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%.

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DEAL OF THE WEEK

Property Type: To-be-built memory care facility in San Antonio
Loan: $2.4M JV equity
Equity Investor: **MedProperties**
Leverage: Approximately 75%

MedProperties provides JV equity on top of a senior loan from **Frost Bank** for the construction of a $10.7M memory care facility with developer, LaSalle Group. This was the first memory care deal for MedProperties, as well as the first JV between the two groups. LaSalle is a long-term hold player and MedProperties is confident in the group's proven track record with almost 20 existing memory care facilities.

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LENDERS DIVE INTO LAND…

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Avant Capital prefers land entitled for residential-focused, mixed-use developments in gateway markets. Loans will be $2M to $10M and 9% to 11% rates. Leverage will be between 50% and 60%. **JCR Capital** provides $4M to $10M loans in the Western U.S., with 10% to 18% pricing. Leverage will be between 50% and 60%. Private lender **Eagle Group** originates $1M to $15M non-recourse land loans in the Southwest. Rates will run 8% to 12%. Entitled infill land near other buildings will be targeted. Look for 40% to 45% leverage.

Banks such as **Wells Fargo**, **JP Morgan Chase** and **US Bank** will consider land loans with 50% LTCs and interest reserves. Anticipate banks to require construction takeout loans to follow within a year. **UBS** works with vacant lots zoned for multifamily. **Comerica Bank** targets $5M to $10M land loans with existing customers in the Bay Area. The bank requires a 100% personal guarantee and 65% maximum leverage based on market value. Comerica will target A&D loans for single-family projects and land already zoned for the intended property type.

Lenders seek out finished or entitled lots, while shying away from raw land. Strong markets such as San Francisco, Los Angeles, New York City, Boston, Houston, Dallas, Austin, Texas, Washington State, Colorado, Miami and other Florida markets will see the most lender dollars. Keep your eye out for a pickup in Phoenix and Las Vegas where land prices have doubled over the last few months, along with Sacramento, Calif., which has seen a vast increase in raw land sales. Locales with increased home building activity will also be highly sought after. Borrowers need to bring substantial equity and reserves for the entire entitlement process. Lenders want borrowers with experience developing similar projects and executing business plans.

DUST SETTLES ON HOTEL CMBS

Hotel CMBS lending may soften during the summer, after lenders boasted huge appetites for hotels over the past few months. Rates recently inched up to 4.5%. Expect conduits to target hotel deals over the next few months, but at a slower speed. It's likely CMBS lending will become robust again in Q4. Leverage will range from 65% to 70%. Be on the lookout for more conduits to partner up with mezz lenders in the second half of the year, which will bring leverage north of 80%. All markets will be considered going forward, as long as the property possesses solid cash flow and sponsor experience. Strong select-service assets in tertiary markets will draw interest from many shops.

Interest rates for hotel CMBS loans will likely creep up to the mid- to high 4% range this summer. Mid-size $10M to $100M loans will see the most favorable rates. Fully leveraged loans, at about 70%, will be priced from 4.60% to 4.65%.

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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

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DEALMAKER DATABANK

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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.

Marcus & Millichap Capital Corporation
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John Banas, Director
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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%.

BRIDGE LENDING IGNITES

Bridge lenders will be more aggressive and creative with terms in the second half of the year. Look for higher leverage and proceeds. Leverage will reach 90%, with most deals landing from 65% to 75%. Lenders will enter new secondary and tertiary markets in order to compete. Banks provide 4% to 7% rates but require full recourse. Borrowers see 6% to 12% rates from private money lenders. Rates could go up 0.5% to 1% next year. As more bridge players enter the game, lenders will warm to deals under $5M.

Banks such as **BBVA Compass**, **East West Bank**, **M&T Bank**, **Applied Bank** and **Opus Bank** will be active with leverage up to 70% and low rates. **Builders Bank** originates $1M to $6M bridge loans for small and mid-size borrowers. Rates will be as low as 4%; office, multifamily, retail and industrial will be in the cards. Leverage will reach 70% with 18- to 36-month terms. Anticipate bank rates to inch up next year because of increased regulations.

Private lenders will provide non- and partial-recourse options for borrowers. Watch for **Regional Capital Group** to originate $5M to $50M loans with leverage up to 90%. All income-producing properties, including hotels, will be targeted with single- to double-digit rates depending on risk. **Pembrook Capital Management** allocates up to 85% leverage and underwrites portions of loans as mezz. Loans will be $5M to $40M, with a $20M to $25M average. Pembrook will be active with multifamily, grocery-anchored retail and office. **Hudson Realty Capital** targets hospitality, multifamily and retail, along with certain office and industrial deals. Loans average $12M, with a $5M minimum. Leverage will be up to 85% of cost and 75% of value. Look for 7% to 10% rates. The lender works in secondary and tertiary cities.

ReadyCap Commercial gears up to roll out a bridge-to-perm program for cash-flowing assets in the $1M to $10M loan space. This provides borrowers lower rates and higher proceeds. Leverage will reach 75%. The four food groups, along with self storage and mixed-use properties will be targeted. ReadyCap also works with empty buildings, DPOs and single-tenant assets. Bridge loans can be non-recourse, with rates in the high 6% to low 8% range. **W Financial** plays in the $500K to $12M loan space with 9% rates. Leverage will reach 75% for multifamily, retail, office and mixed-use.

Count on **Pacific Private Money** to allocate $100K to $5M loans, with a $500K sweet spot, to small and mid-sized borrowers. Single family, multifamily, retail and office will be on the docket. Rates will be 7% to 13%, with leverage up to 70%. **Avant Capital** provides bridge loans around $5M, with a focus on condos and land for condos. Rates will be 9% to 11%, with 60% leverage. **Commercial Capital** originates interest-only bridge loans under $1M with up to 60% leverage. The lender works with all property types, including specialty use and hotels. **A10 Capital** provides interest-only provisions, non-recourse loans and creative structures. Retail, office, industrial, self storage, parking garages, MHC and hospitality will be desired. Loans will be $1M to $15M for all size borrowers.

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