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. 12 **June 22, 2015**

HOTTEST CROWDFUNDING COMPANIES
(2015 PROJECTED TOTAL RAISES AND DETAILS)

COMPANY	VOLUME	DETAILS
Fundrise	$175M	Raised $70M across more than 60 deals YTD; both debt and equity, primarily pref equity; multifamily, mixed-use, retail, office, industrial, flex; 45,000 investors; $1.5M average deal size; $12K average investment; investors pay 30 to 50 basis point fee per investment, real estate companies pay an underwriting fee, as well as a percentage of funds invested
Patch of Land	$80M-$100M	Raised $15M across 60+ loans YTD; debt for single-family, multifamily, small commercial, mixed-use; 10,000+ investors; $230K average deal size; $11K average investment; the company is paid

ACTIVE SINGLE-FAMILY LENDERS/EQUITY PROVIDERS
(2015 PROJECTED ORIGINATION VOLUME AND PREFERENCES)

LENDER/INVESTOR	VOLUME	DETAILS
Lone Oak Fund	$250M	$250K-$25M loans for non-owner occupied fix and flips, high-end pools of homes; 65% of purchase price; 7.9%-8.9% interest-only rates; three- to 36-month terms
Mountain Real Estate Capital	$200M (equity)	Funded $80M of equity YTD; joint ventures with public, large private homebuilders, including land banking
Comerica Bank	$150M	Funded $75M YTD; $10M-plus loans for 11 to 100 homes; detached and townhome transactions; 65%-75% LTV; two- to four-year terms; infill core San Francisco Bay area markets
Partners Capital Solutions	$150M	Funded $60M YTD; infill properties in supply constrained markets; up to 80% LTC; 8%-11% rates; 12- to 24-month terms

Other Active Single-Family Lenders:

Union Bank, fixed-rate, adjustable-rate mortgages, hybrid adjustable-rate mortgages with three-, five-, seven-, 10-year terms, along with 15- and 30-year fixed rates; portfolio loans called Economic Opportunity Mortgage up to 95% LTVs without private mortgage insurance; fixed rates have terms of 10, 15, 20, 25, 30 years and allow financing up to 95% LTV with mortgage insurance; conforming adjustable-rate mortgages are offered in three-, five-, [illegible]

EQUITY INVESTORS TARGET MULTIFAMILY

JV and pref equity multifamily investors will consider riskier transactions to win deals in the coming months. Look for a trend toward higher leverage with pref equity in the capital stack, stronger demand for construction equity, investors entering smaller markets and longer term equity slices. Investors will push toward existing assets, as land prices rise. Count on 90/10 equity splits. Investors will target 1.75x to 2x equity multiples and upper teens returns. JV equity investors will seek mid-teens IRRs in gateway markets and high teens to low 20% IRRs in secondary cities. Expect **JP Morgan**, **Cornerstone**, **Prudential**, **AIG**, **USAA**, **Colony Capital**, **LEM Capital** and **Pensam Capital** to be active.

Eastham Capital targets $1M to $6M JV equity investments for value-add properties. The firm tends to invest in Class B and C assets and add value to bring the property up to the market average. Eastham targets cash-on-cash returns post renovation of at least 10% and 2x the equity. All markets, including secondary and tertiary cities, will be considered. Look for the firm to invest at least $30M in 2015. **CDB LLC** invests in modestly sized, 50 to 250 units, multifamily developments, primarily in JVs with local developers in Boston, New York and Washington, D.C.

Construction of urban core properties near transit-oriented developments will also see plenty of equity interest. Equity investors want partners with a pipeline of experience, track record of proven success and financial capabilities to finish the business plan in a timely manner. Markets with job growth and areas where new units are being leased up will see a flock of equity investors. Multifamily transactions in Washington, D.C., Seattle, San Francisco/Silicon Valley, Los Angeles, Chicago, Dallas and Austin, Texas will be the most sought after.

BANKS, LCs DOMINATE SMALL INDUSTRIAL LENDING

Borrowers will see plenty of available bank and life company capital funding small-balance deals during the second half of the year. While some lenders will start to reach allocation limits in other product types, such as retail or office, most banks and life companies still have plenty of capacity for industrial. Expect active lender appetites for sub-$10M deals. Industrial properties with long-term leases will see leverage reach 70%; most deals will max at 65%. Borrowers will see low to mid-4% rates with a few years of interest-only payments. Count on lenders to charge at least 1 point fees. Debt yield will be 8.5% to 10%-plus. While most banks and LCs will want 100% recourse, sub-65% leverage deals will see moderate recourse requirements. DSC will start at 1.20x.

Banks, such as **Wells Fargo**, **EverBank**, **Investors Bank**, **Opus Bank**, **BankUnited**, **Fidelity Bank** and **The Washington Trust Company** will be active on deals under $10M with up to 75% leverage. Expect conservative underwriting; however, banks will tighten debt yield metrics from the 10% range into the 9% range for well-located properties. New regulations on banks causes a shift in focus from construction to longer term loans, forcing banks to tighten requirements if they expect to deploy capital into the industrial space.

Life companies such as **Stancorp.**, **Symetra**, **Protective Life**, **Ohio National**, **Ameritas**, **OneAmerica**, **Nationwide Life Insurance**, **Principal Real Estate**, **Genworth**, **Aetna**, **Advantus**, **Unum**, **Assurity** and **The Guardian Life Insurance Company** will originate small industrial loans in the coming months. Life companies will target a 65% max leverage, although some will push to 70% for the most favorable properties. Expect 8.5%-plus debt yield based on NOI. Life companies will want some level of recourse on sub-$10M deals.

An increase of new industrial supply in certain markets, including some speculative development, and an all-time high of loan maturities expected over the next two to three years, leads to plenty of sub-$10M refi demand. The looming concerns of rising interest rates has also brought many refinancing opportunities to the industrial market, as long-term owners refi existing loans early in order to lock in low interest rates.

Class A and B assets built in the last 10 to 15 years will be the most sought after. Big-box distribution and light warehouse properties will also be desired. Multitenant assets will see the most available financing, along with single-tenant buildings with long-term leases. Lenders will want to see at least 95% occupancy. Anticipate banks and LCs to underwrite in-place income, actual expenses and rising pro forma property taxes.

BANKS, LENDERS & EQUITY PROVIDERS

DEALMAKER DATABANK

Aries Capital
216 W. Ohio, Fifth Floor, Chicago, IL 60654
Eric Jones, VP
(312) 640-7422
ejones@ariescapital.com

Aries closes a $6.7M loan for the refi and reflag of a Quality Inn in Charlotte, N.C., to a Wyndham Garden Inn. The CMBS lender provided cash out. The loan replaces a bank loan and funds the PIP.

Berkadia
323 Norristown Road, Suite 300, Ambler, PA 19002
Frank Lutz, SVP

Berkadia arranges $34.1M for the refi of Woodlands of College Station, a student-housing property at Texas A&M in College Station, Texas. The fixed-rate

ALL LENDER TYPES BULLISH ON HOTELS

Hoteliers will see more capital and creative financing for deals in smaller markets. Lenders will also start to consider a wider variety of hotel brands in order to compete. The recent sale of **GE**'s real estate lending platform to **Blackstone** and **Wells Fargo** will leave room for other new players to enter the hotel-lending space. Watch for more equity investors to get involved in hotels over the next six to 12 months, leading to higher capital stack leverages. Look for an increase of mezz lenders and private equity firms that will start to provide debt. Leverage will be 65% to 75%. Deals with mezz will reach 85%, while loans with pref