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MEZZ INFILTRATES LCs

Watch for life companies to take risk higher up the capital stack by partnering with a mezz lender or originating mezz internally. As the year progresses, more LCs will allow mezz behind their senior loans. Partnering with mezz lenders allows life companies to provide one-stop shops for borrowers, control intercreditor agreements and handpick which specific mezz lenders will be placed behind their loans. Many mezz debt providers will approach life company alliances in an effort to get their platforms off the ground this year. Leverage will reach 85% with the addition of mezz, but could jump by year's end. Borrowers can expect 9% to 10% priced mezz, along with mid-3% senior loan pricing, leading to attractive blended rates.

ING Investment Management kicks off a new partnership with **Clarion Partners** to provide a one-stop shop for borrowers of all property types. Blended rates will be 4.75% to 5.5%-plus and combined leverage will reach 80%. The two groups will agree to the senior/subordinate debt structure in advance, giving borrowers confidence the loan process will go smoothly. ING underwrites the entire capital stack to make sure the mezz does not overstress the cash flow. This program enables ING to be more competitive with proceeds, while saving the borrower time and money. The LC will also lend on a wider variety of properties because of the ability to provide higher leverage.

Some life companies will be active underwriting mezz internally. **Principal Real Estate Investors** originates $7M to $100M mezz pieces for multifamily, office, retail, industrial and hospitality. Rates will be 8% to 10% and leverage will reach 85%. Principal places mezz behind other LC, CMBS and bank senior loans. Don't be surprised to see **Prudential**, **Cornerstone Realty Advisers**, **MetLife**, **New York Life**, **AIG** or **TIAA-CREF** allocate mezz pieces before the year is through.

Pacific Life allows mezz behind its senior loans at low combination leverage for high-quality assets that can support a mezz loan of at least $25M. **Allianz** partners with experienced mezz providers with leverage up to 80%. Count on these loans to see higher rates than deals without a mezz piece. **Northwestern Mutual**, **John Hancock**, **Allstate** and **AEGON** could team up with mezz lenders, depending on the metrics of the loan and borrower profile.

BANKS EASE ON CONSTRUCTION UNDERWRITING

Keep an eye out for national banks, including **BofA**, **Chase**, **Wells Fargo**, **PNC Real Estate**, **Comerica**, **US Bank**, **Bank of the West**, **BBVA Compass** and **BB&T** to allocate low pricing and high leverage for construction loans. Look for 85% LTCs on deals with low priced land. The majority of deals will top out at 75% with some level of recourse. Non-recourse loans see leverage between 60% and 65%. Deals under $10M will obtain 5% to 6% rates, while larger loans will be in the 4% to 4.5% range. Floating rates will be Libor plus 200 to 350 basis points. Watch for banks to extend loan terms up to three or four years, versus the two to three years seen in the past. Also, anticipate looser recourse provisions.

CIBC's construction loans start at $30M with leverage up to 75% for multifamily developments. Office, industrial and retail projects need 50% preleasing and will see leverage up to 65%. Borrowers need to show reasonable amounts of net worth and liquidity to support completion guarantees and other recourse provisions. Regional banks, including **Capital One**, **M&T Bank**, **OneWest Bank**, **Bank of Oklahoma**, **Sovereign Bank**, **Amegy Bank**, **American Momentum Bank**, **Frost Bank** and **Arvest Bank** will also be bullish.

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DEAL OF THE WEEK

Property Type: EpiCentre, a mixed-use property in Charlotte, N.C.
Loan: $50M Bridge
Lender: **CapitalSource**
Leverage: 75%
Rate: Libor plus 450

The asset had little cash flow because the original developer gave free rent to tenants in lieu of TIs; the economic occupancy was in the mid-30% range and physical occupancy was around mid-60%. The property also had more than $3M of contractor liens, a poor relationship with the city, along with noise and crime problems. CapitalSource was confident in the deal since the new sponsor negotiated fresh leases with tenants, paid TIs to improve cash flow, and convinced the original developer to settle with contractors. The sponsor also invested a significant amount on capital improvements, including a security system and parking lot lights.

DSC was 1.75x, while debt yield came in at 12%. Kempson was able to obtain interest-only provisions during the full three-year term of the loan. CapitalSource liked the borrower's significant equity in the deal. Loan proceeds will reimburse the improvement money the borrower spent.

