The CRITTENDEN REPORT® Real Estate Financing

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LCs BREAK FOR SMALL-BALANCE LOANS

Expect to see life companies diversify portfolios and associated risks by underwriting loans under $5M this year. Competition will heat up with more players to enter the space as the year progresses. Expect leverage to be between 65% and 70%. Look for a few LCs to reach 75%, especially to win multifamily loans. Office and retail will most likely be in the 60% to 65% range. **Stancorp.** will be one of the busiest lenders in the small-balance loan space. **Genworth** will go up to 75% on small loans and offer 30-year amortization on special occasions. **Security National Capital** will provide short-term bridge loans this year with a $1M to $3M sweet spot.

Aegon will target loans in the $3M to $5M range. **Advantus Capital** will go as low as $3M. **RiverSource Life Insurance** will consider small-balance industrial deals. **IAP Life Company** will arrange financing as low as $1M for apartments and investment-grade retail. **Symetra Life, Kansas City Life, Summit, Ohio National, First Fidelity, One America, Unum, Aetna, American Family Life, CUNA Mutual Life** and **Protective Life** will also be active. Don't count on any of the big players such as **Northwestern Mutual** or **New York Life** to get involved with loans under $5M unless it is with a relationship borrower.

Interest rates will be between 4% and 6%, depending on the property type. DSC will be 1.25x to 1.40x. Watch for most loans to have 10-year terms and 25-year amortization schedules. There will be less competition for loans under $2M, so LCs active on those deals will be able to dictate terms and will most likely require some recourse. Expect the majority of loans greater than $3M to be nonrecourse. While the banks will be the biggest competitors in the small-loan space, many borrowers will prefer the longer terms

DEAL OF THE WEEK

Property Type: Non-Stabilized Retail Shopping Center in the Northeast
Loan Amount: $33M ($27M first mortgage, $6M mezz piece)
Lenders: **CIBC** for the first; **Pembrook Capital** for the mezzanine
Leverage: 65% first mortgage, 75% with mezzanine
Rate: Roughly 5% blended

The amount of competition among mezz lenders made this deal interesting. Pembrook Capital won the deal due to its flexibility with pre-payments. Pembrook funded the mezz portion of $6M with an interest rate of 10%. The lender was willing to bring the leverage up to 75% due to the strong quality of the center and its existing tenants.

While CIBC typically lends to institutional type borrowers, this borrower was a developer who did not fit in that box. The loan shows lenders will ink deals with a wider variety of borrowers when the product is high quality. CIBC funded the first mortgage with a floating rate loan at 3.5% for three years, with two one-year extensions. The loan is interest only, which helped with cash flow. This property isn't fully completed or stabilized, and will be expanded once it gains more tenants. CIBC does construction loans and its possible the lender may consider funding the expansion of this property in the future. Debt yield came in at 9%.

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CONSTRUCTION LENDERS EASE ON TERMS...

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ORIX Public Finance will do $5M to $50M construction loans. The lender can also work with additional sources such as municipal or public entities on construction deals. ORIX will consider construction with mini-perm loans as well. Look for some LCs to enter the development loan arena before the year is through but most will not re-enter the scene until 2013 or later. Some life companies could get involved in a solid multifamily development project if the loan is in the $10M to $20M range.

Look for a pickup in construction lending in the second half of the year. Demand will be driven by confidence in the economy combined with job creation. Lenders will look at supply/demand in the market and focus on the economics of the current rents to support the construction costs. Expect lenders to target developers with a proven track record and scrutinize the financial capabilities of the borrower, including liquidity and net worth.

While the demand for housing and favorable fundamentals will push the bulk of the construction money toward multifamily, office could see more activity this year as well. Keep an eye out for demand in construction financing for spec office space in tech rich areas such as Washington, D.C., Seattle, Silicon Valley, Calif., and San Francisco. Preleasing will play a huge role in obtaining construction money for office and retail projects. Built-to-suit industrial projects will get some attention and preleased retail with strong anchors will be considered.

