The **CRITTENDEN REPORT**®

The Nation's Leading Newsletter on Real Estate Finance **Real Estate Financing**

Crittenden Research, Inc. • P.O. Box 1150 • Novato, CA 94948-1150 • Customer Service: (800) 421-3483

Vol. 38, No. 17

September 10, 2012

LENDERS REACH TO MORE ASSET TYPES

Keep an eye out for more lenders to become confident with special purpose property financing as borrowers and properties in the sector rebound. As competition to disperse funds increases, look for lenders to consider more diverse product type allocations as opposed to aggressive underwriting terms. Specialty purpose loans for assets such as movie theaters, auto part stores, parking garages, churches and gas stations were non-existent 12 to 18 months ago. Properties with strong tenant financials will obtain leverage between 60% and 65%. Deals with weaker financials will see leverage at 50% and below. Borrowers with leases going past the loan term, favorable financials and experience could obtain non-recourse money.

Local banks that understand the real estate and market will provide the most favorable underwriting with interest in the 4% to 5% range. Interest rates from other lenders will be upward of 5% or 6%. Look for lenders to require significant equity from the borrower, usually around 35% to 40%. Debt yield will be 11% to 12%. DSC will be between 1.40x and 2.0x. Count on most lenders to want recourse.

Many of the active lenders will be local banks, including **Torrey Pines Bank**, **Circle Bank**, **TCF Bank**, **Arvest Bank**, **Fidelity Bank Atlanta** and **Zions Bank**. **Webster Bank** will allocate loans for parking garages under $10M. **Sovereign Bank** will arrange loans for movie theatres in major markets. **The Washington Trust Company** provides loans under $2M for auto part properties, which tend to be tough because of environmental concerns. **StoneTree Financial** will consider gas stations, mini marts, churches, RV parks and marinas. **Cantor Fitzgerald** will look into marinas. **Ladder Capital** and **Basis Investment Group** will ponder special purpose properties. **GE** will work on single-tenant deals, such as assets with educational tenants.

Strong operating histories will be key in special purpose deals. Count on lenders to closely review up to 12 months of monthly operating histories. Properties in favorable locations with redevelopment opportunities will be targeted. Lenders will seek out properties in the top 25 metropolitans. Assets in cities where land will be abundant and population will be thin won't attract capital. Lenders will look closely at the credit aspects of the properties. Watch for lenders to consider alternative uses for these properties.

Expect lenders to focus on the borrower when underwriting special purpose deals. Borrowers with long-term ownership and favorable reputations in the sector will be sought after. Borrower strength and operator experience, along with net worth and liquidity will come into play. Lenders will also scrutinize the financial strength and long-term prospects of the tenants. Financial wherewithal will be important and borrowers need to show they were able to navigate through tough times.

JV EQUITY EXPANDS FOR SENIOR HOUSING/HEALTHCARE

Look for JV equity investors to reach out of their normal targeted MSAs to get involved in senior housing/healthcare. Investors will consider California Central Valley markets such as Sacramento, Fresno and Bakersfield. Compelling demographics, favorable yields, solid performances and equity demand will fuel the boost of JV deals. Expect JV investors to follow the "perceived" lowest risk path, which targets multifamily, senior housing and healthcare deals. Count on senior housing investors to desire mid- to high teen returns. Healthcare projects will have 20% IRRs. Investors will be drawn to healthcare's 14% return on cost, which often leads to a 7% profit if sold at a 7% cap rate.

Continued on Next Page

Quotation not permitted. Material may not be reproduced in whole or in part in any form whatsoever. Copyright © 2012 Crittenden Research, Inc

JV EQUITY EXPANDS FOR SENIOR HOUSING/HEALTHCARE...

