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. 36, No. 13 **July 12, 2010**

BRIDGE LENDING PICKS UP TENTATIVELY

Count on lenders such as life companies (LCs), major money center banks, pension funds and CMBS returning back to the permanent financing market and maintain abstemious bridge financing pipelines, leaving the arena open for other bridge players willing to bet on high risk-adjusted returns. Look for middle market bridge lender **Hudson Realty Capital**'s workload to be dominated by bridge financing going forward and hedge fund **W Financial Fund LP** to increase its bridge origination volume this year. However, chances are heavyweights such as **City National Bank** and **Bank of the West** will not be dominant players on the bridge lending front, but will keep an eye out for good and competitive deals.

A strong demand for fixed-income securities floods the competitive field for permanent financing, prompting new players such as fund lenders and mortgage REITs to enter the bridge-lending field. These firms are sitting on cash and need to place their dollars, and can find a healthy yield with bridge loans. Typically, bridge lenders look for cash-flowing deals and will lend on value-add plays that are too risky for suitors such as LCs and pension funds, even if it is located in a good market. Cash-out refinances for borrowers who need quick closing and recapitalizations will account for most bridge transactions this year, with a limited number of acquisitions. Despite the increased cost for short-term financing and larger margins to offset risk, bridge lenders are still circumspect and are more comfortable lending on need-based real estate that is bolstered by good fundamentals. Bridge underwriting is more stringent compared to its permanent counterpart, with LTC/LTV between 60% and 75% depending on the deal, at LIBOR plus 300 to 400 basis points, at least. Bet on most bridge lenders to start sizing deals based less on leverage, and focus more on debt yields. In general, because most bridge banks will lend on transitional assets, they will underwrite to at least 10% debt yield based on proforma stabilized NOIs.

Going forward, Hudson Realty Capital Managing Director **Spencer Garfield** expects 70% of its business to be bridge financing, which includes lending money to borrowers buying debt. The lender's business is historically around 50% bridge financing, and the preferred loan property type consists of multifamily, retail and industrial. Currently, it veers away from land and ground-up deals, as they tend to pose a higher risk. Hudson Realty's bridge loans typically range from \$2M to \$25M, with an average of \$7M. It will lend up to 80% of the cost, not to exceed 70% of the as-stabilized value. As a middle market lender, Garfield sees a lot of demand for bridge financing because of the small amount of capital available in that space. The majority of the capital that has returned to the market is focused on Class A properties in top tier cities, and Hudson Realty will fill the neglected segment of the market, which are primarily B-quality assets in secondary markets. Its investment strategy targets underserved markets. Think the acquisition of sub- and non-performing debt, financing of third-party debt, discounted acquisitions of performing debt and originations of first mortgage, subordinate debt and recapitalization of operating partnerships. Hudson Realty recently closed on a \$9.17M bridge loan at 80% LTC for the acquisition and renovation of a 370-unit Class B multifamily in Austin, Texas.

Winter & Company Commercial Real Estate Finance subsidiary W Financial Fund aims to originate about \$100M in bridge loans this year, a significant increase from last year when the fund sat on cash, unable to find enough desirable new loan opportunities. W Financial primarily focuses on making first mortgage bridge loans, rarely considering second mortgage and mezzanine loans. About 80% of its lending volume is for multifamily and mixed-use properties with the balance spread across retail and other commercial loans. Given current market conditions, opportunities to finance note acquisitions are on the rise. The lender's focus is in the New York Metropolitan area, however it will consider cash-flowing properties in other primary markets. In general, the lender opts for the lower end of the risk spectrum, but also offers pricing at the low end of the hard money pricing matrix, preferring to continue to implement conservative underwriting. It is one of the few commercial real estate lending funds to maintain a healthy balance sheet, as it has managed to do over the last three years. W Financial is an open-ended hedge fund that is backed by 130 high net worth and institutional investors.

Continued on Next Page

Bridge Lending Picks Up Tentatively …

Continued from Page 1

Typical W Financial bridge loan LTV is in the 50% to 75% range, with rates varying from 8.5% to 12%, depending upon the "story," the current cash flow and the strength of the guarantors. Most deals require a personal guarantee. The fund will earn interest for a minimum period of time, however are contingent on the overall terms of the deal. Loan terms can be from one year to five, with one- to two-year loan terms being the most common. Maximum loan size is $20M, however, its average deal is $4.4M. Founder and Managing Partner **Gregg Winter** anticipates a lot of note acquisitions, which will increase bridge lending volume for the balance of this year and well into 2011. He currently sees 25% to 30% of new loan requests for note acquisitions, with the rest being opportunistic acquisitions and a few refis. Bridge financing involving construction is currently not on the books, however, W Financial routinely looks at deals with rehab components and may complete financing on a nearly finished product (at least 80% completed).

