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COMPETITION HEATS FOR SMALL MULTIFAMILY LOANS

The agencies will pull back on deals under $5M in the next few months, leaving room for other lender types to swoop in and grab market share, especially in secondary and tertiary markets. Lenders will be forced to broaden their scope to include programs for new property types and locations in order to compete on sub-$5M loans. Leverage will be 70% to 80% on average. Rates will be in the low 3% to 4% range. Borrowers will see 1.15x to 1.35x DSC and 9% debt yield. Expect an increase in non-recourse provisions.

National banks such as **Wells Fargo**, **Chase** and **Citi** will compete on loans under $5M. Regional and community banks, including **BankUnited**, **People's United Bank**, **Capital One**, **Apple Bank**, **Provident Bank**, **M&T Bank**, **New York Community Bank**, **Sovereign Bank**, **TD Bank** and **EverBank** will also be active. Banks look closely at location, sponsorship and cash flow. Chicago-based **BankFinancial** provides multifamily loans in the $750K to $3M range. Small and mid-sized borrowers with a net worth of $1M to $10M will be targeted. Typical leverage is 70%, with certain deals going up to 75%. Rates will be 3% to 5%, with a 1.25x DSC minimum.

Inland Bank and Trust allocates loans as low as $1M and leverage up to 75%. Borrowers with 10 or more years of experience that present 25% in true cash equity will be targeted. Inland looks at a property's unit mix, functionality and amenities, along with the borrower's global cash flow. DSC will be a 1.25x minimum. **American Momentum Bank**'s sweet spot is $2M to $2.5M, with leverage up to 75%. Rates will start in the mid-3% range. The bank targets local developers with Class B and C assets near employment centers. Borrowers need at least five years of experience and 10 to 20 existing properties. Count on American Momentum to want 10% liquidity.

Look for **Amalgamated Bank** to originate multifamily non-recourse loans starting around $2M, with five-, seven- and 10-year terms. Leverage can reach 80% on certain deals. The bank targets small borrowers that own one building, along with larger owners. DSC will start at 1.20x. Institutional lender **Velocity Commercial Capital** finances properties with as little as five units. Loans start at $250K but average $500K to $750K. Local borrowers that own five- to 25-unit properties will be desired. Leverage will be 70% to 75%. Count on life companies such as **Ohio National Life** and **RiverSource** to deploy $2M loans, while **Stancorp.** starts at $1M.

Agency lender **Arbor Commercial Mortgage**'s loan minimum is $1M, with leverage up to 80%. The lender works with Class A, B and C properties in secondary and tertiary markets. Borrowers that own at least two to three complexes and live in close proximity to the properties will be desired. **Centerline Capital Group** originates loans in the $750K to $5M range. Well-maintained Class B and C properties with six to 100 units will be targeted. Leverage will go up to 80%, with 1.25x DSC. Lower leverage loans will see rates under 4%.

Borrowers in strong major markets such as New York City, Boston, Washington, D.C., Chicago and San Francisco will obtain the highest leverage. Lenders will desire borrowers with long-term experience or professional management teams in place.

Net worth will be equal to or two times the loan amount. Liquidity requirements start at 10% or nine months of principal interest payments in the bank. Some lenders will require a minimum credit score of 680. Borrowers with foreclosures, lawsuits or bankruptcies will have a hard time obtaining financing. Properties with unstable occupancy will also be tough.

BANKS & LENDERS

(Supplemental to the 2012 Directory)

Amalgamated Bank: 275 Seventh Ave., 14th Floor, New York, NY 10001. Gardner Semet, EVP/Director of Commercial Real Estate Lending, (212) 895-4497. gardnersemet@amalgamatedbank.com

American Momentum Bank: Capital Plaza 2, 301 E. Pine St., Suite 1000, Orlando, FL 32801. Lou Garcia, SVP-Commercial Lending, (407) 367-4317. lgarcia@americanmomentumbank.com

Arbor Commercial Mortgage: 375 Park Ave., Suite 3401, New York, NY 10152. Ronen Abergel, VP, (212) 389-6548. rabergel@arbor.com

Archetype: 1114 Avenue of the Americas, 38th Floor, New York, NY 10036. Craig Picket, SVP-National Loan Origination, (212) 600-2839. cpicket@archetypemortgage.com

Aviva: 215 10th St., Suite 1000, Des Moines, IA 50309. Eric Hasenauer, Managing Director, (212) 593-5606.

