The CRITTENDEN REPORT® Real Estate Financing

The Nation's Leading Newsletter on Real Estate Finance

Crittenden Research, Inc. • P.O. Box 1150 • Novato, CA 94948-1150 • Customer Service: (800) 421-3483

Vol. 40, No. 11 **June 9, 2014**

EQUITY BUILDS ON CONSTRUCTION

Look for more available pref and JV equity in the coming months. Investors won't find enough opportunities to deploy capital and will re-visit deals they might have passed on the first time. Expect a more competitive equity market, as investors will be willing to absorb more risk. Investors will provide 80% to 90% of the required equity, bringing the total capital stack as high as 95%. Watch for 90/10 or 95/5 co-invests. Anticipate equity providers to want 1.5 to 2 multiples and upper teens to 20% IRRs, a bit higher than seen in past cycles. Expect underserved secondary and tertiary markets to start seeing an inflow of equity capital, as primary markets show signs of being overbuilt.

Count on 2.5% to 3% development fees for large projects and 4%-plus for smaller deals, which developers will receive monthly over a 24- to 36-month period. Once a project is completed and stabilized, watch for some investors to stay and others to maximize IRRs quickly by exiting the deal. These terms will be predetermined going into the deal. Equity investors will want completion and repayment guarantees, as well as projects backed by strong balance sheets. If a project stalls, the developer and equity could be wiped out, while the bank takes over the deal. Equity providers usually have the right to step in and take control if the developer isn't able to execute. Equity investors will have input on major decisions such as overhead draw, as part of operating agreements.

Partners Capital Solutions will originate pref and JV equity for construction with up to 95% leverage. Look for the firm to invest $500K to $3M equity slices into projects with a total market cap of $2M to $15M. Partners Capital targets construction of all the major food groups with experienced developers. Overhead draw will be negotiated to be fair and responsible, given the scope of the project. The investor requires that the developer's capital is the first loss and that management tasks are adhered to, in order to guarantee Partners Capital will be paid back. **Mountain Real Estate Capital** invests JV equity for residential land site development and vertical housing construction with at least 150 lots or homes. Mountain prefers to deploy a minimum of $10M into a deal with 5% to 20% co-invests from the partner.

TMC America targets infill single-family, condo and townhome projects with 15 to 50 homes per development. The investor originates $1M to $10M pref and JV equity pieces with 90/10 equity splits. TMC will provide 85% to 95% of the required equity. Project level leveraged IRRs will be in the high 20% to low 30% range. Look for **Starwood Capital, Carlyle, Phoenix Capital, Westmount Realty Capital, Canyon Capital Realty Advisors** and **RCG Longview** to be active on equity for construction, along with LCs such as **Prudential** and **USAA.**

There will be plenty of available equity dollars for multifamily and senior housing projects. Count on equity investors to want at least 50% pre-leasing for office construction. Watch for an increase of equity for pre-leased retail construction in underserved markets such as D.C., especially grocery-anchored centers. Major cities such as Boston, New York, San Francisco and Miami will see condo equity dollars.

CONDUITS INCREASE HOTEL OUTPUT

Anticipate **Morgan Stanley, Starwood Mortgage Capital, Natixis, Citi, CCRE, C-III Commercial Mortgage, Freedom Mortgage, Barclays, UBS** and **Jefferies LoanCore** to increase hotel allocations during the second half of the year. Look for conduits to become more flexible with hotel type and enter new markets in the coming months. Leverage will push above 80% before the year is through. Expect debt yield to drop as low as 9% for select-service properties, while most deals will be 10% to 11%. Transitional loans will be in the 10% to 12% range.

Continued on Next Page

TOP CONDO LENDERS/EQUITY PROVIDERS
(PROJECTED 2014 ORIGINATIONS)

LENDER/EQUITY PROVIDER	FULL-YEAR PROJECTIONS	DETAILS
Canyon Capital Realty Advisors	$200M+	$10M to $150M+ loans for projects with meaningful pre-sales and local experienced sponsors
Bank of the West	$200M	$15M to $30M loans for phased projects with 20 to 100 units
Builders Bank	$200M	$1M to $5.5M loans
UC Funds	$125M	$3M to $25M loans for conversions, renovation and repositioning of existing inventory, selective ground-up projects
Sabal Financial Group	$100M	$3M to $50M loans for projects with a maximum of 100 units and three stories; mid-rises, high-rises will be considered
Thorofare Capital	$50M	$2M to $25M loans for condo inventory DPOs, fractured development projects, non-performing loan acquisitions for

DEAL OF THE WEEK

Property Type: Single-Tenant Office in Claremont, Calif.
Loan: $8.5M Refi
Lender: **EverBank**
Leverage: 65% LTV
Rate: 5.49% Fixed

This single-tenant office building is part of the Keck Graduate Institute Applies Life Sciences Campus. The deal took almost 12 months to finalize, as the KGI Board had to approve a new 10-year lease from the original five-year term. EverBank was confident in the creditworthiness of the tenant and its' 10-plus years of occupancy.

The financing provides working capital to expand a life science graduate program on campus, replaces a line of credit backed by Graduate Schools Endowment and allocates funds for new leasing commissions. Around $1.2M will go toward tenant improvements. DSC was 1.76x. Debt yield came in at 12.8%. This is a 10-year loan with 25-year amortization. EverBank required 100% recourse to the 501(c)3 borrower.