W Financial recently closed a $4M, three-year bridge loan for the acquisition of two multifamily assets with a total of 124 units in East Orange, N.J. The LTV for the 49- and 75-unit apartment buildings was 73%. The deal started as a note purchase from a bank clearing its balance sheet, however, the principals were able to buy the fee prior to the closing. A renovation escrow was held back at closing, which will fund the remaining work to upgrade the units. The borrower plans to exit the bridge loan with conventional financing after the work has been completed and both the operation and the NOI of the assets has been improved. The pricing of the deal was 9% with 3 points. W Financial also issued TOE acquisition financing for a 70-unit loft apartment building in Cobble Hill, Brooklyn, N.Y. The lender provided a 65% LTV, $2.75M mortgage for this $5.3M purchase. The two-year deal was priced at 11.5% with 1.5 points. The asset is situated in a hot neighborhood but the rents are constrained by an affordable housing restriction that will sunset over time.

City National Bank EVP and Manager of the Real Estate Division, **Mark J. Forbes**, maintains enthusiasm for commercial real estate financing, including bridge lending. While the lender's appetite may not be voracious, it is looking to place bridge money in good deals. Its bridge financing is typically three to seven years with loan sizes running the gamut, but its sweet spot is $2.5M to $20M. City National Bank favors California and Nevada, and it prefers to place bridge financing on assets that have historic market acceptance and a stable cash flow outlook. Industrial, multifamily, needs-based retail and Class A office are some better picks. Office financing is a little more challenging, especially in markets such as Orange County, Calif., that have been hit hard by recession. Financing for self-storage facilities is available, but it requires a proven track record and enough cash flow to meet debt service requirements. Amid today's market uncertainty, look for City National to steer clear of land deals except when it can see a clear path to development.

City National Bank's primary market is California. Several years ago, the company expanded into Nevada, and recently acquired the banking operations of Las Vegas-based **Sun West Bank**, adding seven banking offices and nearly $352M in assets to its holdings. **City National Corp.** is the parent company of City National Bank. It is backed by $20.1B in total assets.

Bank of the West has a healthy outlook on commercial real estate lending this year and aims to increase loan production from 2009 levels for mini perms, bridge loans and construction loans. Chances are bridge lending will only account for a small portion of its workload. It is considering lending on all product types such as office, industrial, retail, apartments, single-family subdivision and senior housing this year and 2011. Specific to the commercial space, SVP **Marc Thompson** sees good opportunities in apartments, senior housing and basically any product type that has good credit support. Its business is weighted in primary western markets where the bank has a retail branch presence.

While the recourse lender has an appetite for lending this year it is focused on relationship banking and requires a third-party guarantor for all its deals. Typical acquisition/refinance underwriting is 60% to 70% LTV, with cash-flow DSC anywhere from 1.20x to 1.45x, depending on the deal. Commercial real estate loan sizes range from $5M to $35M, with the target more in the $15M range. It looks for cash-flow deals and any deal that has some speculative risk needs to be mitigated by a strong sponsor, adequate cash equity and a strong local economy.

STRAIGHT FROM THE MARKET

(Deals done within the past 90 days.)

Type of Loan	Property/ Location	Lender	Loan Amount	Rate	Fee	Term	Amortization	Loan to Cost/Value
Acquisition Housing Santee, Calif.	Manufactured	Northwestern Mutual Life Insurance Co.	$18M	6.54%	N/A	10 Years	30 Years	55%

Details: The Highlands is situated just east of San Diego and features 306 homesites in an age-restricted (55+) community. The Highlands Mobile Home Community Association is the borrower and will use loan proceeds to purchase the fee simple interest in the property and recapitalize existing debt. It already owned the leasehold interest in the property. The Highlands Mobile Home Community Association is a California non-profit mutual benefit corporation comprised of the community's residents. Northwestern Mutual is a life company that is increasing its commercial real estate lending program on retail, industrial and office properties.

Contact(s): Zachary E. Koucos, Holliday Fenoglio Fowler, 3655 Nobel Drive, Suite 140, San Diego, CA 92122. (858) 812-2351. zkoucos@hfflp.com

SMALLER LENDERS HAVE MONEY TO SPEND

Commercial real estate borrowers should look toward lenders with smaller balance loans as the big players are still tough to crack. **Blackburne & Sons Realty Capital Corp.** is a hard money lender that always has cash burning a hole in its pocket and **First Bank and Trust Company of Illinois** will be lively in the lending realm as long as regulations allow it to stay aggressive. **A10 Capital** actively looks to deploy debt this year and loosens up on underwriting standards, while **BMC Capital** will be stricter with due diligence on real estate deals but is still cautiously optimistic for 2010. On the other hand, not all of the smaller companies are active, including **Equitable Life & Casualty Insurance Co.**, which has gone on a lending hiatus through year's end.