BankFinancial: 15W060 N. Frontage Road, Burr Ridge, IL 60527. Vivian Madey, VP, (630) 242-7251. vmadey@bankfinancial.com

BankUnited: 2201 W. Hillsboro Blvd., Deerfield Beach, FL 33442. Christopher Hynes, VP, (954) 427-8635. chynes@bankunited.com

Bell Partners: 700 S. Washington St., Suite 250, Alexandria, VA 22314. Lili Dunn, Chief Investment Officer, (336) 232-5504.

Centerline Capital Group: 18300 Von Karman Ave., Suite 600, Irvine, CA 92612. Rick Warren, Managing Director, (949) 221-6684. rwarren@centerline.com

Emigrant Bank: 7 Westchester Plaza, Elmsford, NY 10523. Charles Ruffin, Account Manager, (914) 785-1403. ruffinc@emigrantmortgage.com

EverBank: 501 Riverside Ave., Jacksonville, FL 32202. Jamie Buckland, EVP, (904) 623-8287. jamie.buckland@everbank.com; 6464 185th Ave., Suite 200, Redmond, WA 98082. Greg Vieceli, EVP, (425) 629-1098. gregory.vieceli@everbank.com

Glenmont Capital Management: 40 W. 57th St., 24th Floor, New York, NY 10019. Philip Orban, Principal, (212) 582-2500.

Harrison Street Real Estate Capital: 71 S. Wacker Drive, Suite 3575, Chicago, IL 60606. Brian Thompson, SVP, (312) 376-0114. bthompson@harrisonst.com

Inland Bank and Trust: 2805 W. Butterfield Road, Oak Brook, IL 60523. Jocelyn Urban, Commercial Real Estate VP; Dave Martin, EVP/Chief Lending Officer, (630) 908-6529.

Natixis Real Estate Capital LLC: 1251 Avenue of the Americas, New York, NY 10020. Greg Murphy, Managing Director/Head of Real Estate Finance Americas, (212) 891-5700. greg.murphy@us.natixis.com

Pembrook Capital Management: 485 Madison Ave., 22nd Floor, New York, NY 10022. John Garth, Managing Director, (212) 906-8688. jgarth@pembrookgroup.com

Sabadell United Bank: 1111 Brickell Ave., 30th Floor, Miami, FL 33131. Kevin Miliffe, VP, (305) 376-2457. kevin.miliffe@sabadellunited.com

Stancorp.: 19225 N.W. Tanasbourne Drive, Hillsboro, OR 97124. Mike Morey, Assistant VP-Real Estate Finance, (971) 321-4892. mike.morey@standard.com

Torrey Pines Bank: 9295 Farnham St., Suite 200, San Diego, CA 92123. Stacy Lombardo, SVP/Director of Operations, (858) 259-5353. slombardo@torreypinesbank.com

Velocity Commercial Capital: 30699 Russell Ranch Road, Suite 295, Westlake Village, CA 91362. Joseph Cowell, SVP/National Production Manager, (818) 532-3709. jcowell@velocitycommercial.com

Correction: The April 8th issue stated that Thorofare Capital will be a big single-family lender. In fact, the company focuses on note acquisitions secured by self storage, retail, office, multifamily and hotels under some form of duress.

HOTELIERS SEE CMBS LEVERAGE RISE

Many conduits begin to quote senior loans and mezz/pref equity at closing, bringing leverage up to 85%. These deals will typically include a minimum mezz/pref equity piece of $3M and be most common for loans starting at $30M. **JP Morgan Chase, Goldman Sachs, Morgan Stanley, Citi, Wells Fargo, BofA, Ladder Capital** and **Principal** will be active in this space. Expect the majority of these groups to fund the second piece but sell it off after closing. Smaller deals from $10M to $25M need to tap niche mezz/pref equity players that will do smaller $1M secondary pieces.

