The CRITTENDEN REPORT® Real Estate Financing
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SINGLE-FAMILY FINANCING EXPLODES

New hedge funds, private equity funds, banks and REITs will enter the bulk existing single-family loan space. Lenders will compete for $5M to $50M small and middle-market transactions. Leverage will be between 50% and 75%. Borrowers can expect 4.5% to 13% rates. Keep an eye out for some lenders to begin securitizing loans next year. Watch for **The BlackStone Group** and **Cerberus Capital Management** to become aggressive in the coming months with leverage up to 75% and 5.5% to 6.5% pricing.

Private money lenders **Partners Capital Solutions, Thorofare Capital, Genesis Mortgage, The Nikols Company, West Bay Capital** and **CS Financial** will be the most active in the space filling the gap left behind by banks. Look for 60% to 70% leverage and 8% to 13% rates. Private money lenders often provide quicker closing times than banks.

Lone Oak allocates loans up to $3M and 65% leverage based on the purchase price. Rates will be 7.9% for loans greater than $1M and 8.9% for deals under $1M. Lone Oak works with small mom-and-pop to mid-sized borrowers. **Seattle Funding Group of California** originates $1M to $5M loans with 8.99% rates. Leverage will be 50% to 60% and the lender partners with small/regional and mid-sized borrowers.

A select few banks such as **California Republic Bank** and **Farmers & Merchants Bank** will also be active on smaller deals. **Deutsche Bank** will be bullish on larger loans. Bank leverage will reach 65% of appraised value. Anticipate five-year terms with some level of recourse. Rates will be 4.5% to 5.5%.

The bulk single-family market should pick up drastically in the coming year. Companies buying existing REO or foreclosed homes intended for rental conversion will likely increase in the coming months, as investors take advantage of price appreciation, increased yield and the dual exit strategy of this property type. Expect a need for rentals over the next five years. Anticipate the most activity in California, Texas, Florida, Las Vegas, Phoenix and Atlanta.

CMBS HANDS OUT INTEREST-ONLY TERMS

Look for CMBS lenders to provide longer interest-only periods — up to five years — in order to compete. Keep an eye out for conduits to be more aggressive with interest-only provisions for multifamily in a move to snatch up deals from the agencies. Conduits will originate at least two to three years of interest-only periods, on average. Leverage will be 65% to 75% for most properties, while multifamily could obtain 80% leverage. Expect some debt funds to offer A/B structures with up to 85% leverage, while securitizing the A piece and selling off the B piece.

Debt yield will be 8% to 8.5% for multifamily and 9% to 10% for office, retail and industrial. Anticipate debt yields to drop below 8% in major markets. Hotels will see 10.5% debt yields and 65% to 70% leverage. Look for 4.75% to 5.25% rates through Q4. Borrowers can expect 5.5% to 6% pricing in 2014. Most conduits will provide 10-year loans but some will allocate five- and seven-year terms with higher spreads.

Money center banks, including **Goldman Sachs, Deutsche Bank, Wells Fargo, BofA, JP Morgan Chase, Citi, Morgan Stanley, Cantor Fitzgerald** and **RBS** will provide the cheapest cost of capital.

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DEAL OF THE WEEK

Property Type: W Hotel in Minneapolis
Loan: $57.5M Refi and Mezz Loan
Equity Investor: **Jefferies LoanCore**
Leverage: 78%
Debt Yield: 8.5%

Jefferies LoanCore originates the senior loan and subordinate mezz piece with a blended coupon rate. The unique ownership structure includes historical tax credits, which made the deal difficult to close. The luxury hotel was converted from a historic CBD-located office building. Jefferies was attracted to the local sponsorship and Starwood flag. Proceeds will pay off an existing **Wells Fargo** construction/mini perm loan used for the office-to-hotel conversion in 2008. This is a 10-year, non-recourse loan with a 30-year amortization schedule. Jefferies will securitize the senior piece and sell off the mezz.

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CMBS HANDS OUT INTEREST-ONLY TERMS...

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Non-bank players such as **Prudential, Ladder Capital, Jefferies LoanCore, Basis Investment Group** and **Five Mile Capital** will also be aggressive. New entrants **Starwood Capital, Square Mile Capital** and **Rialto Capital Management** should pick up some market share before the year is through. Expect $50B to $60B in total CMBS originations for 2013, down a bit from earlier projections.