Substantial problems still exist in the credit market and banks continue to be reluctant on loans for commercial real estate deals. As a result, small balance lenders could provide the best financing opportunities, especially on troubled assets. They can step in on high-quality real estate properties where traditional lending sources are not interested because of associated risk issues such as low occupancy. Today's market is made up of wealthy private investors who will still make the traditional equity-only commercial loans but want 2% to 3% higher yield today than before the crash. On the other hand, there are nervous private investors that fear deflation. These guys will still make secured loans on prime properties and will give up 2% to 3% in yield to attract deals. Due to tremendous uncertainty, private investors demand flexibility, which ultimately triggers lenders, including small balance players, to cut back on terms. Some experts are apprehensive about a double-dip recession, which will cause rates to drop. Future commercial loans by banks may be amortized over just 12 years because of the fear of falling property prices, which will force borrowers to pay back loans sooner. But rates should hold fairly steady and the economy will slowly improve lending volumes as people get off the sidelines. Rates should stay low at 5.5% for banks and around 6% for life companies. Many predict lenders in the small balance realm will not offer fixed rates longer than five years, which makes now a great time for long-term fixed-rate money as everyone is waiting on the securitized lenders and the conduit market.

Hard money lender Blackburne & Sons' typical loan amount falls in the $150K to $1.5M range. The firm has already originated $10M YTD after making $25M in hard money loans last year. President **George Blackburne III** expects to make 40% less in 2010 because of a lack of investor and borrower demand along with investors buying fewer commercial properties at today's prices. Retail, office and industrial comprise more than 70% of the new loans originated to date. Blackburne notes that hard money lenders always have money to lend on commercial projects — it is just a function of rate over risk. Rates vary now more than they have in the company's 30-year history, and there was a time when the difference in pricing between a very safe hard money loan and a riskier deal was less than 2%. Today the spread is 5% and Blackburne's rates vary from 9.9% to 14.9%. LTVs can range from 40% on an older property up to 70% on the purchase of a newer property. Blackburne would even consider going up to 80% on the purchase of an REO or on a short pay.

Continued on Next Page

SMALLER LENDERS HAVE MONEY TO SPEND …

Continued from Page 3

Because hard money lenders are more expensive than banks, Blackburne is very flexible with the type of properties he will finance and will do deals nationwide, although not in areas that are economically depressed. Demand for commercial loans is down 75% compared with 2006. Blackburne is not a bridge lender and does not make money by churning out loans and earning fees. The lender tries to stick to long-term loans that will perform, however will not do land or construction loans. Because of uncertainty, the company was forced to cut term loans from five years to sometimes as short as 18 months.

The typical loan for First Bank and Trust Company of Illinois falls in the $2M to $8M range and SVP **Jeff Forsythe** plans another $75M to be loaned by year's end. Around $50M has already gone out to date on a few mobile home parks, credit tenant and self-storage deals. Apartments are also on the radar but it is difficult since First Bank faces competition with other players such as GSEs for those deals. Leased asset retail, office or industrial could also be in the works. First Bank stays far away from hospitality properties because of the risk involved. Self-storage needs a 65% LTV, apartments 70% to 75% and credit tenants can top 75%. Pricing is dependent on credit risk but is typically Prime plus 200 to 250 basis points with a floor of 6% to 6.5%. The company primarily does short-term loans from three to five years, such as construction on credit tenants and short-term bridge loans. Forsythe works on deals all over the U.S. but likes California, the Carolinas, Texas, the Pacific Northwest and its Chicago home base. It is a bit more cautious in Michigan and Florida right now. Forsythe has seen the volume of submissions decline, but he is currently looking at 12 to 15 deals.

Count on A10 Capital to originate loans under $10M, with a $2M to $7M preferred range. A10 recently closed on a $6.9M mini perm loan for an un-stabilized Class A office building in Texas. Because the building had low occupancy, the borrower was unable to secure traditional lending sources, and A10 was happy to step in. CEO **Jerry Dunn** is slightly more aggressive now in underwriting than in the past two years, but has loosened up a bit since then. Dunn typically wants LTV to be 65% max and will do value-add, mini perm, refinance, acquisition, fixed-rate and floating-rate loans. A10 lends to office, retail, multifamily and industrial. Dunn will do loans nationwide and in his mind there is plenty of capital in trophy properties/major markets, but not vice versa.

