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THE RETURN OF THE MULTI-TIERED CAPITAL STACK

Look for more transactions to include a combination of mezz and equity, JV or preferred, on top of senior loans in 2013. Multi-layers of capital will come into play because many senior debt maturities will not be able to refi solely with senior loans. The combination of equity and mezz should reach at least 25% of the capital structure for senior lenders to be confident in the deals. Leverage will hit up to 95% for multi-tiered structured deals. Mezz and equity should balance so that neither presents a "sliver" portion of the deal.

Subordinate debt pricing will be aggressive. Mezz will be 6% to 12%. Development or opportunistic transactions will see mezz around 12% to 15%. Preferred equity looks for returns in the low to mid-teens. Value-add equity investors will seek mid-teens returns. Opportunistic equity plays for construction or distressed properties will require high-teens returns. New entrants into the subordinate financing sector could force lenders to compete on proceeds and structure instead of spreads as seen in the past.

Northwestern Mutual, Principal and Prudential will be bullish on the larger \$50M-plus deals. Look for a number of additional insurance companies to re-enter the market by year's end. **Cerberus Capital Management** and **Fortress Capital Finance** will also be active on transactions greater than \$50M. **Pearlmark Real Estate Partners** will be in the \$5M to \$40M range. Experienced regional players, large national owners and developers will be targeted. **Canyon Capital Real Estate Advisors** will provide both equity and mezz loans from \$15M to \$200M.

Pembroke Capital Management eyes \$5M to \$20M mezz investments. The investor will work on mid-sized deals from \$25M to \$100M. Multifamily, multitenant office and anchored retail will be in the cards. Mezz pricing will be in the 10% to 15% range. **Pensam Capital** will focus on multifamily for preferred equity investments. The typical investment amount will be between \$1M and \$5M with mid- to lower market sponsors. **Buchanan Street Partners** will also be active in mezz and equity this year.

Keep an eye out for capital stack layering on transitional assets and large stable assets where the senior lenders will not provide enough leverage. Assets such as office with occupancy under 60% or retail centers without strong anchors will turn to the mezz/equity stacks. Most mezz and equity investors will prefer \$10M-plus deals for multi-tiered stacks. Plenty of money will be available for the mid-sized \$30M to \$100M deals. Transactions under \$10M will have a hard time finding interested subordinate debt players.

While select senior lenders will be wary because of being burned on past multi-tiered loans, many will recognize that mezz and equity play an important role in the capital structure. The addition of mezz and equity will strengthen credit profiles of transactions. Expect equity providers to be less attracted to one-off transactions since they prefer to work with relationship partners.

BANKS LOOSEN TO COMPETE

Expect banks to be in full force in 2013, as they take on leverage and leasing risks and trickle into new markets to win business. Multifamily borrowers will see leverage up to 80% but most deals will top out at 70%. Interest will be 3% to 4% for multifamily and 4% for the other property types. Don't expect banks to allocate loan terms greater than 10 years. Most will require some level of recourse. DSC will start at 1.25x. Debt yield will be 8% for multifamily and 8%-plus for other property types.

Keep an eye out for **Chase** to dive into the \$1M to \$4M niche this year. Big players, including **Wells Fargo, US Bank, Webster Bank** and **BofA** will reach for the mid- to large sized deals. Regional banks such as **Union Bank, City National Bank, Opus Bank, Luther Burbank Savings, Investors Bank, Sterling National Bank** and **Umpqua Bank** will provide smaller loans for mid-sized borrowers. **PNC** will crack the larger loans above \$50M. **Fidelity Bank** will allocate loans for special-purpose properties up to \$12.5M. **M&T Bank's** average loan amount will be around \$19M.

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**TOP LIFE COMPANIES IN 2013
(ORIGINATION PROJECTIONS FOR 2013)**

LIFE COMPANY PROJECTED TARGETED PROPERTY TYPES

1. Prudential	\$11B	Multifamily, office, retail, industrial, hotels, healthcare, self-storage
2. MetLife	\$9B	Office, retail, multifamily, industrial

BANKS & LENDERS

(Supplemental to the 2012 Directory)

American Momentum Bank: 301 E. Pine St., Suite 1000, Orlando, FL 32801. Lou Garcia, SVP/Commercial Lending, (407) 367-4317. lgarcia@americanmomentumbank.com

Arbor Commercial Mortgage: 40 Broad St., Suite 510, Boston, MA 02109. Joseph Donovan, SVP/Director of FHA Lending, (617) 619-7309.