Continued from Page 1

Private equity funds, hedge funds, pension funds, life companies and select REITs will consider JV equity for senior housing/healthcare. **Forman Capital** will typically invest $3M to $10M per deal, with target returns in the mid-teens. The investor prefers mature, overleveraged properties that will need to be recapitalized. **Dominion Corporation** targets assisted living, independent living and age-restricted senior apartments. The investor will go as low as $2M and looks for returns in the 16% to 22% range. **Cambridge Realty Capital** desires senior housing acquisition deals.

Keep an eye out for **Canyon Capital Realty Advisors, Great Lakes Financial, Harrison Street Real Estate Capital, HealthCap Partners, Prudential Real Estate Investors** and **Cornerstone Capital Management** to be active in this space. High net-worth individuals and private families looking to diversify their portfolio could also get involved before the year is through.

Count on more borrowers to opt for JV equity as senior debt lenders offer lower leverage, which leaves a gap in the capital stack. Many senior lenders prefer JV equity behind the loan as opposed to other types of subordinate debt. Expect investors to target independent living, assisted living and memory care facilities, while a few will also consider skilled nursing. JV investors will want borrowers with experience operating and managing the assets. They will require the sponsor's co-investment contribution to be real cash. Sponsors will need to provide 25% to 30% of the equity for acquisition/reposition deals.

Some JV investors will want the sponsor to give up the major decision-making process but retain day-to-day operations of the property. Count on JV equity investors to focus more on current yield than years past, being more cautious about risks. JV investors for ground-up projects could come into the deal early to fund soft costs and construction. Properties in favorable markets with leasable real estate and sensible business plans will see the most investor interest.

CONDUITS INK HIGH LEVERAGE FOR UNANCHORED RETAIL

Watch for CMBS lenders to provide high leveraged loans for unanchored retail centers in favorable markets for the first time in years. High-profile locations with shadow anchors will see leverage up to 75% and rates at mid-4%. The most favorable deals in major cities will see debt yield as low as 8%. Keep an eye out for **JP Morgan Chase, Citi, RBS, Deutsche Bank** and **Prudential** to originate loans for unanchored retail. **UBS, Cantor Fitzgerald, Ladder Capital, Archetype Mortgage Capital, Morgan Stanley, Wells Fargo** and **Goldman Sachs** will consider deals under $10M.

Centers without a shadow anchor will obtain leverage between 65% and 70%. Interest will be high

BANKS & LENDERS

Archetype Mortgage Capital: 1114 Avenue of the Americas, 38th Floor, New York, NY 10036. Tim Szalay, SVP, (212) 600-2836. tszalay@archetypemortgage.com

Basis Investment Group: 75 Broad St., Suite 1602, New York, NY 10004. Tammy Jones, President, (212) 842-5714. tjones@basisinvgroup.com

Beech Street Capital: 1 Battery Park Plaza, 26th Floor, New York, NY 10004. Mike Edelman, SVP/Production Manager, (212) 612-0164. medelman@beechstcap.com

Cambridge Realty Capital: 125 S. Wacker Drive, Suite 1800, Chicago, IL 60606. Brent Holman-Gomez, SVP-Originations/Operations/Asset Management, (312) 521-7601. brent_holman@cambridgecap.com

Cantor Fitzgerald: 110 E. 59th St., Sixth Floor, New York, NY 10022. Michael May, Senior Managing Director, (212) 610-2319. mmay@cantor.com

Cornerstone Capital Management: 3600 Minnesota Drive, Suite 70, Edina, MN 55435. Thomas Kamp, Chief Investment Officer, (952) 229-8100.

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

Forman Capital: 2875 S. Ocean Blvd., Suite 200, Palm Beach, FL 33480. Brett Forman, Founder/CEO, (561) 588-0132. bforman@formancap.com

Guggenheim Real Estate: 101 N. Columbia St., Suite 200, Chapel Hill, NC 27514. Mike Miles, Senior Managing Director, (919) 967-3500. mmiles@guggenheimrealestate.com

Harrison Street Real Estate Capital: 71 S. Wacker Drive, Suite 3575, Chicago, IL 60606. Brian Thompson, SVP, (312) 376-0114. bthompson@harrisonst.com

HealthCap Partners: 5910 N. Central Expressway, Suite 1000, Dallas, TX 75206. (214) 953-1722.

