The CRITTENDEN REPORT® Real Estate Financing
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JV EQUITY: SMALLER MULTIFAMILY DEALS

Additional JV equity sources enter the multifamily market and provide pieces under $5M. Investors will switch focus from ground-up construction to existing product in secondary and tertiary markets. This change toward acquisitions and rehabs will help investors build relationships and collect favorable returns. Leverage will reach 95% with equity pieces. Preferred returns will be low to mid-teens. Anticipate JV equity players to enter a wider variety of metros and swoop up Class B- to C- properties ignored by the agencies.

Newport Capital Advisors launches a new JV equity program with $500K to $5M pieces for properties in secondary and tertiary markets. It targets solid middle-markets sponsors and pre-1990s properties with a minimum of 150 units and steady cash flows. Deals sizes will be between $4M and $30M. **LEM Capital** targets $3M to $10M equity pieces for Class B to B- properties with 200 to 300 units that will be upgraded to Class A- to B+. Projected returns will be 10% to 12%. LEM provides 75% to 85% of the equity slice, bringing leverage up to 90% to 95% of the capital stack. Local value-add players with in-house management will be highly sought after. Owners with 2,000 to 20,000 existing units will be targeted.

Expect **Forman Capital** to target $3M to $10M equity pieces for Class C value-add properties with plans to upgrade to B or B-. Forman originates stretched first mortgages with equity pieces built in. Targeted returns will be in the mid- to high teens and leverage will reach 90%. **JCR Capital** deploys JV equity between $3M and $15M for Class B and C assets. Preferred returns will be 8% to 12%. Leverage can reach greater than 90%, with an 85% average.

Pensam Capital targets $3M to $10M JV investments. Deals will provide up to 80% of equity. Overall returns will be in the mid-teens. Pensam works with all multifamily classes in the Sunbelt, Florida, Texas and Midwest. **Dominion Corporation** considers JV slices under $5M in major MSAs, although, most deals will be more than $5M with up to 95% leverage. Preferred returns will be 16%-plus. Dominion works on large repositioning assets in markets with favorable demographics.

LENDERS DIVE INTO LAND

Anticipate a surge in land financing through the end of 2014, as prices skyrocket back to peak levels. Leverage will reach 75%, but most deals will be around 60%. Borrowers will see rates between 8% and 18%. Pressure to secure land for new construction builds, as existing real estate absorbs and stabilizes. Don't expect pricing to drop for at least two years, although any rent corrections could negatively impact land values. Lenders will favor land earmarked for residential development within 12 months.

Count on private money lenders to be the most bullish in the sector. **W Financial** will be active on $500K to $12M loans. Leverage will reach 75%, with 10% to 11% pricing. Land zoned for multifamily, condos, mixed-use and industrial properties in the Tri-State area will be preferred. **Oasis Financial** originates $1M to $7M loans in the Southwest. Leverage runs 50% to 65% but can go higher in a JV structured deal. Interest rates will be 12%; land can be entitled for any property type with a takeout strategy. **Hudson Realty Capital** allocates $5M to $20M loans with leverage up to 60%. Rates will be 10% to 12%.

Watch for **Canyon Capital Realty Advisors** to originate $10M to $50M loans, with 50% to 60% leverage. Rates will be 10% to 12%. Canyon desires urban land entitled for immediate development. **Pensam Funding** targets loans with guaranteed takeouts from construction lenders in a 12- to 24-month period. Entitled land for multifamily and single family in Florida will be sought after. Pensam Funding's land loans max out at $5M and leverage will reach 60%. *Continued on Next Page*

DUST SETTLES ON HOTEL CMBS...

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Debt yield for mid-sized loans will be 10% to 10.5%. Expect single-asset securitization loans from $100M to $150M to be priced higher. Smaller $5M to $8M loans will receive rates from 4.75% to 4.85%. Lenders will win deals based on slight variants of lower pricing, even just 5 to 10 basis points. Debt yield for smaller deals will be 11% in the next few quarters.

Morgan Stanley will be one of the busiest hotel CMBS lenders this year. The lender will aggressively chase deals that fit its strategy. Morgan Stanley targets strong, experienced operators with top brands or locations. Recent deals include a Residence Inn in Nebraska and a DoubleTree in North Carolina. **Wells Fargo** and **JP Morgan Chase** will also be among the busiest hotel CMBS lenders. Both conduits will quote deals with mezz for leverage up to 85%. Odds are the mezz will be sold off at or after closing.

Citi, Goldman Sachs, BofA, Archetype Mortgage Capital, Natixis, Deutsche Bank, C-III Commercial Mortgage, Barclays, UBS, RBS and **Basis Investment Group** will to be active with hotels. Conduits will equally target select- and full-service assets.

LOOSER UNDERWRITING FOR SINGLE-TENANT RETAIL

Lenders improve parameters for single-tenant retail assets with leverage to reach 75% and interest to dip to 3.5% by year's end. Also expect more creativity with deal structure, including reserves and amortization. The majority of deals will see 60% to 70% leverage and 3.75% to 4.75% rates. Borrowers with fully amortizing loans and 20- and 25-year terms will obtain 4% to 5% rates. DSC will start at 1.15x. Count on lenders to put a renewed emphasis on underwriting tenant sales, trends and competition. Credit tenant lease deals will see 100% leverage on a zero cash flow mortgage and lease terms of at least 20 years. DSC will be 1.01x.