Archetype Mortgage Capital: 1114 Avenue of the Americas, 38th Floor, New York, NY 10036. Craig Pickett, SVP-National Loan Origination, (212) 600-2839. cpickett@archetypemortgage.com

Beech Street Capital: 45 Broadway, Suite 720, New York, NY 10006. Tyler Griffin, VP-Originations, (646) 356-8242. tgriffin@beechstcap.com

Cerberus Capital Management: 875 Third Ave., New York, NY 10022. Daniel Wolf, President of U.S. Lending Business/Senior Managing Director, (212) 891-2100.

Fidelity Bank: 100 E. English St., P.O. Box 1007, Wichita, KS 67201. Tim Nelson, Chief Lending Officer, (316) 268-7290. tnelson@fidelitybank.com

Fortress Capital Finance: 1345 Avenue of the Americas, 46th Floor, New York, NY 10105. Michael Novogratz, Principal/Director, (212) 798-6100.

Guggenheim: 3455 Peachtree Road N.E., Suite 500, Atlanta, GA 30326. Kieran Quinn, Managing Director, (404) 995-6766. kieran.quinn@guggenheimpartners.com

HomeStreet Bank: 601 Union St., Suite 2000, Seattle, WA 98101. Randy Daniels, Income Property Lending Director, (206) 515-4050; Carmen Esteban, VP-Income Property Originations, (206) 389-7765. randy.daniels@homestreetcapital.com; carmen.esteban@homestreetcapital.com

Inland Bank: Sean Gallagher, SVP/Team Leader-Commercial Banking, (630) 908-6419. sgallagher@inlandbank.com

Investors Bank: 101 JFK Parkway, Short Hills, NJ 07078. Richard Spengler, EVP/Chief Lending Officer, (855) 422-6548.

Opus Bank: 19900 MacArthur Blvd., 12th Floor, Irvine, CA 92612. Dan Borland, President-Income Property Banking, (949) 251-8177. dborland@opusbank.com

Pembroke Capital Management: 485 Madison Ave., 22nd Floor, New York, NY 10022. John Garth, Managing Director, (212) 906-8688. jgarth@pembrookgroup.com

Pensam Capital: 777 Brickell Ave., Suite 1200, Miami, FL 33131. Brian Connell, President, (786) 300-4955. bconnell@pensam.com

Southwest Bank: 1603 LBJ Freeway, Suite 100, Dallas, TX 75234. Marshall Boyd, EVP-Mortgage Services, (972) 243-7900.

Umpqua Bank: 1400A Grant Ave., Novato, CA 94945. Michael Rice, SVP-SBA Lending, (415) 493-3104. mrice@circlebank.com

Walker & Dunlop: 810 Crescent Centre Drive, Suite 260, Franklin, TN 37067. Keith Melton, VP-FHA Finance, (615) 435-1950. kmelton@walkerdunlop.com

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LENDERS REACH FOR MULTITENANT OFFICE

Count on CMBS lenders, banks and life companies to dive into multitenant office, as unemployment drops and limited new construction comes to the market. Leverage from banks and LCs will reach 70% in 2013, after topping out at 60% to 65% the past few years. Conduits may push leverage up to 80% by year's end. Loans with leverage above 60% will see interest at mid-4%, while deals with leverage below 50% will see 3% interest rates. Lenders will be open to more markets than last year. Borrower cash equity will need to be in the 30% to 40% range for acquisitions.

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LENDERS REACH FOR MULTITENANT OFFICE...

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Multitenant borrowers can expect plenty of non-recourse money this year. Borrowers will see prudent underwriting for TIs and leasing reserves this year, as office landlords will no longer waive these fees.

Conduits will reach further than last year because of volume growth and life companies filling quotas of office deals. Look for **Cantor Fitzgerald, JP Morgan Chase, Barclays, Morgan Stanley, Wells Fargo, BofA** and **Guggenheim** to originate leverage up to 75% in the next few months. **Goldman Sachs** and **Archetype Mortgage Capital** will work with mid-sized borrowers for deal sizes from \$15M to \$20M.

