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. 41, No. 1 **January 12, 2015**

JV EQUITY SOURCES WIDEN DEAL SCOPE

Count on an increase of JV equity for multifamily transactions in the New Year and a shift away from value-add transactions toward development deals. Heightened competition will lead investors to look at overall riskier deals, including opportunities in smaller markets, less favorable locations and lower property class levels. Expect new family offices and foreign capital to turn toward multifamily investments. Also, count on more partner recapitalization transactions where sponsors take out a limited partner and bring in fresh capital.

Big players such as **JP Morgan**, **Blackrock**, **AEW Capital Management**, **Blackstone**, **Carlyle**, **Invesco** and **Crow Holdings** will be the most bullish. Life companies such as **Prudential**, **AIG** and **USAA** will also grab some market share. The majority of JV equity investors will want 1.75x multiples and low to mid-20% IRRs. Ground-up development will see 1.65x-plus multiples and 20% to 25% IRRs. Expect 8% to 12% preferred returns. In addition to focusing on deals in primary locals such as Miami, Los Angeles, Colorado, Texas and Atlanta, more investors will trickle into secondary and tertiary markets this year.

Phoenix Capital Partners targets $5M to $15M investments per project. Ground-up deals with top-tier developers in high barriers-to-entry submarkets will be targeted. The firm will also look at value-add acquisitions of well-located suburban assets in high growth areas. Targeted markets for value-add deals will include cities with newly delivered product and cost gaps between new and existing assets. Phoenix Capital typically has a waterfall structure for cash flow. All primary and select secondary markets will be considered.

UC Funds originates $500K to $15M equity investments for market-rate, affordable, student-housing and senior-housing properties. Value-add transactions will be the most sought after, followed by stabilized assets and ground-up deals. Preferred returns will be 8%-plus with equity splits starting at 50/50. Infill areas with demand drivers will be desired and watch for leverage to reach as high as 95% with UC Funds' equity piece. **Dekel Capital** provides $3M to $10M equity pieces for all property types, including student and senior housing. The firm targets 2x multiples and three-year investment periods. Most transactions will be ground-up development nationwide with a focus on Southern and Northern California, Texas, Utah, Minnesota, Seattle, and Portland, Ore. Sponsors will need to put 15% of equity in the deal.

LEM Capital targets $3M to $10M JV equity slices for the acquisition and renovation of 1985 to 2005 vintage value-add properties with 200 to 400 units. Preferred returns will be 8% to 10% and mid- to upper teens IRRs. LEM typically funds 80% to 85% of the required equity. Major and secondary markets such as Dallas, Houston, Chicago, Denver, Minneapolis and Nashville, Tenn., will be desired. The firm will originate $100M of equity for multifamily in 2015.

Newport Capital Advisors provides $1M to $10M JV equity investments for acquisitions and value-add situations without substantial rehabs. The firm will consider older properties

TOP LIFE COMPANY LENDERS
(PROJECTED 2015 ORIGINATIONS)

LIFE COMPANY	FULL-YEAR PROJECTIONS	DETAILS
Prudential	$14B	All properties; nationwide
MetLife	$10B-$11B	$10B+ in 2014; $20M-$500M fixed- and floating-rate loans for office, apartments, hotels, industrial, retail; three- to 20-year terms
New York Life	$5B+	$5.1B+ in 2014; $15M+ fixed- and floating-rate loans for office, industrial, retail, multifamily; core, bridge/value-add and construction-to-perm
Northwestern Mutual	$4.5B	$5.2B in 2014; $15M-$500M loans for all properties; five- to 25-year terms; 75% max LTV
Principal Real Estate Investors	[illegible]	[illegible]

DEAL OF THE WEEK

Property Type: Single-Tenant Industrial in Homer, Mich.
Loan: $3M Construction-to-Perm
Lender: **Stancorp.**
Leverage: 65% LTV
Rate: 5%-plus

Life companies usually shy away from construction loans in tertiary markets, but Stancorp. was confident in the tenant's strong financials and personal guarantee, as well as growth and other recent investments in the market. The deal includes a nine-month, interest-only construction loan that will convert to a fully amortizing 15-year permanent loan once the tenant opens and begins to pay rent. The borrower was fortunate to lock the permanent loan rate at application, while incurring less fees and costs due to one closing. Stancorp. required 100% recourse and the borrower provided 35% equity.

Bernard Financial Group: 20700 Civic C

BANKS, LENDERS & EQUITY PROVIDERS

DEALMAKER DATABANK

Capital Advisors
200 S. College St., Suite 1520, Charlotte, NC 28202
Mark Ethridge, Producer
(704) 945-3408
mark.ethridge@capadvisors.com

Capital Advisors completes a $4.2M CMBS loan on an unanchored retail center in Laredo, Texas. LTV was 75% with 30-year amortization.

Cohen Financial
50 California St., Suite 3550, San Francisco, CA 94111
Kenneth Fox, Managing Director-Capital Markets
(415) 591-3111
kfox@cohenfinancial.com

Cohen Financial arranges $4.9M for the refi of a fully leased multitenant medical/dental office property in Cupertino, Calif. The 10-year, non-recourse loan was provided by Lincoln Financial Group.