Keep an eye out for conduits, including **JP Morgan Chase, Wells Fargo, Cantor Fitzgerald** and **Goldman Sachs** to provide 65% to 75% leverage. Look for 3.75% to 4% pricing. Conduits target deals where tenants have 15 years left on leases. Look for conduits to be active with retailers that have been historically tough to finance such as Rite Aid and fitness centers.

Life company lenders will possess greater single-tenant retail allocations than seen in the past. Expect 60% to 70% leverage and 3.5% to 3.75% rates for 10-year deals. **Stancorp.** and **Southern Farm Bureau Life** will allocate loans less than $2M for single-tenant retail, while **ING Investment Management** prefers portfolios. **Prudential, Pacific Life, AEGON** and **Principal Real Estate Investors** will be active. Keep an eye out for select life companies to ease on credit criteria and look at non-investment grade assets.

National banks such as **Chase, Wells Fargo** and **TD Bank**, along with regional players **BBVA Compass, Investors Bank, First Commonwealth Bank, Sovereign Bank** and **Provident Bank** will allocate lower rates, longer terms and structure financing to fit borrower needs. Banks provide interest around 4% and will be looser with non-investment grade tenants over the next few quarters.

Watch for lenders to look closely at tenant sales per square foot, lease term, residual value of the property and creditworthiness of the tenant. Home Depot, Lowe's, Walmart, Dollar Store, Publix, Kohl's, Autozone and O'Reilly Auto Parts will be desired. Anticipate lenders to want lease terms greater than 10 years. The Mid-Atlantic, Southern California, Miami, Atlanta, Houston, Dallas/Fort Worth and Fort Lauderdale and Boca Raton, Fla., regions will see plenty of lenders. Financing in the Midwest will be tough except in large MSAs such as Chicago and Cincinnati.

Lenders seek out tenants with a minimum S&P rating of BBB- or Moody's Baa. Loans with lower rated tenants will need some level of recourse. Assets with weak tenant sales, credit ratings below DDD-, short-lease terms, tertiary locations and above market rent per square foot will keep lenders at bay. Lenders will shy away from overexposed borrowers with contingent liabilities. Electronics stores will be tough. Some lenders with too many drug stores in their portfolios will keep away from Walgreens and CVS.

BANKS & LENDERS

(Supplemental to the Directory)

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

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Builders Bank: 1999 Avenue of the Stars, Suite 2340, Los Angeles, CA 90067. Jeremy Cramer, Assistant VP-Lending, (310) 556-7732. jcramer@buildersbank.com

Canyon Capital Realty Advisors LLC: 2000 Avenue of the Stars, 11th Floor, Los Angeles, CA 90067. Robin Potts, VP, (310) 272-1584. rpotts@canyonpartners.com

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

DEALMAKER DATABANK

Baltimore Financial
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Moore arranges $13M in pref equity for a renovated office building in San Francisco. He was able to find an equity source that increased the original funding request by $2M and converted the debt to equity to provide substantial cash flow to the borrower.

Capital Advisors Inc.
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Capital Advisors works on a $2.1M loan for a single-tenant office/warehouse property in Greenville, N.C. Interest was 4.55%. Leverage was 67% of the loan to purchase price. This was a 10-year loan, with 25-year amortization.

CBRE
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CBRE closes $27.2M for a pool of six single-tenant retail assets in various markets. Interest came in at 3.1%, fixed for six years, and full-term interest only. Leverage was 55%. The LC lender offered favorable underwriting and below market pricing.

George Smith Partners
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George Smith Partners teams up with a bank to arrange $7.4M for the acquisition of a mixed-use building in Los Angeles. LTC was 70%. Interest came in at 4.25%, fixed for seven years. DSC was 1.20x. This is a fully amortizing, 30-year loan.

HFF
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HFF completes first mortgage financing for two industrial assets in Pine Brook, N.J., with a local bank. LTV was sub-65%. The lender liked the established borrower, the fully occupied buildings, staggered lease maturities and long-term tenants.

HFF
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HFF closes $38M with Viewpoint Bank for the refinance of 15 industrial properties in Texas and New Mexico. The bank liked the opportunity to provide 12 separate loans. The loans have 10-year terms and 30-year amortizations.

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Marcus & Millichap completes a 10-year loan, with 25-year amortization on a Walgreens. LTV was 80%. The fixed rate came in around 4.44%. The borrower needed a quick close of less than 30 days to avoid tax consequences.

Mark One Capital
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Mark One works on a $7.4M cash-out refi for a drug store in Orange County, Calif., with an investment bank. This was a 10-year loan, five years interest only. Interest came in at 4.3%.

Meridian Capital Group
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Meridian finalizes a multifamily acquisition loan in Atlanta with a CMBS lender and was able to push proceeds compared to the agencies. Bar-Or achieved 78% LTV and 75% LTC.

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PMZ closes a hotel portfolio of three IHG properties in Texas. Leverage was 85% with mezz. JP Morgan Chase was the senior lender. The rate was 5.25%.