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AGENCY LENDERS TURN TOWARD CLASS B/C ASSETS

There is too much money chasing deals and lenders begin to reach. Hotels start to see cash-out proceeds. Lenders will lower mezzanine minimums. The most astonishing change will be agency lenders starting to consider Class B and C assets. The Class A multifamily lending space has become saturated with capital. Many Class A owners will be institutional companies with their own equity that don't need debt. This will increase competition and lead to a borrower's market. Some agency lenders, including **Oak Grove Capital** will provide leverage up to 90% for strong borrowers and well-positioned B or C assets. The majority of agency lenders will provide leverage between 70% and 80%. Rates will be 3.5% to 4%. DSC will land at 1.15x to 1.35x.

Berkadia Commercial Mortgage will offer leverage in the 75% to 80% range for Class B and 70% to 75% for Class C properties. Loans will be around \$10M to \$15M. **Berkeley Point Capital** looks for loans greater than \$5M, but could go lower for relationship borrowers. The average loan size will be \$8M to \$9M. **Red Capital Group** will start at \$3M, with a \$10M to \$15M average. **Centerline Capital Group** will originate \$1M to \$5M loans through its small balance program. Properties with at least 150 units will be preferred. **Beech Street Capital's** loan minimum will be \$3M, which will typically be for properties with at least 80 units. The average loan amount will be from \$5M to \$20M. Oak Grove's typical loan size will be \$9M.

Older properties not well maintained or managed will have a hard time finding agency lenders. Properties with out-of-state management will scare away most lenders. Lenders will steer clear of hard hit markets without signs of resurgence and redevelopment. Agency lenders will stay away from cities with high crime, boarded-up buildings and deteriorating infrastructure. Smaller markets with populations below 50,000 will also keep many lenders at bay. Properties will need at least 90% occupancy, preferably for the last three months.

Borrowers without favorable net worth or post-closing liquidity will not find interested lenders. Count on lenders to look closer at operating history, strength of the sponsor, replacement reserves and the borrower's credit history. Borrowers will need experience and successful track records with B and C assets. Lenders will give the best rates to borrowers with at least 10% to 15% post-closing liquidity or equal to one year of principal interest. Net worth needs to be equal to the loan amount. A second form of cash flow through other buildings will also be favored.

MORE LENDERS ENTER MIXED-USE SPACE

Thanks to an overall resurgence of CMBS lenders, underwriting will be more aggressive going forward. Leverage may even rise up to 80% for mixed-use properties next year. Life companies, banks and private lenders will also be active with mixed-use financing. Lenders will be attracted to the different income

DEAL OF THE WEEK

Property Type: Mixed-Use Property in Los Angeles
 Loan: \$10.5M cash-out refi
 Lender: **Freddie Mac**
 Leverage: 70%
 Rate: 3.9%

This was a unique loan for Freddie Mac because 32% of the property's total income comes from non-residential sources, including retail. The property also has live/work loft space, which many multifamily lenders will avoid. The borrower's strong track record, along with the asset's stabilized cash flow and the long-term commercial tenants, helped make the lender comfortable. The borrower stabilized the live/work loft space in the downturn, which was also favorable from a lender standpoint.

The non-recourse refinance will pay off the original bank acquisition loan and an additional rehab loan on the property, totaling \$8.8M. The borrower received \$1.7M in cash-out proceeds for future investments. This was a 10-year loan, with 30-year amortization. DSC was 1.25x. The borrower originally purchased the property for \$5.4M.

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MORE LENDERS ENTER MIXED-USE SPACE...

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Life companies will provide 65% to 70% leverage. They will target strong trophy assets and Class A institutional assets. Major LCs, including **New York Life, Principal, MetLife, Allstate, ING Investment Management** and **Columbia Management** will also be active. **Aviva** and **Genworth** will do deals under \$10M. **Stancorp.** will get involved in loans less than \$5M.

Banks will top out at 65% leverage. The big banks, including **Chase, Wells Fargo, BofA, RBS Citizens, Citi, PNC Real Estate** and **BBVA Compass**, along with the large regionals, will all be active on the construction side. Banks will want strong borrowers and require some level of recourse. Anticipate significant preleasing requirements on construction deals. Regional banks **Signature Bank, TD Bank, Investors Bank** and **M&T Bank** will also consider mixed-use.

Private money lenders **Edgewood Capital, Canyon Capital Realty Advisors, BRT Realty Trust, Emerald Creek Capital** and **Madison Realty Capital** will consider the smaller deals for B and B- properties.

