The CRITTENDEN REPORT® Real Estate Financing
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HOTEL LENDERS CALLED TO ACTION

Expect more demand for hotel loans than available capital next year. CMBS will dominate the hotel lending sector, but can the conduits keep up with the massive amount of loans coming due? B piece buyers will dictate the amount of hotels in each tranche, which is expected to top out at 20% during the next 12 months. Since CMBS lenders cannot add more hotels to the tranches, anticipate seeing a variety of creative strategies to keep up with demand.

Some conduits will increase overall allocations and fund more loans for other properties to boost volume and create more securitizations. **JP Morgan Chase**, **Wells Fargo**, **Citi**, **Starwood Mortgage Capital**, **Barclays**, **Morgan Stanley**, **Goldman Sachs**, **UBS** and **RBS** will all increase allocations in 2014 compared to 2013. Other groups will lower leverage in order to fund a greater number of loans, which will vastly increase the need for mezz dollars next year. Deals with multiple layers of capital stack will become extremely common.

Since demand exceeds supply, underwriting on senior mortgages will stay the same or get stricter. Expect to see 10% debt yield for hotels in solid markets. Select assets in the top two or three markets may see debt yield as low as 9%. Debt yield for assets in tertiary locales will be 12%-plus. Deals with full 70% leverage will obtain 25-year amortization, while lower leveraged deals, at 60% to 65%, will see 30-year amortization. Small $3M to $5M CMBS loans will see 25-year amortization and 12% to 13% debt yield.

Mezz lenders will be aggressive with no shortage of funds for hotel properties. Look for an abundance of mezz players to step up and fund the gap created by lower leverage CMBS loans. **Terra Capital Partners** looks to deploy more than $100M in hotel mezz during 2014. Deals run $3M to $30M. Leverage tops out at 80% LTC. Rates will be 12% to 14%. Terra lends on a full range of select- and full-service hotels in all markets, including assets with major flags and independents/boutiques. **Pearlmark Real Estate** will originate up to $100M in hotel mezz. Loans will run $10M to $40M. The lender favors full-service hotels with strong flags and high-quality operators.

Forman Capital will allocate mezz starting at $3M. The lender provides leverage up to 80% of value. Rates run 12% to 15%. Select-service properties will be favored; Forman Capital will avoid non-flagged assets without a compelling story. **Torchlight Investors** will lend $50M in mezz next year. Deals run $10M to $50M with up to 85% LTC. Rates will be 14% to 16%. Full- and select-service assets will be targeted. The group will steer clear of properties in North Dakota.

MULTIFAMILY EQUITY EXPANDS

The plethora of available pref and JV equity for multifamily in 2014 will lead to more capital for value-add properties and ground-up deals. Expect investors to focus on undersupplied markets with low land prices for construction. Look for a push in secondary and tertiary cities, as increased competition and higher land prices squeeze equity players out of primary locales. Investors that were active with Class B properties will now start to consider Class C. Anticipate more available equity for student housing, as investors re-enter the sector. Increased land pricing will also push equity investors toward condo conversions next year.

Most players will provide 90% of the required equity, bringing leverage to between 85% and 90% of the total capital stack. Preferred returns will start at 9% to 10%. Keep an eye out for **Behringer Harvard**, **Lubert Adler**, **AEW Capital Management**, **The Carlyle Group**, **Heitman**, **Harrison Street Real Estate Capital**, **Blue Vista Capital Management LLC** and **Newport Capital Advisors** to be active with multifamily equity. Life companies such as **Cornerstone Real Estate Advisers**, **Northwestern Mutual**, **Prudential**, **MetLife** and **Principal** will also be busy.

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TOP LIFE COMPANY LENDERS (PROJECTED ORIGINATIONS FOR 2014)		
LIFE COMPANY	PROJECTED 2014 TOTAL	DETAILS
Prudential	TBD ($13B+)	$13B in 2013; $10M+ for office, industrial, retail, multifamily, hotels, self storage
MetLife	$9B	$20M to $500M loans for office, retail, multifamily, industrial, hotels
Northwestern Mutual	$5B	$5.1B in 2013; $20M to $300M for industrial, MHC, multifamily, office, retail, MOB, parking
Cornerstone Real Estate Advisers	$3B-$4B	$4B+ in 2013; $20M+ loans for hotel, industrial, urban retail, multifamily, office
Principal	$3B+	$3B in 2013; $5M to $100M loans for office, industrial, retail, multifamily, hotels
ING Investment Management	$2.2B	$2.2B in 2013; $5M to $175M for industrial
Pacific Life	$2B	$1.8B in 2013; $50M to $400M loans for multifamily, hotels, industrial, office, retail
Nationwide	$2B	$1.8B+ in 2013; $5M to $75M loans for retail, multifamily, industrial, office
John Hancock	$1.8B	$1.7B in 2013; $5M to $350M loans for office, retail, multifamily, industrial
PPM Finance	$1.7B-$1.8B	$1.6B+ in 2013; $5M to $70M for multifamily, retail, industrial, office, hotels, MHC
AEGON	$1.6B-$1.8B	$1.6B in 2013; $3M to $100M loans for multifamily, industrial, retail, office
Stancorp.	$1.2B-$1.4B	$1.3B in 2013
Thrivent Financial for Lutherans	$800M-$1B	$800M in 2013; $2M to $20M loans for industrial, office, retail, multifamily
Protective Life	$650M+	$650M to $700M in 2013; $2M to $20M loans for retail, office, industrial, multifamily
National Life Group	$600M	$450M in 2013; $10M to $25M loans for office, warehouse, retail, multifamily
RiverSource Life Insurance Company	$400M	$400M+ in 2013; $1M to $20M loans for multifamily, retail, industrial, office