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BANKS EASE ON CONSTRUCTION UNDERWRITING...

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Watch for more banks to battle over multifamily construction deals. Retail, office and industrial loans with recourse will also be targeted. Count on 50% to 80% preleasing requirements. Banks will be busier with hotel and self-storage construction in the next few quarters as well. Expect an increase of single-tenant retail construction loans with retailers such as Target, Taco Bell, Burger King and Walgreens. Be on the lookout for a few industrial projects without preleasing to get done. More banks will enter secondary markets with favorable job growth such as Texas and the Carolinas this year. The Washington, D.C., metro will also see plenty of available capital.

Banks want borrowers with solid finances and favorable credit histories, as well as past experience with construction. Net worth needs to be equal to project costs and liquidity should be 10% to 15%. Banks will be lenient with net worth and liquidity for built-to-suit projects with favorable tenants. Count on banks to look closely at the global cash flow of the borrower, especially on non-recourse deals, and consider debt coverage of the borrower's entire existing portfolio. Banks will base debt yield on construction costs and current rents on competing properties in the markets.

LENDERS DRIVE UP MIXED-USE LEVERAGE

Leverage will reach 75% for mixed-use loans this year, while bridge loans could hit 85% as long as value creation exists. Watch for pricing to drop as competition heats up, especially with the re-emergence of the CMBS market. Rates will be in the high 3% range for five-year loans and 4% for 10-year money. DSC will be 1.25x to 1.35x. Debt yield will be between 9% and 9.5%.

Keep an eye out for conduits, including **Wells Fargo, Citi, BofA, Deutsche Bank, UBS, CIBC, Natixis, Ladder Capital, Guggenheim** and **Cantor Fitzgerald** to be bullish with 75% leverage. Expect 10-year CMBS loans to obtain 3% rates and 30-year amortization. Five-year deals will see mid-4% loans and 25-year amortization. Conduits will swoop up strong sponsored deals in secondary and tertiary markets.

Banks such as **Comerica, M&T Bank, PNC Real Estate, TCF Bank, SunTrust Bank** and **Luther Burbank Savings** will price loans starting in the high 3% range. **New York Life, MetLife** and **Principal** will allocation 10-year money with low 4% rates. Anticipate 65%-plus leverage from the life companies. **CapitalSource** and **W Financial** will provide bridge money.

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LENDERS DRIVE UP MIXED-USE LEVERAGE...

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Mixed-use properties with multifamily, office and/or retail components will see the most available capital. Expect a push toward multifamily projects with ground-floor retail in major MSAs such as Washington, D.C., and Los Angeles. Lenders prefer multitenant office and retail tenants with favorable credit. Grocery and drug anchors will be preferred. Centers with both regional and national tenants will be sought after. Properties with retail tenants such as J.C. Penney and Best Buy or assets with single-tenant office components will have a hard time attracting lenders. Centers with co-tendency clauses and significant vacancy will also be tough.

Class A and B mixed-use assets with strong local operators and staggered lease maturities will see the most capital. Lenders want borrowers with the proper skill sets for each component and proven track records of leasing and managing. Borrowers with a couple properties under their belt and experience developing and acquiring will be favored.

AFFORDABLE HOUSING FINANCING BREAKS

Look for agency lenders to exceed previous allocations for affordable housing deals, while banks and life companies increase lending in the space. **HUD** becomes a dominant player, originating attractive terms and sub-3% rates fixed for 35 years. **Fannie Mae** and **Freddie Mac** provide rates around 4.20% and up to 80% leverage. Construction and rehab loan rates will be 0.5% higher than refis. New tax credit loans see leverage as high as 90%, whereas preservation deals top out at 80%. DSC starts at 1.15x for new tax credit deals and 1.20x for preservation loans. The most favorable financing will be for preservation deals that maintain the affordability of the property.

Large national banks such as **Wells Fargo, BofA, Citi** and **PNC Real Estate** will allocate leverage up to 75%. A few life companies, including **Prudential**, will also ink affordable deals this year. Banks and LCs will hand out 3.5% to 4.5% rates.