Natixis Global Asset Management: 399 Boylston St., Boston, MA 02116. Jeffrey Plunkett, EVP/General Counsel, (617) 449-2100. jeffrey.plunkett@ngam.natixis.com

Opus Bank: 19900 MacArthur Blvd., 12th Floor, Irvine, CA 92612. Dan Borland, President-Income Property Banking, (949) 250-9800.

Red Capital Group: 500 Newport Center Drive, Suite 930, Newport Beach, CA 92660. Anthony Cinquini, Senior Managing Director, (949) 610-0269. adcinquini@redcapitalgroup.com

Torrey Pines Bank: 9295 Farnham St., Suite 200, San Diego, CA 92123. Stacy Lombardo, SVP/Director of Operations, (858) 259-5353. slombardo@torreypinesbank.com

Walker & Dunlop: 7161 Bishop Road, Suite 200, Plano, TX 75024. Jay Thomas, SVP-Multifamily Finance, (469) 248-1250. jthomas@walkerdunlop.com

Washington Trust Company, The: 23 Broad St., Westerly, RI 02891. Julie Anne Slom, SVP/Team Leader, (401) 348-1430. jaslom@washtrust.com

Corrections:

Rockwood Capital provides hotel JV equity not Rockwood Equity out of Beachwood, Ohio, as reported on August 13.

The preferred equity story in the August 27 issue should have listed Newport Capital Advisors instead of Newport Realty Capital.

Quotation not permitted. Material may not be reproduced in whole or in part in any form whatsoever. Copyright © 2012 Crittenden Research Inc.

"SMALL" DEAL OF THE WEEK

Property Type: Class C multifamily in Houston
Loan: $4.22M Refi with $500K in cash-out proceeds
Lender: **Archetype Mortgage Capital**
Leverage: 69%
Rate: 4.87%

Many lenders shied away from this loan due to the lower asset class and cash-out aspect. The agencies will not consider Class C properties in this market, especially due to the loan size. Archetype was comfortable with the asset's strong historical occupancy for the last 10 years at 95%-plus. The borrower was attractive and had a solid track record. The low leverage and strong 1.55x coverage also helped catch the lender's eye.

Grossman obtained a favorable interest rate for this class level and loan size, at less than 5%. The cash-out proceeds will go toward property maintenance and future opportunities. This loan refinanced an existing CMBS loan. The 10-year loan has 25-year amortization. Debt yield was 10.5%.

Meridian Capital Group: 2173 Salk Ave., Suite 250, Carlsbad, CA 92008. Seth Grossman, Managing Director, (858) 964-1151. sgrossman@meridiancapital.com

GSEs ALLOCATE SHORTER INTEREST-ONLY LOANS

Expect Fannie Mae and Freddie Mac to provide one-year, interest-only terms for multifamily instead of the

DEALMAKER DATABANK

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 teams up with a life insurance company to provide $6.5M for the Parking Deck, a parking structure that services two office buildings in Midtown Atlanta. This was a 10-year permanent loan.

George Smith Partners
10250 Constellation Blvd., Suite 2700, Los Angeles, CA 90067
David Stepanchak, SVP/Director of Research
(310) 867-2921
dstepanchak@gspartners.com

George Smith Partners arranges a $23M cash-out refi for a marina and boat repair yard in Fort Lauderdale, Fla., with Cantor Fitzgerald. Interest came in at 5.52%. LTV was 50%. The 10-year loan has 18-year amortization.