BRIDGE LENDERS MORE FLEXIBLE

Expect bridge lenders to consider a wider variety of product types with more flexible rates and requirements this year. Leverage will begin to inch up thanks to increased competition and improved faith in the economy. Anticipate typical leverage to be 65% to 70%, after bridge lenders played it safe with lower LTVs during the last couple years. Look for bridge lenders to want 30% to 35% cash from a borrower. High yield bridge lenders will desire rates starting at 9% and target smaller assets in secondary markets. Conventional bridge lenders will underwrite 5% to 7% rates. Debt yield will be between 9% and 13%.

Mesa West will be active on the larger $15M to $100M deals. **Prime Finance, Starwood Capital, Guggenheim, BMC Capital, PCCP, NXT Capital, CapitalSource, KBS Capital Advisors** and **Ares Capital** will be bullish this year. **Avant Capital**'s typical leverage will be 60% with loans around $7M to $8M.

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DEALMAKER DATABANK

CBRE Capital Markets 750 Ninth St. N.W., Suite 900, Washington, DC 20001 Joseph Donato, EVP (202) 585-5505 joe.donato@cbre.com	CBRE puts together $181M for the refi and construction of Sentinel Square, an office project in downtown Washington, D.C. Helaba Bank and Nord LB worked as 50/50 co-lenders on the deal. The rate came in at sub-4% on the five-year loan.
George Smith Partners 10250 Constellation Blvd., Suite 2700, Los Angeles, CA 90067 Shahin Yazdi, VP (310) 867-295 syazdi@gspartners.com	George Smith closes a $2.2M cash-out refi for a retail building in Southern California. LTV was 70% and interest came in at 5.375%. Yazdi closed 15 transactions last year and is active in arranging refinance loans.
HFF 1627 I St. N.W., 12th Floor, Washington, DC 20006 Walter Coker, Managing Director (202) 533-2500 wcoker@hfflp.com	HFF puts together $71.1M in non-recourse construction financing with SunTrust Bank for The Place, a residential component of a mixed-use property in Arlington, Va. This is a five-year, floating-rate deal.
HFF 1000 S. W[illegible] Broad[illegible]	HFF arranges a refi loan with Lincoln Financial [illegible]

DEALMAKER DATABANK

Pace Financial Group 816 P St., Suite 200, Lincoln, NE 68508 Jamison Whiston, Assistant VP/Loan Officer (402) 817-4486 jwhiston@pacefg.com	Pace Financial Group arranges a 25-year $4.5M permanent loan with a life company for a CVS located in Omaha, Neb. LTV was 75%. Interest was fixed in the mid-5% range.
Thomas D. Wood 3665 Bee Ridge Road, Suite 210, Sarasota, FL 34233 Brad Cox, SVP (941) 552-9731 bcox@tdwood.com	Thomas D. Wood works on a $5.4M loan with Advantus Capital for West Boca Place Shopping Center, a mixed-use property in Boca Raton, Fla. Cox also provides $2.2M from Stancorp. for the Shoppes at Coastal Way, a retail center in Brooksville, Fla.

BRIDGE LENDERS MORE FLEXIBLE...

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Hudson Realty Capital will provide LTC up to 90% on some bridge loans. **A10 Capital** will be one of the few bridge lenders in the $2M to $10M space. **Lone Oak Fund** will also put together smaller balance loans from $500K to $12.5M. **Owens Financial Group** will target income producing commercial and multifamily properties this year. Keep an eye out for local banks to start offering bridge loans but with recourse.

Watch for a rise in demand for bridge loans, as banks and special servicers move distressed deals off the books. The increase in maturing loans, foreclosures, distressed assets, value-add properties, debt restructurings, short sales and cash-out refinances will fuel the need for bridge loans going forward. Bridge lenders will seek strong borrowers in need of capital quickly. Borrowers will need a plan to renovate, lease up and stabilize the property to get lender attention. Bridge lenders will prefer borrowers to provide some level of financial strength, liquidity and, in many cases, offer additional security from other assets.

Bridge lenders will consider multifamily, retail, office and multi-tenant industrial. Count on considerable bridge activity for office properties because that sector has not fully bounced back. Any properties that require significant renovations will see little conventional capital available. Bridge money will fill the huge gap for value-add assets in secondary markets in need of $25M or less. Multifamily and special-purpose retail could also see a pickup.