Other Active Life Companies: Ameritas, $250M, $187M in 2013, $1M to $7M loans for multifamily, retail, industrial, office; **Modern Woodmen of America**, $100M, $100M in 2013, $1M to $25M loans; **Security National Commercial Capital**, $100M, $65M+ in 2013, $1M to $8M loans for office, retail, warehouse, multifamily.

MULTIFAMILY EQUITY EXPANDS...

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LEM Capital targets $3M to $10M pref and JV equity slices. The investor looks for mid-1980s to early 2000s vintage properties with 150 to 400 units. LEM focuses on value-add properties that require interior or exterior renovations and amenity upgrades. Preferred returns will be in the 10% to 12% range. On the back end, profits will be split 50/50 after the preferred return and return of all capital. LEM will fund 75% to 85% of the equity, up to 95% of the capital stack. The firm will invest at least $100M in multifamily equity next year.

Pensam Capital deploys $5M to $25M JV and pref equity pieces. Core and value-add Class A and B properties will be targeted. The minimum preferred return will be 10% and leverage can reach 90% with equity. **Regional Capital Group** will invest $5M to $50M JV and pref equity pieces with a focus on value-add properties. JV equity dollars will also be available for ground-up construction through the EB-5 program. Regional Capital targets mid-teens and above returns for value-add and single digits for construction. The investor provides a 90/10 equity split.

Equity players desire markets with job growth and focus on Houston, Dallas, SoCal, Texas and the Northeast. Look for a move toward tertiary markets such as Temple and Waco, Texas. Primary Midwest markets such as Chicago and Minneapolis, Minn., and secondary markets, including Louisville, Ky., and Kansas City, will see plenty of activity.

MIXED BAG OF LENDERS TARGET MIXED-USE

Anticipate more liquidity to enter the mixed-use sector next year, which will push lenders to provide favorable interest rates and structures. Look for increased flexibility on underwriting for rehab projects, including softer parameters for rental rates, lease terms and tenants types. Borrowers will see leverage up to 75%, although, 55% to 65% leveraged loans will see the lowest rates. Keep an eye out for loans with mezz pieces to reach 85% leverage and see 8% to 10% blended rates. Fixed rates will start in the 4% range, while floating rates will be priced 200 to 350 over Libor.

Borrowers will obtain 8.25% to 9% debt yields and 1.25x DSC. Older assets in secondary markets could see double-digit yields. Most loans will be non recourse, though select rehab deals will see recourse burn off at stabilization. Existing loans will see three- to 10-year terms and 25- to 30-year amortization schedules. Count on an increase in interest-only periods next year.

Life companies and major money-center banks will target large infill properties. LCs, including **Prudential**, **New York Life** and **Western & Southern Financial Group**, will provide longer terms and target lower leveraged deals. **TIAA-CREF** works on loans for assets with office, retail and parking components. Banks such as **Citi**, **M&T Bank**, **PNC Bank** and **Northwest Bank & Trust** will originate shorter term loans. **The Washington Trust Company** will allocate mixed-use loans under $5M. CMBS arms at **CIBC**, **Ladder Capital**, **Guggenheim** and **Natixis** will provide 5% rates and 1.25x DSCs.

Keep an eye out for an increase of construction dollars from lenders such as **HSBC Bank**, **BB&T**, **SunTrust Bank**, **PCCP**, **Madison Realty Capital** and **Sabadell United Bank** for mixed-use in the New Year. Projects will need preleasing and strong anchor tenants. Non-recourse construction loans will see 60% to 65%, while loans with 50% to 100% repayment guarantees will obtain 70% to 75% leverage. Terms will run up to five years for construction deals with floating rates and 30-year amortization. Projects with office components without preleasing will be tough in markets with 20% or greater office vacancy and in tertiary cities.

Rehab deals will see 65% to 70% leverage, 8% to 10% rates and 1.05x DSCs. Lenders, such as **CapitalSource,** will scrutinize projected rates to ensure they fall below market rents when rehabs conclude. Repayment guarantees or credit enhancements will be required on non-stabilized properties.

Borrowers must prove the components are complimentary. Count on lenders to target mixed-use properties with multifamily, although markets in danger of oversaturation will be avoided. Properties with subgrade parking, ground-floor retail and some combination of multifamily, condos and office will see plenty of available capital. Lenders will target assets with select-service hotels, such as Marriott brands and Hilton Garden Inn, in underserved markets.

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