Debt yield further eases as the year progresses. Lenders look at a 13%-plus debt yield for small deals in secondary markets. Loans beginning at $10M see debt yields starting at 10%, while larger clean deals begin in the high 8% to 9% range. Citi will underwrite high single digit debt yield in strong markets and low double digits in other markets.

Hotels with improving operations will see leverage reach 65% for sub-$5M deals. JP Morgan Chase and Goldman Sachs will not look at deals below $10M, but nearly all the other CMBS groups target loans starting at $5M. Citi's hotel loans start at $3M; primary and secondary markets will be desired and tertiary will only be considered as part of a portfolio. Ladder Capital's deals start at $5M in primary and secondary markets. Loans at Principal run $5M to $50M, while Morgan Stanley starts deals at $5M with no max. Wells Fargo, **Natixis** and **Archetype** will be active on $5M-plus loans.

Conduits look for trailing-12 cash flow and the past few years of NOI. All service levels and brands will be able to secure CMBS loans as long as cash flow is strong. Economy and select-service hotels with exterior entryways will see more interested lenders this year.

CONDO LENDING REBOUNDS

Expect condo financing to be a growing segment this year, with demand driven by properties in gateway cities. Borrowers will obtain leverage as high as 65% to 70%. Rates will be in the 3.75% to 5.5% range. While most deals will require 35% to 50% recourse, more lenders will start to allocate non-recourse provisions this year, especially for low-leverage deals. Non-recourse loans will see 1% higher rates. Anticipate a pickup in condo construction loans by year's end.

Wells Fargo provides non-recourse loans depending on location and sponsor. Other big banks such as **HSBC** and **SunTrust** work on large deals. **Regions Bank** will be one of the most active in the market. Look for **Emigrant Bank, Sabadell United Bank, Preferred Bank, Bank of the West, California Bank & Trust** and **Torrey Pines Bank** to seek out condos. Banks want 10% to 20% in liquidity and net worth equal to the loan. At least 20% borrower equity in the deal will be required, which includes project costs.

Look for **Canyon Capital Real Estate Advisors** to originate non-recourse loans from $15M to more than $100M. Canyon works with all size borrowers and interest rates will be 9% to 10%. The lender will originate construction loans in major MSAs. **Avant Capital** provides condo loans in the $1M to $30M range. Avant will originate condo inventory, conversion, construction completion and ground-up construction deals. The lender will work with first-time condo converter borrowers. Leverage will be 50% to 65%, with rates between 9.5% and 12%.

B&A Capital originates $2M to $20M condo loans with all size borrowers. Leverage will be 60% to 70% and rates start at 9%. **JCR Capital** teams up with small to medium size borrowers and provides 80% to 85% leverage. The lender allocates condo inventory and rehab loans.

Demand will spur from inventory and broken condo loans where the original developer has to pay off an expiring construction deal, resolve litigation or buy time to sellout remaining inventory. These loans will require some level of recourse and higher pricing. Lenders will want to see at least 70% in presales for construction deals. Expect lenders to seek out assets with 20 to 40 units instead of bigger 250-unit projects.

Plenty of financing will be available in coastal areas of California and Florida, along with major MSAs such as New York City and Chicago. Lenders want condos that are well located in 24-hour cities near transit, major retail/entertainment venues and downtown corridors. Markets with slow employment or ample available land for development will not see as many interested lenders.

DEALMAKER DATABANK

Capital Advisors
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Capital Advisors finalizes a $3.17M refi with EverBank for Lake Placid Apartments in Atlanta. LTV was 75%. Interest came in at 4%, fixed for five years. DSC was 1.60x, with a 9.5% debt yield. EverBank liked location, sponsor and occupancy.