Agency lenders will be the most active and provide non-recourse terms. **Red Capital Group** originates $1.5M to $20M-plus refi loans, 9% tax credit deals starting at $2M and 4% tax credit loans from $4M. Refi money will go to B- and above properties with at least 40 units. Watch for leverage between 80% and 87%. **Walker & Dunlop**'s typical loan size will be $5M to $15M. The lender targets deals in primary and secondary markets, as well as some tertiary cities.

Beech Street Capital works on $7M to $15M Class A, B and C affordable deals. Expect 80% leverage with Fannie and Freddie or 85% with FHA. Rates will be around 4.25%. Acquisitions could receive one to two years of interest-only terms. **Centerline Capital Group** allocates $7M to $10M loans for properties with a minimum of 50 units. The lender desires Section 8 properties with long-term contracts or tax credit assets. Class C properties with capital reserves for improvements will also be in the cards. Look for **Berkeley Point Capital, Arbor Commercial Mortgage, Greystone** and **Oak Grove Capital** to be active.

Expect to see a focus on preservation of existing affordable housing as opposed to new construction. A plethora of expiring tax credit deals will come to the market. Government tax credit programs will be the primary vehicle for development and rehabs. Projects reserved for tenants that make 30% of the median income and developments that provide amenities such as job placement or training will see the most tax credits.

Borrowers that own at least three to five properties and boast five to seven years of experience will be highly sought after. Developers need experience dealing with the government agencies and understanding property management, income restrictions and procedures to qualify tenants. Net worth should be equal to the loan with 10% in liquidity. Sponsors with institutional tax credit equity partners will see lower net worth and liquidity requirements. First-time borrowers need experienced JV partners or strong management firms. Older properties with contracts expiring and assets that have not been well maintained or have violated government regulations will be tough.

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DEALMAKER DATABANK

Aries Capital
520 W. Erie St., Suite 300 S., Chicago, IL 60654
Neil Freeman, Chairman/CEO
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nfreeman@ariescapital.com

Aries Capital secures two CMBS loans totaling $82M for a hotel portfolio in Pensacola, Fla. This deal includes a 10-year, non-recourse first mortgage loan with 30-year amortization and a mezz piece. The mezz has a flexible prepayment option.

CBRE Debt and Equity Finance
3280 Peachtree Road, Suite 1400, Atlanta, GA 30305
Jonathan Rice, SVP
(404) 923-1432
jonathan.rice@cbre.com

CBRE arranges $61.3M with UBS for SkyHouse, a high-rise multifamily property with street level retail and adjacent parking deck located in Atlanta.

Cohen Financial Group
9595 Wilshire Blvd., Suite 801, Beverly Hills, CA 90212
Mark Cohen, President
(310) 777-5401
mark@cohenfinancialgroup.com

Cohen brings over 25 years of experience in residential mortgage origination and banking. He was a top individual mortgage broker in the nation last year, originating nearly $600M in loans. Cohen has held this honor a dozen times.

Dockerty Romer & Co.
70 S.E. Fourth Ave., Delray Beach, FL 33483
Craig Romer, Principal
(561) 330-8000
cromer@dockertyromer.com

Romer closes $52M with New York Life for Las Ventanas, a mixed-use property in Boynton Beach, Fla. This is a five-year, floating-rate deal. The lender liked the Class A quality of the sponsor and location of the property.

George Smith Partners
10250 Constellation Blvd., Suite 2700, Los Angeles, CA 90067
Raffi Sarkissian, SVP
(310) 867-2924
rsarkissian@gspartners.com

George Smith Partners works on a refi for a mixed-use property in New York with a bank. The property is located in the Hamptons and has ground-floor retail and office space and apartments on the upper floors.

HFF
101 E. Kennedy Blvd., Suite 3905, Tampa, FL 33602
Daniel Peek, Senior Managing Director
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HFF completes $85M in financing for Cheeca Lodge & Spa, a luxury destination resort in the Florida Keys. Peek arranged the 10-year, fixed-rate loan with a CMBS lender.

Johnson Capital
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Jeff Kearns, VP
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Johnson Capital secures $2.1M in preferred equity for Santa Ana Towers, a LIHTC property in Santa Ana, Calif. The equity was secured from a private REIT and proceeds will go to execute a buyout of the existing tax credit limited partner.

