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SMALL LCs PUSH LEVERAGE, LOWER LOAN SIZE

Expect to see small life companies widen their parameters and originate smaller loans with higher leverage. As many lenders target the same deals, smaller LCs will differentiate themselves by increasing leverage. Look for them to target multifamily, industrial, strip centers, grocery-anchored retail and medical office buildings going forward. Mobile home parks and hospitality could also be considered.

Keep an eye out for the small life companies to drive leverage up to 75%, much higher than the 65% maximum seen earlier this year. Most of these groups will provide 60% to 75% leverage and 25-year amortization. Look for smaller LCs to allocate five- and seven-year loans at 4.5% and 4.75% rates, respectively. Longer term loans will see rates begin at 5%. DSC will fall between 1.25x and 1.40x.

Stancorp will be busy, with a \$1.5M average loan size. The lender will allocate loans as low as \$500K for small multifamily assets, office, unanchored retail, mobile home parks and single-tenant properties. Count on **Stancorp** to rate lock at application and mitigate costs to the borrower. **Security National Capital** will provide loans in a \$1M to \$6M sweet spot. The lender targets borrowers that need loans quickly and properties with low occupancy. Borrowers need to show reasonable exit strategies.

Advantus Capital Management and **Symetra** will allocate loans starting at \$3M. **Aviva** and **OneAmerica** will consider loans as low as \$5M. Look for **Genworth**, **Ohio National Life Insurance Co.**, **Kansas City Life**, **Southern Farm Bureau Life**, **Summit (Ameritas)**, **American Family Insurance**, **American Equity Investment Life Insurance Company**, **Farm Bureau Life Company of Michigan** and **Woodmen of the World Life Company** to work on small loans.

Smaller loans can diversify risk and exposure across the portfolio, which could attract some larger LCs. Don't be surprised if select larger groups, including **ING Investment Management** and **John Hancock**, lower their minimum loan amount before year's end. Larger life companies will consider smaller loans for existing clients and borrowers with larger loans down the pipeline.

If banks start to offer 10- to 15-year, fixed-rate loans with long amortization, expect smaller life companies to slow down. To avoid prepayment penalties, borrowers will prefer banks. Properties with strong sponsorship in favorable locations will see plenty of bids. Small LCs will target properties in markets with improving occupancy and a substantial cash investment from the owner.

Small LCs will want a minimum of 10% liquidity and net worth of one and a half times the loan amount. Borrowers will need attractive credit histories and experience in the product type. Lenders will prefer borrowers that also manage properties.

MORE LENDERS TO PROVIDE CASH-OUT PROCEEDS

Look for loans with cash-out proceeds to increase going forward as lenders become aggressive and borrowers desire additional capital reserves. Anticipate lenders, not active in this space in the past few years, to re-enter the game during the next 18 months. Conduits will offer up to 70% leverage on loans with cash outs, while banks will be between 65% and 70%. LCs will allocate around 65% leverage. Many lenders maxed out at 50% leverage on cash-out loans last year. Count on leverage to push even higher, perhaps closer to 80%, as we go into 2013.

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“SMALL” DEAL OF THE WEEK

Property Type: Industrial Building in Matthews, N.C.
 Loan: \$3.95M refi
 Lender: **Stancorp**.
 Leverage: 62%
 Rate: 5%

The 25-year, fully amortizing loan has fixed interest for 15 years, unusual terms for Stancorp. The lender typically tops out at five-year fixed loans. After 15 years the rate will adjust to market for the remaining 10 years. There will be a window at the rate adjustment for a payoff with no penalty. The new loan refinanced an existing local bank loan. The leverage was appraised at 61% but underwritten at 62%. Stancorp. required partial recourse at 50% of the outstanding loan balance. DSC was 1.20x.

This distribution warehouse property, built more than 40 years ago, possesses a choppy layout due to phased construction. It also has a large amount of internal common area space, which is uncommon for industrial. Stancorp. was comfortable with the unique configuration of space because of the location, full occupancy and strong longstanding tenants. Two tenants encompass 73% of the physical occupancy and 83% of the economic occupancy income.

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MORE LENDERS TO PROVIDE CASH-OUT PROCEEDS...

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Expect lenders to be less critical of how the cash will be spent compared to the past few years when banks required itemized spending lists. Going forward, lenders will prefer for the proceeds to be put back into the properties or used for future acquisitions.

Multifamily will see the bulk of cash-out loans as the strength of the rental market increased property values. Retail and office will see some cash-out activity as these product types can also show tangible changes through lease renewals and renovations.

