltimore-financial.com

Baltimore Financial works on a \$4M private money loan for a vacant industrial building in San Mateo County, Calif. The 24-month loan paid off a bank loan in default and provided interest reserve for the lease up period. Interest came in at 9.9%.

**CBRE Capital Markets**

2800 Post Oak Blvd., Suite 2100, Houston, TX 77056  
Jeff Stein, First VP-Debt & Equity Finance  
(713) 787-1906  
jeff.stein@cbre.com

CBRE originates a \$14.5M refi with AIG for Shepard Square Shopping Center in Houston. LTV was 65%. The non-recourse loan had a 10-year term and 25-year amortization. AIG liked the location, 95% occupancy history and diverse tenant mix.

**CBRE Capital Markets**

777 Brickell Ave., Suite 900, Miami, FL 33131  
Charles Foschini, Vice Chairman-Debt & Equity Finance  
(305) 381-6424  
charles.foschini@cbre.com

CBRE arranges \$119.8M for the acquisition of Fifth Third Center in Charlotte, N.C. The deal included a three-year loan with SunTrust and mezz loan with Redwood Commercial Mortgage. LTC was 75% and LTV came in at 60% of the stabilized value.

**First Fidelity Mortgage Corporation**

2727 Paces Ferry Road, Suite 2-200, Atlanta, GA 30339  
Richard Booth, VP/Chief Administrative Officer  
(678) 287-3033  
rbooth@firstfidelitycompanies.com

First Fidelity works on a \$240M loan with a major life insurance lender for Crabtree Valley Mall in Raleigh, N.C. The 10-year loan will be used to repay existing maturing debt and fund ongoing capital spending programs.

**George Smith Partners**

10250 Constellation Blvd., Suite 2700, Los Angeles, CA 90067  
Loren Bedolla, Assistant VP  
(310) 867-2925  
lbedolla@gspartners.com

George Smith Partners provides a \$4M non-recourse bank loan for a cold storage industrial facility in Salt Lake City. LTV was 65%. Interest came in at 5.42%, fixed for five years. DSC was 1.20x. This was a 10-year loan, with 25-year amortization.

**HFF**

6300 Bee Cave Road, Building Two, Suite 450, Austin, TX 78746  
Robert Wooten, Associate Director  
(512) 532-1925  
rwooten@hfflp.com

HFF arranges a \$10M refi for 610 & San Felipe Shopping Center in Houston with Lincoln Financial. The loan has a 20-year term and 20-year amortization. Lincoln Financial was confident in the borrower's experience and the property's location.

**NorthMarq Capital**

500 Newport Center Drive, Suite 650, Newport Beach, CA 92660  
Michael Elmore, EVP/Managing Director  
(949) 717-5213, Ext. 7213  
melmore@northmarq.com

NorthMarq secures an \$18.5M refi with RBS for Parkway Irvine, a flex/industrial property in Irvine, Calif. LTV was 62%. Interest came in around 4.7%. DSC landed at 1.30x. Financing was based on a 10-year term, with the first two years of interest only.

**NorthMarq Capital**

1 Embarcadero Center, Suite 2150, San Francisco, CA 94111  
Dennis Williams, SVP/Managing Director  
(415) 433-1075  
dwilliams@northmarq.com

NorthMarq allocates \$13.5M in acquisition financing with Sentinel Asset Management/National Life Group for a Walgreens in Novato, Calif. Interest was in the high 4% range. LTV was 55% to 60%. This was a seven-year, interest-only loan.

**Q10 Dwyer-Curlett**

1880 Century Park E., Suite 400, Los Angeles, CA 90067  
Shelly Magoffin President/CEO; Max Sauerman, Assistant VP  
(310) 226-2700  
smagoffin@q10dc.com; msauerman@q10dc.com

Q10 teams up with Stancorp. to allocate a \$2M non-recourse perm loan for a retail building in West Hollywood, Calif. LTV was 53%. Interest came in at 5% and will adjust after 15 years. DSC landed at 1.44x. This was a 20-year, fully-amortizing deal.

**Tremont Realty Capital**

200 State St., 13<sup>th</sup> Floor, Boston, MA 02109  
Dennis Walsh, Senior Director  
(617) 867-0700  
dwalsh@tremontcapital.com

Tremont Realty secures \$22M for the acquisition and development of Metro at Wilmington Station, a transit-oriented multifamily project near Boston. An institutional equity investor and debt from a local bank funded the development.

## COMPETITION HEATS, MEZZ LENDERS DROP RATES

As more mezz providers enter the space, look for a dramatic effect on interest rates. Look for mezz lenders to break on rates with deals coming in as low as 7.5%. This marks a vast drop from the 10%-plus rates seen in the past few years. The majority of loans will be priced from 9% to the mid-teens. Large deals with vast competition from institutional investors will fall under the 9% benchmark. Count on further rate compression, which will likely be down another 50 basis points by year's end. Many mezz lenders will top out at 85% to 90% leverage. Borrowers will put around 10% of cash equity in deals.

The lack of attractive yield on senior mortgage positions will push some traditional lenders, including life companies, into the space. **MetLife, Principal Financial, Prudential, Pacific Life, Cornerstone Real Estate Advisers** and **AIG** will consider larger mezz deals. **Lowe Enterprises** sets its sights on hospitality and office this year, with mezz loans from \$8M to \$25M. **Terra Capital's** typical mezz loan will be around \$5M and all properties, except senior housing, will be considered. **Morrison Street Capital** targets mezz deals in the \$2M to \$5M range. Multifamily, office, industrial and retail will be desired. Fund manager **Shem Creek Capital** will focus on deals under \$5M with leverage up to 90%.

**Apollo Trust Company** will provide 9% rates on mezz loans. The lender prefers larger deals in the \$40M to \$50M range. **Pearlmark** will originate mezz for office, industrial, retail, hotels, multifamily and student housing. **RCG Longview** will focus on the \$5M to \$20M loans, but can underwrite up to \$50M. The four main food groups, along with hotels will be considered. **RockBridge Capital** and **Starwood Capital Group** will provide mezz for hotel assets. Also, look for **Redwood Trust** and **The Blackstone Group** to be active. Don't expect many banks to underwrite mezz; the few banks in the space will do so with the intent of distributing the loan at closing or shortly thereafter.

Borrowers will choose mezz as an attractive alternative to common equity based on cost. Mezz will also be less expensive than equity. Also, it will be harder to raise equity than in the past, especially for the smaller operators. Properties need cash flow and operators with favorable business plans. Mezz gives borrowers the ability to access additional leverage at a fixed coupon without giving away any equity interest.

Hotels will have a strong need for mezz loans, as senior lenders top out at 65% to 70% leverage. Many upcoming hotel refis will be overleveraged. Big-box retail centers constructed and financed from 2006 to 2008 will also tap mezz to fill the gap. Count on demand for office driven by recapitalization and refinances of maturing loans. Multifamily will only use mezz with construction loans. Mezz will be efficient for borrowers with properties in turnaround situations. It will provide funds for renovations, tenant improvements and leasing. Expect increasing demand for mezz debt as assets current values will be lower than a few years back. Senior loans will top out at 65% leverage and mezz will be the ideal way to fill that gap.

### The Crittenden Report

Email: [editorcr@crittendennews.com](mailto:editorcr@crittendennews.com)

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