Meridian Capital Group
2173 Salk Ave., Suite 250, Carlsbad, CA 92008
Seth Grossman, Managing Director
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skgrossman@meridiancapital.com

Meridian arranges $4M for a self-storage property in Merced, Calif., with a CMBS lender. LTV was 75%. Interest came in the low 4% range. Grossman also arranges $5.5M for a multifamily property in Phoenix with a bank. LTV was 65%. Interest was 3.75%.

Metropolitan Capital Advisors
18111 Preston Road, Suite 650, Dallas, TX 75252
Todd McNeill, Senior Director
(972) 267-0600
tmcneill@metcapital.com

Metropolitan Capital Advisors closes a $14M construction loan with a bank for a built-to-suit, single-tenant industrial property in Oklahoma City. LTC was 90%. The property will be leased to ShurTech Brands.

NorthMarq Capital
8300 Douglas Ave., Suite 650, Dallas, TX 75225
Paul Brighton, SVP/Senior Director
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pbrighton@northmarq.com

NorthMarq finalizes a $9.96M bridge loan for the acquisition of West Side Village, a mixed-use property in Austin, Texas, with a REIT lender. This was a three-year, non-recourse loan. The lender liked the location and attractive exit strategy.

Thomas D. Wood and Company
3665 Bee Ridge Road, Suite 210, Sarasota, FL 34233
Brad Cox, SVP
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bcox@tdwood.com

Thomas D. Wood completes a $2.7M loan with Stancorp. for Wild Pines of Naples, a Florida multifamily community. LTV was 69%. Interest came in at 5%. This is a 20-year loan, with 25-year amortization.

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COMPETITION HEATS FOR VALUE-ADD HOTELS

Expect more lenders to enter the value-add/distressed hotel financing space due to heavy competition for stabilized properties. Don't be surprised by aggressive pricing in the high 4% to low 5% range for low-leverage deals. Lenders at the *Meet the Money Conference* note pricing will start at 7% for capital intensive deals with little to no cash flow. Leverage will be between 55% and 75%. Bridge money and loans with subordinate pieces will reach 90%. Debt yield will be 12%-plus. Deep renovation deals will be underwritten conservatively and require some provisions. Anticipate an increase of repositioning capital in the full-service space.

Keep an eye out for **Starwood, The BlackStone Group, NorthStar Realty Finance, Canyon Capital Realty Advisors, Prime Finance** and **Marathon Asset Management** to be active. **Karlin Real Estate** and **RockBridge** provide one-stop shops for transitional assets. Karlin plays in the $5M to $30M senior and mezz loan space. Leverage runs up to 85% and pricing ranges 9% to 11%. Assets without cash flow and properties in need of major rehabs will see a 75% leverage max. Karlin also looks at overleveraged deals in small MSAs. RockBridge's primary focus will be debt and equity for repositioning deals this year. The lender provides attractive pricing on properties with strong balance sheets and non-recourse dollars for favorable operating partners.

Count on **Hudson Realty Capital** to target middle-market $10M to $30M bridge loans with up to 90% LTC. Most loans will see 65% to 80% leverage and 9% to 10% pricing. The lender works with independent hotels in major markets. Full-service assets will be desired, although select service will also be considered. **BMC Capital** allocates $2M to $15M loans. Boutique and independent hotels will be in the cards, although hotels with franchise affiliates such as Marriott, Holiday Inn, La Quinta and Best Western will be desired. Pricing runs 4.25% to 6%, with 65% to 75% leverage. Borrowers need at least one past successful project and a minimum of five years of experience in management.

Tryperion Partners provides $5M to $15M equity pieces for value-add/distressed hotels with leverage up to 75%. The group works with borrowers that bring meaningful co-investments and want to re-brand or renovate. Select-service hotels near transportation or airports in secondary markets such as San Antonio, Salt Lake City or Albuquerque, N.M., will be highly sought after. **Washington Real Estate Holdings** provides debt and equity for select- and full-service assets with predictable cash flows.

Expect more capital to emerge for secondary and tertiary deals in the Midwest and Rustbelt regions. Major MSAs such as San Francisco, New York, Miami, Chicago and Los Angeles will be targeted. Transitional properties with Hilton, Hyatt, Marriott and Starwood flags will see the most lender attention. Borrowers need strong brand relationships along with operational experience or seasoned management teams. Lenders seek out borrowers with 10 to 20 similar projects. Sponsors need sufficient outside income or adequate net worth to cover the debt. Assets in problematic markets will have a harder time.

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