Lenders will underwrite each use/component separately. There will be a thorough analysis of the anchor tenants and lenders will not rely on forward looking rents. Lenders will strive to understand how the different uses complement each other. Count on lenders to favor multifamily and retail combinations, where the apartments make up the bulk of the income. Tenant credit will be key and lenders will want to see strong sales from retail components.

Office/retail assets will be attractive as traffic will be built in from the office workers; however, lenders will be cautious until the office market recovers. Transit-oriented developments will be in high demand. Lenders will be less aggressive for properties in suburban markets with office or hotel components.

Borrowers need experience leasing and managing the different uses, along with solid business plans. Developers will need strong track records in leasing, managing and the specific asset class to obtain construction financing. Preleasing will be a must. Borrowers will need financial liquidity or finance partners to help get through any downtime.

BANKS & LENDERS
(Supplemental to the 2011 Directory)

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

Barclays: 745 Seventh Ave., New York, NY 10019. Brandon Ashcraft, Director of Corporate Communications, (212) 526-7000. brandon.ashcraft@barclays.com

Beech Street Capital: 20 Park Plaza, Suite 905, Boston, MA 02116. Brian Sykes, VP-Originations, (617) 542-9100. bsykes@beechstcap.com

Berkadia Commercial Mortgage: 1040 Broad St., Suite 101, Shrewsbury, NJ 07702. Robert Lipson, SVP, (732) 758-0004.

Berkeley Point Capital: 4550 Montgomery Ave., Suite 110, Bethesda, MD 20814. Jim McDevitt, President, (301) 347-4843

LENDERS RAMP UP SBA CONSTRUCTION LOANS

SBA construction money will increase, as inventory across the country begins to absorb. SBA lenders will provide up to 90% leverage on the most favorable deals. SBA 504 loans will see rates in the high 4% to low 5% range for fixed 20-year loans. SBA 7(a) will command 6% rates. An advantage for small business borrowers will be that the 90% leverage includes project costs. These deals will require "true" 10% equity and little out-of-pocket cost from the borrower. Special-purpose properties and/or startup businesses will require another 5% down. The lowest leverage will be 80% of cost. DSC will start at 1.20x, although the higher this number, the more likely the approval. Hospitality will see a minimum 1.40x DSC.

Banks, such as **Wells Fargo** and **BofA**, will tip toe back into SBA construction lending either through the 7(a) program or via the 504 program with a second mortgage lender. Banks will use conservative guidelines and choose the strongest borrowers. Medical office buildings with doctor and dentist tenants will be highly favored by the big banks, including **BofA**, **Wells Fargo**, **Chase**, **US Bank** and **Union Bank**

DEALMAKER DATABANK

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BORROWERS SEE MORE OPTIONS FOR SMALL MEZZ PIECES

More lenders entering the small loan mezz space will effectively lower interest rates going forward. Mezz will be available with interest as low as 7.5%, compared to the 10% minimum seen at the beginning of the year. Deals involving high-quality assets with strong credit borrowers will see the most favorable rates and structure. Typical rates will be 12% to 15%. Mezz can go as high as 95% on the capital stack, but most deals will land at 80% to 85%.

Mezz gives borrowers the opportunity to access additional leverage at a fixed rate and lower cost without giving away any equity interest. The appetite for mezz pieces under \$5M will increase as maturities from the previous cycle need to be refinanced. It will play an important role in capitalizing these shortfalls and be a favorable alternative to equity. Mezz will be downsized, or possibly eliminated, once senior lenders expand loan proceeds and increase leverage. But, any volatility will provide an increased need for mezz as senior lenders pull back leverage because of an uncertain environment.

Pensam Capital will consider mezz as low as \$1M. **W Financial** will start at \$3M. Office, retail and multifamily will be targeted with 12% to 14% rates. **Terra Capital** will provide \$3M to \$5M mezz loans. **Shem Creek Capital** will work with office, retail, hospitality, industrial and multifamily for mezz under \$5M. **Dominion Corporation** will allocate mezz below \$5M for the right property and location. Multifamily, office, student housing and senior living will be on the docket.

Redwood Trust and **Regional Capital Group** will also consider small mezz. **Morrison Street Capital** will work on smaller deals for office, industrial, retail and multifamily. **RCG Longview's** minimum mezz loans will start at \$5M. Retail, office, industrial, multifamily and hotels will all be considered. **Pearlmark Real Estate Partners'** mezz loans will start at \$5M and construction deals will be in the cards.

Look for increasing demand from multifamily sponsors for deals below \$5M, as pricing increases and senior lenders tighten underwriting. Small tenant industrial/flex properties with granular rent roll will see