Cohen Financial Capital Markets-Equity Practice
1001 Brickell Bay Drive, Suite 2112, Miami, FL 33131
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emcglynn@cohenfinancial.com

Cohen closes JV equity for Biscayne Beach Club, a proposed 397-unit condo project in Miami. The equity will go toward engineering and predevelopment costs. Look for construction financing to close by year end.

George Smith Partners
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Malcolm Davies, Principal
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George Smith Partners puts the finishing touches on a $49M construction facility with Bank of the Ozarks on a land development deal. Development will include 348 townhomes, 504 multifamily units, a 150-room hotel and 500,000 s.f. of retail.

HFF
4350 La Jolla Village Drive, Suite 450, San Diego, CA 92122
Bryan Clark, Associate Director
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Clark secures debt and JV equity for middle-market and institutional investors nationwide. He recently secured $17.3M in JV equity with an international investment management firm for Wells Fargo Center, a Class A office tower in downtown Tampa, Fla.

HFF
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Burger and Simon arrange JV equity for Solana Cherry Creek, a proposed 341-unit multifamily community in Glendale, Colo. The JV equity investor liked the submarket and the location of the infill site near retail and entertainment venues.

HFF
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Coker specializes in equity finance for ground-up development projects.

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Marcus & Millichap finalizes $5.5M for the refinance of a Class C multifamily mid-rise in Los Angeles with a commercial bank. The 15-year loan offers interest-only payments for five years at 3.75%.

Meridian Capital Group
2173 Salk Ave., Suite 250, Carlsbad, CA 92008
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Grossman closes a $4.25M CMBS loan with $1.8M in cash out for a Red Roof Inn in San Dimas, Calif. The loan will replace an existing $2.4M low-leveraged CMBS loan with 7.5% interest rate. The new rate will be in the low 5% range. Leverage came in at 60%.

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PMZ arranges a $3.5M mezz loan from Terra Capital for a DoubleTree by Hilton in Greensboro, N.C. Terra Capital fills the gap between the first mortgage loan and the borrower's equity by funding up to 85% of the property's underlying value.

Thomas D. Wood and Company
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Thomas D. Wood teams up with Stancorp. to provide $1.8M in permanent financing for the 56-unit Seminole Village Apartments in Seminole, Fla. LTV was 65%. Interest came in at 4.875%. This was a fully amortizing 20-year loan.

LENDERS WARY OF CONSTRUCTION?

Demand for multifamily exceeds supply by a substantial amount, but construction lenders should be mindful of what will happen to rents when the supply of new units finally arrives to the market. Even though many new apartment projects have started in the last two years, very few of those units have been delivered so far. Rents in existing apartments have soared. Overall apartment rents have increased 10% to 20% depending on the locale, but some have already leveled off due to resistance to the higher amounts.

Projects that started 12 to 24 months ago will easily be absorbed, but developments breaking ground this year may have a difficult time reaching projected returns. It will be important for construction lenders to underwrite on current rents and not take forward looking projections into account.

Comerica pulls out of apartment loans because other lenders are overly aggressive on pricing and structure. Some lenders originate non-recourse apartment construction loans at a 1.20x DSC with a 6.5% interest rate and 25-year amortization. The bank believes this is too late in the game to do non-recourse financing. **Northwestern Mutual** will be cautious with multifamily construction loans due to the significant increase of this loan type in various markets versus a year ago.

Sub debt providers need to have a certain amount of expertise with construction loans because if something goes wrong they will have to step in and take over the project. Everyone in the capital stack should look closely at the developer. **Pembrook Capital Management** will only get involved with developers that possess experience building in the specific market and contribute real skin in the game.

Supply and demand for multifamily will become out of balance in certain markets and lenders need to keep a close eye on Houston, Austin and San Antonio where there is plenty of available land for new construction. Lenders should also be cautious in Phoenix, Atlanta and Las Vegas. MSAs with high barriers to entry and low vacancies, including New York City, San Francisco, Los Angeles, Boston and Chicago will be strong markets for multifamily construction loans.

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