DSC will be 1.25x to 1.45x. Debt yield will be 10%-plus on most loans. The most aggressive lenders will offer 8.75% debt yield for certain multifamily properties. Interest rates will land at 3.35% to 5%. Expect life companies to offer the lowest rates. Rates could begin to creep up slightly by December.

Conduits, including **JP Morgan Chase, Morgan Stanley, UBS, Cantor Fitzgerald, Ladder Capital, Citi, RBS and Deutsche Bank** will all consider cash-out proceeds for low-leverage deals. Big national banks such as **Wells Fargo, BofA, Chase and Citi** will selectively look at deals for balance sheets.

Centerline Capital Group will go as low as \$1M, with a \$9M to \$12M average loan size. **Greystone** will provide cash-out proceeds for multifamily. The lender specializes in multifamily loans around \$2M, but its typical loan will be between \$7M and \$20M.

Keep an eye out for lenders to look closely at the strength of the collateral. Lenders will be more comfortable with borrowers that have increased values on properties through capital improvements and higher occupancies. Borrowers that have brought up the asset's class level will be the most sought after. Lenders will be attracted to building relationships from these deals.

Borrowers will need favorable credit and a minimum liquidity of 10% of the loan amount. Lenders will not provide cash out for properties without cash flow or overleveraged assets. Anticipate lenders to seek refinances for properties owned for a minimum of five years by the borrower. Properties will need strong performances and occupancy histories.

BANKS & LENDERS

American Equity Investment Life Insurance Company: 6000 Westown Parkway, West Des Moines, IA 50266. John Matovina, CEO, (515) 457-1813. jmatovina@american-equity.com

American Family Insurance: 6000 American Parkway, Madison, WI 53783. Jack Salzwedel, Chairman/CEO, (800) 692-6326.

Americo Financial Life: P.O. Box 410288, Kansas City, MO 64141. (800) 231-0801.

Aviva: 215 10th St., Suite 1000, Des Moines, IA 50309. Eric Hasenauer, Managing Director, (212) 593-5606.

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DEALMAKER DATABANK

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CBRE closes \$150M with MetLife for the acquisition of 400 South Hope Street, an office property located in Downtown Los Angeles. LTV was 60%. This was a non-recourse loan with a floating rate based on Libor plus 245 basis points. DSC was 2.5x.

Cohen Financial
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Cohen Financial works on a \$12.45M refi for Bentley Apartments in Spokane, Wash., with Freddie Mac. The seven-year loan had two years of interest-only terms. LTV was 80%.

Cushman & Wakefield
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Cushman & Wakefield closes \$100M in senior and mezz financing for 509 Fifth Avenue, a retail and office building in Midtown Manhattan. The permanent loan was originated with a bank and a public company provided the mezz piece.

George Smith Partners
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Malcolm Davies, SVP
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George Smith closes \$40M in total commitments for a pool of more than 900 single-family residences in Northern California with a regional bank. The 15-year loan had five years of interest only. Interest came in at 5%. LTV was 60%.

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George Smith originates \$12.5M with a pension fund to refinance a single-tenant office building in Los Angeles. This was a seven-year loan with 25-year amortization. LTV was 70%. Interest came in at 5.4%.

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George Smith closes a bridge loan for a single-tenant office deal with an AA credit tenant. The loan had a two-year term, with two one-year extension options. Interest was Libor plus 500 basis points, floored at 6.5%.

Grandbridge Real Estate Capital
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Grandbridge originates a \$7M refi with Stancorp. for a four-building office portfolio located throughout Minnesota. LTV came out to 75%. Interest was fixed in the mid-4% range. This was a 10-year loan with 20-year amortization.

HFF
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HFF originates a \$20M refi with Principal for Newton Wellesley Executive Office Park in Wellesley, Mass. LTV was 70%. DSC was approximately 1.60x. This was a 10-year, fixed-rate loan. Principal liked the location and access to downtown Boston.

