The CRITTENDEN REPORT® Real Estate Financing

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LCs CONSIDER CONSTRUCTION-TO-PERM

A limited number of life company lenders will contemplate providing construction-to-perm money for the right deals this year. Odds are this will be a favorable niche for LCs because the space will be less competitive than traditional permanent loans and provide slightly higher returns and minimal risk. Max leverage will be 75% for a well-located property with a favorable credit tenant. Count on life companies to require borrowers to put equity in the deal, usually around 30%. Big players such as **MetLife** and **New York Life** could quote some deals by year's end.

Northwestern Mutual Real Estate Investments will focus on multifamily and built-to-suit properties, especially for deals with GSA tenants, for construction-perm money this year. **American National Insurance Company** will put together construction-perm loans for preleased properties. Deals will be in the $10M to $35M range. **Ameritas, Guardian Life** and **Ullico** will also consider construction-perm money. **Summit** will provide construction money on a select basis for single-tenant, pre-leased properties.

DSC will vary based on amortization. The credit of the tenant will have a big impact on the LTC. Watch for most life companies to target multifamily for construction-perm financing. Retail, office and industrial assets will have to be 100% preleased to be considered. Office will be the toughest to finance, unless there will be medical tenants involved. In years past, life companies teamed up with banks on construction take-out loans but don't expect that trend to return anytime soon. LCs will be more real estate oriented, while banks tend to be more credit oriented.

CMBS RE-ENTERS THE FLOAT-RATE SPACE

Look for balance-sheet CMBS players to inch back into the adjustable-rate lending space for the first time in the last few years, which will loosen the market and provide better terms for borrowers. Also, count on the banks, private lenders and agencies to dole out plenty of money in the form of floating-rate financing by year's end. More borrowers will opt for adjustable-rate loans, while they add value to their property for the first time in many years. Anticipate leverage to come in between 50% and 65%. Some deals may reach 75% to 80% of the stabilized value. Leverage for floating-rate loans will be a bit lower than fixed-rate deals because properties will typically be in transition.

Major conduit players such as **Morgan Stanley, Deutsche Bank, Wells Fargo** and **JP Morgan Chase** will get involved in adjustable-rate loans by December, after focusing on fixed-rate debt in 2011. **UBS** will provide one- to two-year, floating-rate loans, but will be more expensive. **Goldman Sachs** will offer three-year floaters for strong borrowers. The conduits will underwrite debt yield between 8% and 12%, depending on the property type and risk profile.

Major banks, including **BofA, Citigroup, Wells Fargo, JP Morgan Chase, HSBC Bank** and **BB&T**, will be the main source for adjustable-rate loans. Regional banks such as **Fidelity Bank** and **Fifth Third Bank** will also originate these loans with some level of recourse. Fund lenders such as **Mesa West, Starwood** and **PCCP** will provide floaters but will be more expensive. **Oak Grove Capital** will put together floating-rate loans for affordable housing, while **Greystone Financial Group** will target student housing. **Arbor Commercial Mortgage** will provide floating-rate loans for multifamily assets through its bridge program. **Fannie Mae** and **Freddie Mac** will offer 3% to 3.5% rates on adjustable loans but will have strict underwriting criteria.

Investors will seek floating rates in order to access time to upgrade, stabilize or sell a property before pursuing fixed rates. Interest rates will likely remain the same for the next 12 to 18 months, which gives shorter term borrowers the confidence to opt for floating-rate loans.

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Borrowers will be attracted to the flexibility of prepayment and opportunity to sell at much lower yield maintenance. Some borrowers will need to convert maturing loans to adjustable rate if they will no longer work for fixed.

LENDING LOOSENS FOR HOTELS

The tides finally begin to turn as nearly all lender types will start to consider hotel loans by year's end. CMBS will lead the charge with the most reliable lending standards and leverage up to 65%. Odds are **Morgan Stanley, Goldman Sachs, UBS, RBS, Wells Fargo, JP Morgan Chase, BofA, Citigroup** and **Deutsche Bank** will increase hotel allocations in 2012. While conduits will max out hotel loans at 15% of tranches for the next few months, expect that number to reach 20% by year's end.

Money center banks such as **Wells Fargo, BofA, Citigroup** and **JP Morgan** should increase lending for hotel acquisitions this year. Expect to see the big four banks underwrite hotel loans at 60% to 65% leverage. Cap rates for hotels will be higher than many other asset classes, making the hospitality sector more favorable for acquisition lending than assets with lower caps such as multifamily. Many select-service hotels will trade at 7% to 9% caps going forward.