Conduits will make a push toward multifamily during the last quarter, especially as the agencies contract. CMBS lenders will also be the most aggressive with hotels, since life companies and banks have been slow to return to the space. Retail financing will pick up with improving rents and favorable sales activity in the sector. Life companies will have rate advantages over conduits but with lower leverage. LCs will also slowdown over the next couple months as they reach targeted allocations for the year. Look for conduits to be active in primary locales and dive into secondary markets throughout Texas, Florida and the Midwest. Tertiary city loans will be financed with conservative structures and higher pricing.

LENDERS FLOCK TO SMALLER MEZZ

More lenders will compete for $1M to $10M mezz pieces. Increased demand will spur from refi shortfalls expected over the next two to three years, especially maturing CMBS loans. Small mezz pieces will also play a significant role in capitalizing partner buy-outs and as an alternative to JV equity. Count on 10% to 14% pricing. Borrowers will see leverage with mezz reach more than 90%. New players in the mezz lending space will decrease pricing expectations, although increases in senior mortgage rates could make it harder to find room in the capital stack for mezz. Keep an eye out for mezz lenders to dip their toes into construction over the next year.

Shem Creek Capital will provide mezz as low as $1M for all property types. Count on 12% to 14% returns and leverage up to 85%. Most loans will be non-recourse. **W Financial** provides $1M to $10M mezz slices with 12% pricing. The lender targets cash-flowing office, retail and multifamily properties. Leverage will reach 75%. **Newport Capital Advisors** will be active in the $1M to $5M multifamily mezz space. Look for 12% pricing. Leverage for deals behind Fannie Mae loans will reach 85% and FHA will hit 90%. Newport also looks at older properties in secondary markets with strong sponsors.

Expect **Regional Capital Group** to originate $2M to $3M minimum mezz pieces for income-producing properties. Hotel mezz will be done through the EB-5 program. LTC tops out at 85%; pricing will be in the low teens.

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LENDERS FLOCK TO SMALL MEZZ...

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Morrison Street Capital targets a $2M mezz minimum for multifamily, office, retail and industrial. Leverage will be 85% with low teens pricing. **UC Funding** originates mezz loans starting at $3M for multifamily, hotels, office, retail and major rehab deals. Leverage will be 80% to 93% with low teens pricing. Most loans will be non-recourse.

Pearlmark Real Estate Partners targets $5M-plus loans for office, retail and apartments. Large hotel properties in primary markets with strong flags will also be on the docket. Leverage will top out at 80% to 85%. Watch for **Buchanan Street Partners** and **Redwood Trust** to also allocate mezz loans under $10M, while **Terra Capital** starts at $3M.

Be on the lookout for a greater focus on cash flow coverage to the last mezz dollar and borrower credit to support carve-out guarantees. Lenders will look closely at the potential future capital needs of the property and necessary levels for a new senior lender to refinance out the mezz piece. Borrowers with entities in bankruptcy and poor asset quality in thinly traded markets will have a harder time finding mezz.

CASH-OUT PROCEEDS RISE

Look for an increase of cash-out loans and proceeds as CMBS, banks and agency lenders widen underwriting throughout the rest of the year. Life companies will also start providing cash-out provisions on lower leverage deals over the next year. Leverage will vary significantly between 50% and 75% on cash-out loans. Rates will be around 5%. DSC will start at 1.25x. Conduits will look closely at property fundamentals, whereas banks will focus on the borrower. Count on more borrowers to seek cash-out proceeds for acquisitions as caps rise and returns become more favorable.

Conduits, including **Wells Fargo, JP Morgan Chase, Morgan Stanley, Citi, RBS, Cantor Fitzgerald, Deutsche Bank, Starwood Capital** and **C-III Commercial Mortgage** will be the most active with cash-out loans. **Prudential** will provide cash-out for self-storage loans through its conduit arm. Multifamily will see 8% debt yields, while hotels will top out at 11%. Multitenant retail, office and industrial will obtain 9% debt yields and self storage will see 9.5%. Conduits allocate 75% leverage for cash-outs on most property types. Hotels will see 70% leverage. The longer a borrower has owned a property, the more cash-out available. CMBS lenders target borrowers that have owned the property for at least seven years.