Cohen Financial
1001 Brickell Bay Drive, Suite 2906, Miami, FL 33131
Kevin O'Grady, Partner/Senior Managing Director
(866) 315-6501
kogrady@cohenfinancial.com

Cohen Financial works to secure debt and equity for River Landing Jackson Memorial in Miami. The project will have multifamily and retail space. O'Grady also works on securing financing for office and apartment redevelopment in Chicago.

Cohen Financial
227 W. Monroe St., Suite 1000, Chicago, IL 60606
Daniel Rosenberg, Partner/Managing Director
(312) 346-5680
drosenberg@cohenfinancial.com

Cohen Financial secures $11.4M in acquisition loans for two retail properties in the Midwest with CMBS lenders. Shorewood Commons receives $4.5M in Shorewood, Ill., and $6.9M went to McGalliard Mall Shoppes in Muncie, Ind.

George Smith Partners
10250 Constellation Blvd., Suite 2700, Los Angeles, CA 90067
Steve Bram, Principal/Senior Director
(310) 867-2904
sbram@gspartners.com

George Smith arranges a $49.5M loan for a mixed-use building with office, retail and apartment space in Palo Alto, Calif. The term is 30 months with two, six-month extensions. The rate is 9.5%. No preleasing was required to fund the first tranche.

HFF
1450 Brickell Ave., Miami, FL 33131
Max Comess, Director; Scott Wadler, Associate Director
(305) 448-1333
mcomess@hfflp.com; swadler@hfflp.com

HFF secures a $157M construction/mini-perm senior loan for SLS Brickell Hotel and Residences in Miami with Canyon Capital Realty Advisors. LTC was 56% of total project cost and 87% of total cost less buyer deposits. The rate was 9.5%.

HFF
50 Rockefeller Plaza, Floor 15, New York, NY 10020
Andrew Scandalios, Senior Managing Director;
Jeff Julien, Managing Director; Rob Hinckley, Director
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ascandalios@hfflp.com; jjulien@hfflp.com; rhinckley@hfflp.com

HFF is in the process of raising equity capital on a $200M mixed-use project in St. George Staten Island, N.Y. The primary component is 112 residential units, along with retail, hotel and parking.

HFF
300 S. Orange Ave., Suite 1250, Orlando, FL 32801
Michael Weinberg, Director
(407) 745-3914
mweinberg@hfflp.com

HFF works on financing a $45M stabilized hospitality portfolio for a high-quality owner/operator and a $110M bridge loan for a hotel portfolio that has seven assets in five states for an institutional sponsor.

NorthMarq Capital
3200 E. Camelback Road, Suite 253, Phoenix, AZ 85018
Shari Stults, VP, (602) 508-2210
5020 Weston Parkway, Suite 125, Cary, NC 27513
Todd Crouse, Managing Director, (919) 781-1811
sstults@northmarq.com; tcrouse@northmarq.com

NorthMarq works on a $5.3M medical office loan. The property is 80% leased (largely to a credit tenant) with the remainder of the building in gray shell. The deal receives strong interest from a variety of lenders, including banks, LCs and credit unions.

United Financial of America
200 E. Robinson St., Suite 1230, Orlando, FL 32801
Michael Daspin, President
(407) 423-5901
unitedfinancial@bellsouth.net

United Financial closes a $13M refi for a Hampton Inn in St. Augustine, Fla., with a Wall Street lender. The same lender did the existing $9M loan in 2004 and the borrower was able to recapture some equity through the refinance.

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INTEREST RATE PREDICTION

An increasingly prevalent school of thought subscribes to the theory that rates have been too low for too long and are bound to rise. However, as long as the market is flooded with capital the Fed will most likely keep rates low. Rates should remain steady during the first half of the year, but are expected to increase at least 25 to 100 basis points by year's end. Some experts foresee low rates until a sizeable pop in early 2016, as long-term rates have to rise at some point. Spreads could even compress in the coming months, but overall coupons will not go much lower. Expect the 10-year treasury to be around 3%, which should stay static for six to 12 months and move to 3.25%-plus after that.

If rates rise, the most desirable properties should be able to secure very attractive financing terms, as lenders compete for business. As the economy strengthens, inflation will result and interest rates will adjust to keep inflation low, leading to gradual increase in rates.

Anticipate rate levels to fluctuate depending on factors such as the stock market, oil prices, unemployment rates and Europe's economy. Any macro disruption could push rates up faster than predicted and any geopolitical risk can cause spreads to rise as it relates to flight to quality. The excessive supply of new paper can also cause spreads to widen. Overall, the market should not see any major moves upward or downward in longer term treasuries, Prime, or Libor before Q4.

The one thing experts agree on: it is a good time to lock down permanent long-term debt. The market will see some flattening of the curve, which will be good for the borrowers in the seven-, 10- and 15-year loan space. Floating-rate spreads will come in and could increase 50 to 75 basis points this year. Bridge lender rates will follow Libor. Spreads on bridge loans for almost all property types have come down over the past two to three years, primarily due to increased competition, but also due to the fact that lenders are seeking to achieve higher yields. Don't expect private money lender and debt fund lender rates to change too much, even if there is volatility in the market.

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The Crittenden Report on Real Estate Financing™ is published by Crittenden Research, Inc., 45 Leveroni Court, Suite 204, Novato, CA 94949. Send address changes to *The Crittenden Report on Real Estate Financing*™, P.O. Box 1150, Novato, CA 94948-1150. Contents copyright © 2015 Crittenden Research, Inc. Sample reports may be requested online at www.crittendenonline.com.

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