DEALMAKER DATABANK

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Dennis Williams, SVP/Managing Director

CBRE arranges \$59.5M with Guggenheim to refinance Park Central, an office complex in Dallas. LTV was 70%. The lender liked the strength of the ownership.

CBRE Debt & Equity Finance focuses on capitalizing projects from an equity and structured finance standpoint. McGovern closed several large equity and mezz deals last year, including an office transaction with both mezz and senior financing.

Fox specializes in filling borrower need with the appropriate capital in the \$2M to \$20M range with banks, life companies, Wall Street CMBS lenders and the agencies.

Cohen Financial is a national real estate capital services company and an originator of commercial real estate debt and equity transactions.

Commercial Capital arranges \$6.2M in SBA financing for the purchase of a carwash in Florida. Peart also closes a \$3.1M cash-out SBA loan on a MOB. He works on a \$180K private money loan for a vacant auto asset that was bought at auction.

HFF closes a \$34M perm loan with Webster Bank for The Station at Bucks County, a multifamily community in Warminster, Pa. This was a 10-year, fixed-rate loan. Webster also provided the original construction loan on this property.

HFF completes \$54M in financing for RiverPlace Square Apartments in Portland, Ore. The financing includes a \$44.5M loan with a national bank and a \$9.5M mezz piece with a mortgage REIT. Loan proceeds will be used to acquire the property.

Johnson Capital teams up with Northwestern Mutual to provide a \$27M non-recourse refi for five office/R&D buildings in Cypress, Calif. LTV was 65%. Interest came in the low 4% range. Debt yield was 9.2%. This is a 20-year fully amortizing loan.

Johnson Capital completes \$22M in HUD financing for the development of a luxury apartment community in Las Cruces, N.M. The non-recourse loan will have a sub-3% interest rate and be interest only until construction completion then roll into amortization.

Newmark arranges \$75M in financing with State Farm for the Stack House Apartments and Supply Laundry Building in Seattle. LTV was 70% and LTC was 65%. The loan has a three-year construction period followed by a seven-year perm financing.

NorthMarq works on a \$12M acquisition loan with Guardian Life for 2 Bryan Street, an office building in San Francisco. This was a five-year loan with 30-year

SMALLER APARTMENTS ATTRACT CONSTRUCTION LENDERS

Many lenders will be attracted to micro units thanks to the high loan per square foot associated. Lenders will take unit size into account by looking closely at surrounding projects and properties. Non-agency lenders will loosen on leverage this year moving up to 75% to 80% of cost. Leverage will be lower on the first projects to bring smaller units to the market. Recourse will start to be negotiable. Look for leverage to be 55% to 60% on non-recourse deals and 70% with burn-off provisions. Borrowers will see 83.3% leverage from FHA lenders.

HomeStreet Bank favors projects with units starting at 400 s.f., unless mixed with larger dwellings. The bank will provide loans in the \$5M to \$15M range. **Arbor Commercial Mortgage** looks at units currently in the market and sizes its units similarly. The lender will originate construction loans between \$5M and \$15M, with small to mid-sized developers. **Beech Street Capital** desires deals above \$10M and strong markets with reliable rents. **Walker & Dunlop's** average construction loan will be \$20M or around \$90K/unit. The lender will target 18-month absorption rates and present 40-year, non-recourse HUD construction loans.

The big banks, including **Wells Fargo, BofA, Chase, US Bank, Union Bank** and **PNC** will dive into the large development deals. **M&T Bank** will work on construction loans in the \$40M to \$100M range and partner with large and mid-sized developers. Count on regional banks such as **Sterling National Bank, American Momentum Bank, Inland Bank, Frost National Bank** and **Southwest Bank** to be bullish in the under \$10M loan space. Some life companies such as **Prudential** and **State Farm** will allocate financing for large downtown apartment projects.

Fannie Mae and **Freddie Mac** require each unit to have a full kitchen, closets and bathroom. Developers building units below 350 s.f. will have a tough time meeting those requirements, which eliminates funding from agency lenders. Look for local banks to pick up these deals.

Gen-Y renters will sacrifice space and pay the same amount to live in urban downtown buildings with units roughly 100 s.f. smaller than similar dwellings in less prime locations. Developers that want to be first with micro unit development will need to show that the rental pool will accept smaller units. Lenders will make sure buildings have the right amenities and location for lease up despite the higher rent for smaller