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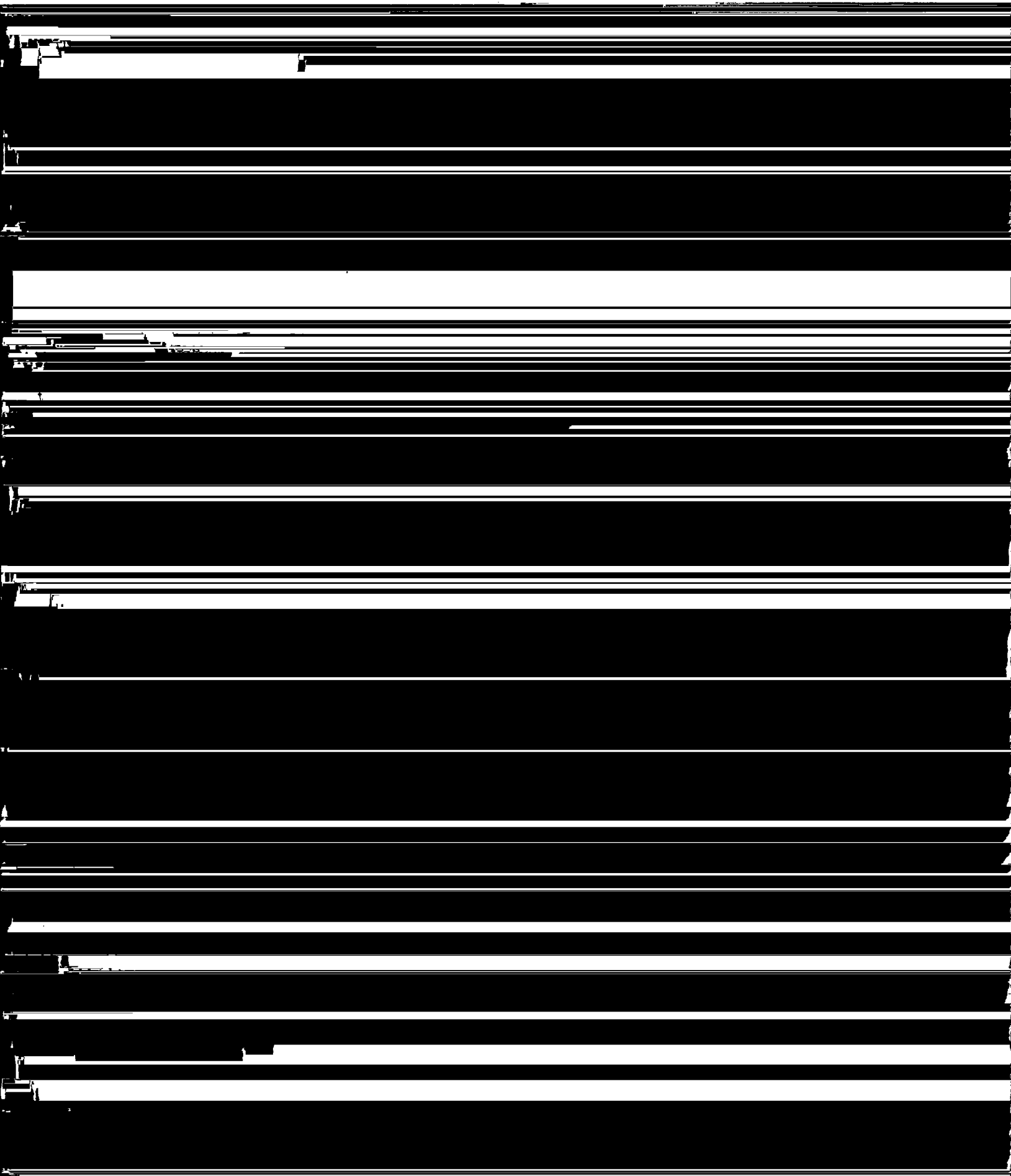
Mark One arranges a \$7.1M cash-out refi of a Walgreens located in Aliso Viejo, Calif., with a regional bank. LTV was 75%. Interest came in at 4.5%. This was a 10-year loan with 30-year amortization. The lender required partial recourse.

NorthMarq Capital
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NorthMarq arranges a \$15M refi with Sovereign Bank for Cinema 123 in New York City. LTV was 50%. Debt yield came in at 11%. DSC was 1.43x on an 8% constant. This was a one-year, interest-only bridge loan, with the right to extend.

Thomas D. Wood and Company
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Thomas D. Wood teams up with Stancorp. to provide \$750K for Northwood Retail, a mixed-use property in West Palm Beach, Fla. LTV was 63%. Interest came in at 5%. This was a fully amortizing, 20-year loan. Proceeds will go to refi an existing bank loan.



MEZZ AVAILABILITY INCREASES FOR CONSTRUCTION

Look for more mezz lenders to trickle back to the construction loan space. Demand will be high but