Johnson Capital: 234 E. Colorado Blvd., Suite 505, Pasadena, CA 91101. Geoffrey Arrobio, SVP, (310) 229-0011. garrobio@johnsoncapital.com

EB-5: ECONOMICAL OPPORTUNITY FOR BORROWERS

Look for EB-5 financing to gain momentum as an inexpensive and high-leverage option, especially for construction. Proceeds can go toward first mortgage debt, mezz, second mortgage and equity. JV equity deals will see 90%-plus leverage, while mezz loans will push to 80%. Construction first mortgages will see 65% to 75% LTC. All deals will be non recourse. Hotel deals will obtain 5% to 6% rates, while borrowers will see 3% to 8% pricing for other property types. Mezz rates run 5% to 8%. EB-5 will be one third of

BANKS, LENDERS & EQUITY PROVIDERS

(Supplemental to the Directory)

Bank of the Ozarks: 1999 Avenue of the Stars, Suite 1100, Los Angeles, CA 90067. Tom Whitesell, EVP-Real Estate Specialties Group, (424) 253-1135. twhitesell@bankozarks.com

Bank of the West: 300 S. Grand Ave, Fifth Floor, Los Angeles, CA 90071. Allen Kirschenbaum, Division Manager-Real Estate Industries Division, (213) 972-0384. allen.kirschenbaum@bankofthewest.com

Case Real Estate Capital LLC: 340 W. Passaic St., Suite 300, Rochelle Park, NJ 07662. Sanford Herrick, Managing Principal, (201) 845-4244. sherrick@caserealestatecapital.com

Civitas Capital Management: 1601 Bryan St., Suite M-200, Dallas, TX 75201. James Crigler III, Managing Director, (214) 572 -2307. jim.crigler@civitascapital.com

Commercial Capital: 367 Athens Highway, Suite 600, Loganville, GA 30052. Brian Peart, President, (770) 908-1672. commercialmoney411@gmail.com

Eagle Group Finance: 12100 Wilshire Blvd., Suite 520, Los Angeles, CA 90025. Brian Good, CEO/President, (310) 843-0001. brian@eaglegroupllc.com

Forman Capital: 2875 S. Ocean Blvd., Suite 218, Palm Beach, FL 33480. Brett Forman, President, (561) 588-0132. bforman@formancap.com

Grandpoint Bank: 1960 E. Grand Ave., Suite 1200, El Segundo, CA 90245. Brian Jurczak, VP/Senior Relationship Manager, (310) 321-3003. bjurczak@grandpointbank.com

INCA Capital: 7377 E. Doubletree Ranch Road, Suite 190, Scottsdale, AZ 85258. Brandon Walters, CFO, (480) 947-5900. brandon@incacapital.com

Lexden Capital: 51 E. 42nd St., Suite 300, New York, NY 10017. David Soares, President/CEO, (212) 897-0005. dsoares@lexdencapital.com

Mountain Real Estate Capital: 13860 Ballantyne Corporate Place, Suite 130, Charlotte, NC 28277. Arthur Nevid, Chief Investment Officer, (704) 930-7501. anevid@mrec.com

Partners Capital Solutions: 26901 Agoura Road, Suite 180, Calabasas, CA 91301. Michael Klein, Managing Director, (818) 676-3337. mklein@pcs-funds.com

Pensam Capital: 777 Brickell Ave., Suite 1200, Miami, FL 33131. Michael Stein, Principal, (786) 539-4999. mstein@pensamcapital.com

Regional Capital Group: 701 E. Route 70, Marlton, NJ 08053. Paul Braungart, President, (856) 983-4800, Ext. 206. paulb@regionalcapital.com

DEALMAKER DATABANK

Aries Capital 216 W. Ohio St., Floor Five, Chicago, IL 60654 Neil Freeman, Chairman/CEO (312) 640-7420 nfreeman@ariescapital.com	Aries Capital secures $18.15M in non-recourse construction financing for the renovation of the Malliouhana Hotel and Spa in the Caribbean.
BMC Capital 3100 Monticello Ave., Suite 400, Dallas, TX 75205 Keith Van Arsdale, President/CEO	BMC Capital arranges a $5.05M refi for a 21,000-s.f. multitenant retail center in Austin, Texas. The 10-year loan has a 25-year amortization schedule.

UNENTITLED LAND DEALS EMERGE

The bridge lending sector opens wide as lenders begin to underwrite unentitled land. Borrowers can expect a steady flow of available bridge lenders, including new bank players, and higher leverage. Watch for leverage to exceed 70%, significantly higher than the 60% max seen the last few quarters. Rates will range from 8% to 15%. Land will become more valuable as construction increases, leading to a need for additional bridge loans. Expect increased lender appetite for single-family, condo, multifamily, hotel and industrial entitled land. Lenders will be cautious of fluctuating land values and limited number of buyers in the space.

Pensam Capital provides $2M to $10M non-recourse bridge loans. The lender will be bullish by handing out 75% leverage and loans for unentitled land. Rates will be 12% plus points. Borrowers will see 12- to 36-month terms. **Commercial Capital** funds $100K-plus loans with 13% rates and 4 to 5 points. Terms will be two years, interest only, and the lender will consider raw land loans at 30% of appraised value.

INCA Capital originates $500K to $15M land bridge loans with 50% leverage. Rates will be 11% with 3% fees for 12 months. Unentitled land will be considered, but INCA underwrites to current zoning not expected entitlements. Recourse will be flexible when LTV is under 50%. The lender underwrites based on the land price and development completion costs. **Eagle Group Finance** funds $1M to $25M non-recourse loans with up to 50% leverage. Partially entitled land will