Grandbridge Real Estate Capital
271 17th St., Suite 750, Atlanta, GA 30363
Tim Hudgins, VP; Richard Thomas, SVP
(404) 602-1392
thudgins@gbrecap.com; rthomas@gbrecap.com

Hudgins and Thomas run the senior housing team for Grandbridge, a subsidiary of BB&T Bank. The pair has financed $5B of senior housing properties over the past 10 years, ranging from small one-off loans to large multi-property credit facilities.

HFF
4350 La Jolla Village Drive, Suite 450, San Diego, CA 92122
Tim Wright, Senior Managing Director
(858) 812-2341
twright@hfflp.com

HFF closes a $10M refi with California Bank & Trust for a medical office building located in Santa Monica, Calif. This was a three-year, adjustable-rate loan.

HFF
1775 Pennsylvania Ave. N.W., Fifth Floor, Washington, DC 20006
Mark Remington, Managing Director

HFF secures a $50M refi with Guggenheim Commercial [illegible]

FLOATING-RATE BRIDGE EMERGES FOR HOTELS

Look for several tiers of lenders to get active with floating-rate bridge loans for hotels through year's end. Plenty of funding will be available for deals greater than $30M. Nearly all lenders will desire assets with strong flags or plans to re-flag to a premier brand. Major cities will be the preference but hotels in strong locations in sizable improving markets will also be considered. Don't be surprised to see lenders focus on relationships, whether it's with the borrower, broker or flag.

The best pricing will come from balance-sheet bank lenders, including **Wells Fargo**, **Citibank** and **Deutsche Bank**. These lenders will opt for lower pricing with lower leverage. Expect most deals to attain leverage from 55% to 65%, with the most favorable assets fetching 70%. Debt yield will be between 11% and 13%. Deals will have three year terms, with two one-year extensions. Floating rates will be Libor-plus 450 to Libor-plus 700, which will start around 4.8%. Regional player **East West Bank** targets low leverage floating, swap and fixed-rate bridge loans for hotels. Rates will generally be Prime-plus 1.5% with a 5.5% floor. Flagged assets in CBDs will be preferred. East West Bank looks to establish strong relationships with hotel owners.

Conduits will do securitized floaters at 5% to 6% over Libor. Most deals will see 60% to 70% leverage based on debt yield. Expect to see debt yield range from 8.5% to 12%, depending on the amount of work the asset needs. Watch for adjustable-rate deals to fill an increasing portion of the 15% that most CMBS lenders allocate to hotels. Most conduits will look for deals north of $20M or $30M. **Goldman Sachs** will drop to $10M for select hotel deals, while it's rumored **Cantor Fitzgerald** will do hotel loans as small as $7M. **Wells Fargo, Morgan Stanley, BofA, Citi, JP Morgan Chase, Archetype Mortgage Capital, KeyBank, RBS, UBS, Deutsche, Natixis Global Asset Management, PNC Real Estate, Basis Investment Group** and **Ladder Capital** will all be active in this space through year's end.

Non-regulated, balance-sheet and fund lenders will also get in on the action with rates at 5% to 7% over Libor. Many of these groups will target a larger deal sweet spot at $40M to $80M. **Starwood Capital** and **Prime Finance** will be among the most active groups. **Mesa West** will do floating-rate bridge deals from $10M to $150M in major metropolitans. Leverage will be 60% to 70%. Debt yield ranges 9% to 11%. The lender prefers national flags in primary markets, including San Francisco, Southern California, Denver, Texas, New York City, Boston, Washington, D.C., Atlanta and Miami. **Regional Capital Group** will underwrite hotel bridge loans and note purchases. Leverage will reach 70% of cost or 65% to 70% of value. Deals usually include rebranding and/or reflagging and some will include value-add renovations. Rates will be 9% to 12%. Debt yield will start in the mid- to high teens.

Cornerstone Real Estate Advisers will also be active in the space for loans from $30M to $50M. Leverage will be up to 75% and debt yield starts at 9%. Rates start around 6% and will be adjustable. Full-service, flagged assets in primary markets are preferred.

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.