Keep an eye out for banks to begin offering non-recourse, cash-out loans in the coming months. **Chase, Wells Fargo, BofA, US Bank, KeyBank, Citigroup, Sterling Bank** and **CapitalSource** will provide cash-out terms to build long-term relationships with sponsors. Banks will not push full leverage on cash-out loans; many will stick to 50% to 65%. DSC will be 1.25x to 1.35x. Banks will be more creative as they become comfortable with property fundamentals.

Fannie Mae and **Freddie Mac**, along with agency lenders such as **Centerline Capital, Berkeley Point Capital** and **Beech Street Capital**, will provide cash-out proceeds on multifamily loans. Rates will be around 4%.

Multifamily and well-located retail with strong tenants will see the most available cash-out proceeds. Hotels in markets with high barriers to entry and favorable cash flow will also see plenty of cash-out dollars due to the shrinking caps. The strength of the submarket will determine the amount of cash a borrower can receive. Assets in favorable infill locations with steady historical information will see the most cash-out dollars.

Lenders will favor borrowers that plan to use the cash to re-invest in the asset, acquire additional properties or both. Few lenders will be comfortable with cash being used for personal use. Anticipate lenders to want a smart business plan highlighting use of the money and true equity from the sponsor. Lenders will look closely at the risk profile and cost basis. Don't expect cash-outs to exceed the cost basis. Borrowers need 10% in liquidity or six months of debt service payments.

BANKS & LENDERS
(Supplemental to the Directory)

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Fidelity Bank: 5447 Shaker Heights Lane, Raleigh, NC 27613. Anil James, VP, (919) 264-8988. anil.james@lionbank.com

Jefferies LoanCore: 520 Madison Ave., New York, NY 10022. Mark Green, Managing Director, (212) 336-7074.

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BANKS LOOSEN FOR HOTELS

Hotel leverage will creep up to 75% by year's end, along with longer term — up to 15 year — loans with fixed rates. Bankers will warm to deals with more hair and enter smaller markets to gain key relationships. Many banks are light on hotel properties and will seek to add more to their portfolios. Average leverage will be between 55% and 70%, with 4.25% to 5.5% rates. Expect rates to decline as more competition enters the game. DSC will drop to 1.25x, while debt yield will be 10% to 12%. Count on 20-year amortization schedules.

Hotel construction financing will pick up over the next 18 to 24 months, especially in hot markets such as Los Angeles and New York City. Major banks such as **Wells Fargo, Chase, BofA, US Bank** and **Citi** will be active with construction lending. **M&T Bank** and **Doral Bank** will also originate construction loans.

Local and regional banks will swoop up smaller deals left behind from the CMBS arena. Many local banks will look toward SBA financing with leverage up to 85% on one-off small deals. Keep an eye out for regional banks to target deals in their backyard. Count on **People's United Bank, Cambridge Savings Bank** and **Middlesex Savings Bank** to be active, especially for acquisitions and repositioning of existing underperforming assets.

CIBC desires full-service and new select-service hotels in major markets. **Fidelity Bank** allocates $2M to $5M loans with up to 80% leverage. Rates will be between 5% and 6%, with 1.25x DSC. Select-service properties with fewer than 100 rooms and mid-tier flags will be desired. **Bank of Hawaii** deploys hotel loans up to $20M, although, the lender may higher as part of a syndication. Construction loans could be in the cards. Leverage will be around 50% and DSC will start at 1.30x. Waterfront properties with at least 100 rooms and a major flag will be desired. Boutique hotels will need substantial personal guarantees.

Applied Bank will be active with hotel construction, mini perm and mezz loans with leverage up to 70%. Look for $5M to $15M senior loans and $1M to $5M mezz pieces. The bank targets branded and boutique assets, with a focus on select-service and resort properties. DSC will start at 1.40x and debt yield will be 10% to 12%. **Preferred Bank** provides $3M to $7M loans with 65% leverage based on appraised value. Rates will be 6% to 7% with 12- to 18-month, interest-only periods. Preferred Bank provides short-term bridge loans for upgrades.

Look for banks to be active in Southern California, Hawaii, Boston, Chicago, Las Vegas, New York and Florida. Banks target major brands such as Hilton, Hyatt, Starwood, Marriott and IHG but will look into boutique properties in favorable locations. Select-service flags such as Holiday Inn Express, Ramada and Super 8 will also see bank dollars.

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