Private fund lenders, including **Mesa West, Starwood Capital, RockBridge** and **Blackstone**, will underwrite a variety of hotel loans this year with rates from 6% to 8%. There will be less expensive sources of capital available but these companies will provide relief to hoteliers with cash-flow problems. Senior debt leverage will top out at 65% but could reach 75% with preferred equity or mezz.

Expect to see some of the larger LCs ink hotel loans by year's end. Up until this point, many life companies claimed to "consider" hotel loans but few deals actually closed. **Cornerstone, Prudential, ING, MetLife, PPM** and **Pacific Life** will likely increase hotel allocations in 2012. Watch for the LCs to target larger deals with lower leverage at 55% to 60%.

BANKS RAISE LEVERAGE FOR OFFICE

Wall Street banks will get more competitive on yield and increase leverage up to 75% for the most favorable office products. Look for well-capitalized banks with strong balance sheets such as **BofA, Wells Fargo, US Bank, PNC, HSBC Bank** and **KeyBank** to be the most active. The average leverage for an office deal from the larger and mid-sized banks will be up to 70%, depending on recourse, tenant quality and lease term. Smaller banks will provide 60% to 65%. Count on a minimum DSC of 1.25x on stabilized office properties. Most banks will underwrite DSC closer to 1.35x to 1.40x. Debt yield will be between 10% and 11%. Rates will be mid- to high 3% for swap deals and low to mid 4% for fixed rates on five- to seven-year loans.

JP Morgan Chase will consider smaller office deals at 60% leverage and a 1.35x DSC. Regional banks, including East West Bank, Fifth Third Bank, Liberty Bank of Middletown and Sovereign Bank could also quote some deals with attractive borrowers. The Washington Trust Company targets office loans in the $3M to $8M range.

Expect banks in general to allocate more loans by year's end and, as the job market improves, office will be [illegible] and C assets will be considered in strong locations. The $1M to $4M loans will be the hardest to get done this year. Lenders will be cautious of pending lease rollover and assets with tucked under parking.

The major metros with the lowest vacancy rates will draw most interest from lenders. Manhattan, N.Y., will be the top office market for bank lending activity, along with core cities such as Los Angeles, San Francisco, Boston, Chicago and Washington, D.C. Downtown urban cores close to employment base could also receive the most attention. Keep an eye on bankers to stick to markets they are familiar with. Don't expect banks to get involved in small office deals in secondary markets.

BANKS & LENDERS

American National Insurance Company
2525 S. Shore Blvd., Suite 207, League City, TX 77573
Denny Fisher, VP-Mortgage Loan Production
(281) 538-4809
denny.fisher@anico.com

American National will allocate construction-perm loans for preleased properties this year. Anchored retail, office, medical office, industrial and parking facilities are all on the docket. The LC works nationwide but targets major MSAs.

Arbor Commercial Mortgage
555 Republic Drive, Suite 200, Plano, TX 75074
Jay A. Porterfield, VP
(972) 516-3824
jporterfield@arbor.com

Arbor's main focus will be on multifamily properties but the lender can provide bridge loans for the other property types as well. Porterfield arranges an $8M refi for South Lake Villas Apartments, an affordable housing community in Houston.

B&A Capital Partners
1515 W. 190th St., Suite 455, Gardena, CA 90248
Brian Sniderson, Managing Director

B&A Capital projects $100M to $150M in originations by year's end. The private money lender will offer short-term loans for transitional assets in

BANKS & LENDERS

W Financial Fund 149 Madison Ave., Suite 701, New York, NY 10016 David Heiden, Managing Member (212) 684-8484 david@w-fund.com	W Financial plans $100M in allocations this year. Loans will be in the $500K to $10.5M range and multifamily, retail, industrial and office are all targeted. The lender will work in markets on the East Coast, with a New York City focus.
Washington Trust Company, The 23 Broad St., Westerly, RI 02891 Julia Anne Slom, SVP/Team Leader Commercial Real Estate Group (401) 348-1430 jaslom@washtrust.com	Washington Trust will target stabilized multitenant office properties this year. Most office loans will average out to between $3M and $8M, but could go higher. The lender provides $20M for the refi of Highwood Office Park in Tewksbury, Mass.

LENDERS FILL AFFORDABLE HOUSING VOID

Major lenders will allocate money for affordable housing properties this year to help pick up the slack left behind by the lack of available state tax credits. Anticipate pressure for higher leverage loans, as states stretch tax credits across more recipients, leading to less availability of soft funds. Count on leverage to average 65% to 75%. Agency lenders will provide leverage up to 80% to 85% for refis and 85% to 90% for new construction. Affordable properties will obtain a 1.15x to 1.20x DSC, which will be a bit tighter than market rate apartments. FHA loans can go down to 1.11x. Rates will land from 4% to 5.5%, depending on the execution and loan term. Long-term rates will be 3.5% to 4.25%.