HOTEL CONSTRUCTION LOANS EMERGE

Expect to see a noteworthy boost in hotel construction loans as the year progresses. Equity requirements will drop to 30% to 35% of costs in the next few months, after being 40% or more for the past few years. Lenders will generally require a guarantor with a net worth equal to the loan amount and 10% liquidity after the equity is put in an asset. National and international banks will fund hotel development in the primary markets with high barriers to entry such as New York City, Washington, D.C., Los Angeles and Miami. **Wells Fargo** will be one of the more aggressive hotel lenders for construction loans this year. Odds are **BBVA Compass** will increase activity in this space throughout the year.

Local and regional banks will provide the lowest pricing. Watch for **First Midwest Bank, Torrey Pines Bank** and private lender **Popular Commercial Lending Group** to consider hotel construction loans with a minimum equity contribution of 35%. Many developers will chose to add mezz debt to the capital stack to allow for higher LTC, generally up to 75%. Expect to see LCs and CMBS step up for take-outs and refis once the project's reach stabilization.

Lenders will chose markets with positive trends for growth in ADR, RevPAR and occupancy over a 12- to 18-month period. Demand drivers such as close proximity to an airport or hospital will help get some loans inked. Construction deals will need an experienced operator with a proven track record of hotel development, a strong brand and a management company with experience in the market.

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BANKS & LENDERS

A10 Capital
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A10 Capital aims to lend up to $200M by year's end. The lender will work with the four main food groups, with more of a focus on office and retail. Most will be three-year loans, with one- to two-year extension options. The lender will also offer interest-only loans.

Avant Capital Partners
209 Bruce Park Ave., Second Floor, Greenwich, CT 06830
Dean Heinrich, Regional Director
(203) 612-9581
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Avant Capital Partners is on pace to close between $100M and $125M by year's end. Half of that amount will be bridge loans. Multifamily, residential condo, office, industrial, retail and development sites will all be considered this year.

Beech Street Capital
1 N. Franklin St., Suite 3340, Chicago, IL 60606
Josh Rosen, EVP/Team Leader-Senior Housing
(773) 634-9881
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Beech Street anticipates $250M to $350M in allocations for senior housing/healthcare properties this year.

Hudson Realty Capital
250 Park Ave. S., Third Floor, New York, NY 10003
Spencer Garfield, Managing Director
(212) 532-3553

Hudson Realty provides a $4.36M bridge loan for an office building in Santa Monica, Calif. The lender's average bridge loan is around $10M. LTC can go up to 90% in some cases but most will be 65% to 75%.

Lone Oak Fund
11611 San Vicente Blvd., Suite 640, Los Angeles, CA 90049
Stephan Kachani, VP of Sales
(310) 826-2888
stephan@loneoakfund.com

Lone Oak plans to complete $500M in bridge loans this year. Loans will be in the $500K to $12.5M range. Multifamily, housing and special-purpose retail in Southern California and San Francisco will be targeted.

ORIX Public Finance
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Andrew Garvey, Managing Director; Marc Armentrout, Director
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ORIX Public Finance will provide construction financing nationwide and specializes in understanding both real estate and municipal/public components including tax increments, tax credits, revenue and appropriation pledges, etc.

Owens Financial Group
2221 Olympic Blvd., Walnut Creek, CA 94595
Brian Haines, Managing Director
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Owens Financial will complete $100M in bridge loans this year. The lender will mainly focus on deals in California, but will starting lending nationwide again soon with a primary focus west of the Rockies.

Security National Capital
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Henry Kesler, VP
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Security National will originate between $50M and $60M this year. The life company provides shorter term bridge loans that can close quickly. Office, retail, multifamily and warehouse are the preferred property types but the lender will consider any deal.

US Bank
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Wayne Brander, California Regional Manager
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US Bank will be busy with construction lending this year. The bank will work with the four main food groups for construction. US Bank arranged a recent facility as an agent for a $280M construction loan in Sunnyvale, Calif. Participating banks also included BofA, Wells Fargo and JP Morgan Chase.

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LENDERS INCREASE CASH-OUT REFI ALLOCATIONS

Look for lenders to move forward with cash-out refis for strong borrowers that plan to put the money back into the property or use the funds toward additional acquisitions. Leverage will be between 65% and 75%, depending on the loan amount and product type. LCs will max out at 70%. **Fannie Mae and Freddie Mac**