Watch for **Citigroup, Wells Fargo, BofA, JP Morgan Chase, US Bank, RBC Capital Markets, Capital One** and **CWCapital** to be the most active. **Prudential** will provide leverage up to 87% on affordable deals. **Oak Grove Capital**'s average affordable loans are anticipated to be in the $7M to $10M range this year. **Lancaster Pollard** will provide loans between $1M and $14M, averaging around $3M. **Red Capital Group**'s typical loan amount will be $2.5M to $7.5M. The lender will work on deals in primary and secondary markets.

Most of **Arbor Commercial Mortgage**'s affordable loans will be in the $2M to $10M range throughout the year, but some could go higher. **Great Lakes Financial, Rockport Mortgage** and **Walker & Dunlop** will also originate affordable loans. **Fannie Mae, Freddie Mac** and **HUD** will all be active. Recent changes to the FHA LIHTC Pilot program will streamline the application and processing of its insured loans, which will result in a bigger pipeline by year's end.

Expect to see a sharp decline in available subsidy financing from local, state and federal sources throughout the year. This will put more pressure on the lenders to provide higher leverage for affordable housing and push state HFAs and developers to maximize the amount tax credit equity in each deal. As a result, there will be a reduction in bond financed projects, which are heavily dependent on subsidy financing.

The market for acquiring or refinancing existing affordable communities will be robust in 2012. Large urban construction and rehabilitation properties will see the most competition from lenders. Major markets on both coasts and in the Midwest will be favored. Watch for lenders to seek out experienced sponsors with proven track records. Lenders will be attracted to affordable housing because it's a stable property type in terms of occupancy and rent. Count on the larger loans for properties with a minimum of 75 units to get the most lender attention.

DEALMAKER DATABANK

CBRE 250 Pehle Ave. Park 80W/Plaza 2/Suite 600, Saddle Brook, NJ 07663 Jim Gunning, EVP (201) 712-5855 james.gunning@cbre.com	CBRE works on a $47.5M open-ended construction loan with US Bank for The Parkway Lofts at Watsessing Station in Bloomfield, N.J. This is a multifamily redevelopment of a warehouse building. LTC was 60%. Debt yield was 10.5%.
Grandbridge Real Estate Capital 222 S. Ninth St., Suite 3200, Minneapolis, MN 55402 Tony Carlson, VP (612) 341-7886 tcarlson@gbrecap.com	Grandbridge puts together a $7.5M refi with a mid-sized bank for Creekridge Circle Office Complex in Bloomington, Minn. LTV was 75% and interest was in the low 4% range. This was a five-year loan, with 25-year amortization.
HREC Investment Advisors 1836 Sheridan Road, Encinitas, CA 92024 Michael Armstrong, Principal (760) 452-2255 marmstrong@hrec.com	Armstrong concentrates on refi loans for high-quality, select-service hotels, including Hampton Inn, Hilton Garden Inn and Courtyard by Marriott. He plans to close deals in Washington, D.C., Florida, Las Vegas and Texas in the next few months.
Johnson Capital 370 Lexington Ave., Suite 2000, New York, NY 10017 Neil Bane, Principal (212) 888-9261 neilbane@johnsoncapital.com	Johnson Capital arranges $75M for the acquisition of nine multifamily properties in Florida and Texas. Seven of the loans were fixed rate with agency debt and two were floating rate with Centerline Capital. LTV was 65% and 60%, respectively.
Jones Lang LaSalle 1801 K St. N.W., Suite 1000, Washington, DC 20006 Jon Goldstein, SVP-Real Estate Investment Banking (202) 719-5764 jon.goldstein@am.jll.com	Jones Lang LaSalle puts together $32M in perm financing with Sovereign Bank for 30 Independence Blvd., an office building located in Warren, N.J. LTV was 68%. DSC was 1.45x and debt yield was 10%. This is a five-year loan, with 25-year amm.

PRIVATE LENDERS RALLY FOR BUSY YEAR

Expect private lenders to increase output thanks to the plethora of $2M to $20M deals for Class B and C assets and transitional properties that banks and life companies won't touch. Private money will compete with traditional lenders by providing quick turnaround, flexibility and willingness to work on out-of-the-box deals such [illegible]

Look for private money lenders to lower debt yield slightly this year to win more projects with quality sponsors. Debt yield will range from 8% to 12%. Count on some lenders to quote more on the low end of that range. Rates will land between 6% and 9%, with a few going into the low teens for [illegible]