BMC Capital lends in the $500K to $5M area and looks at segments that have the most liquidity including multifamily, single-tenant retail, office and industrial. President and CEO **Keith Van Arsdale** already closed on an industrial warehouse, apartment complex and retail this year. He shoots for 60% to 70% LTV and 1.25x to 1.40x DSC. BMC will do fixed-rate, adjustable-rate, acquisition and refinance loans but shies away from construction loans. Van Arsdale also bets on a lot more due diligence than what was required in the past few years, and maintains lenders need to look at the REO schedule of the borrower, the refinance risk on the asset, the borrower's other properties and cash flow. He believes this year will be better than last year, however, market issues still exist and not every deal will fit in with today's underwriting standards. Van Arsdale looks at deals nationwide. BMC will also be very active in SBA lending because of the large 80% to 90% government guarantees on those loans.

Much like the big lenders, some of the smaller guys pull back this year as well. After doing a few deals with medical clinics in the first half of the year, Equitable Life & Casualty Insurance Co. yanks back all its lending volume for the second half of 2010. Equitable Life usually shoots for around 40 loans a year in the $500K to $5M range and works with the four major food groups along with senior housing, self-storage, mobile home parks and hotels. The LC focuses on deals west of the Mississippi.

CREDIT UNIONS EYE EXPANSION

Many traditional lenders issue temperate loan volumes this year, however, credit unions (CUs) such as **Digital Federal Credit Union**, **Redwood Credit Union** and **Stanford Federal Credit Union** are humming with business, banking on small- to mid-sized loans taking the reins. Some are more aggressive than others, looking to increase commercial real estate activity as much as 50% in 2010 from the year before, while others suspect figures to be comparable to 2009. Even though CUs only account for about 6% of the entire mortgage lending world, don't be surprised to see more activity from this cohort in the future, as a number of bills are in the works to boost their commercial lending capacity.

Continued on Page 6

DEALMAKER DATABANK™

Institution/Address	Phone/Fax/Contact Name	Lending Activity
A10 Capital 950 W. Bannock St. Suite 950 Boise, ID 83702	(208) 577-5010 Fax: (208) 577-5050 Jerry Dunn jdunn@a10capital.com	Lender actively looking to deploy debt to office, retail, industrial and apartments. Has closed on a total of $30B in commercial transactions.
American Assets Inc. 11455 El Camino Real Suite 200 San Diego, CA 92130	(858) 350-2600 Fax: (858) 350-2620 Chris Sullivan	A full-service real estate company specializing in the investment, development and management of retail, office and multifamily real estate nationwide.
Bank of the West 1450 Treat Blvd. Walnut Creek, CA 94597	(925) 979-4641 Marc Thompson info@bankofthewest.com	West Coast bank that lends on commercial real estate, as well as homebuilding construction.
Blackburne & Sons Realty Capital Corp. 1526 W. Jefferson St. Plymouth, IN 46563	(574) 936-6387 Fax: (574) 936-6814 George Blackburne III george@blackburne.com	Hard money lender that is flexible with property types it will lend on. Already worked with retail, office and industrial this year.
BMC Capital 3100 Monticello Ave. Suite 400 Dallas, TX 75205	(214) 526-7178 Fax: (214) 526-2297 Keith Van Arsdale kvanarsdale@bmccapital.com	Lender that will do loans in the $5M to $10M or under range and will work with the four major food groups with an emphasis on single-tenant retail and apartment properties.
CIBC 300 Madison Ave. Eighth Floor New York, NY 10017	(212) 856-4000 John Sawyers john.sawyers@us.cibc.com	Canadian-based global financial lender that finances all commercial property types with bridge, construction, mezzanine and permanent programs.
Deutsche Bank 60 Wall St. 11th Floor New York, NY 10005	(888) 953-3262 Fax: (212) 797-4664 Kenneth Dickey ken.dickey@db.com	Provides financing for a wide variety of commercial real estate including retail. Financing options include permanent fixed rate loans, short-term floating rate loans, credit tenant lease loans and mezzanine financing.
Digital Federal Credit Union 220 Donald Lynch Blvd. Marlborough, MA 01752	(508) 804-9044 Steve Mackowitz smackowitz@dcu.org	Twelfth largest credit union in the nation with more than 350,000 members and at least $3B in assets.
Equitable Life & Casualty Insurance Co. 3 Triad Center Salt Lake City, UT 841180	(866) 579-3418 Fax: (801) 597-3471 John Pitcher john.pitcher@equilife.com	Life company that does commercial real estate loans in small balance realm on their portfolio and through the SBA program.
First Bank and Trust Company of Illinois 300 E. Northwest Highway Palatine, IL 60067	(847) 654-4412 Fax: (847) 496-2812 Jeff Forsythe Jeff.forsythe@firstbankillinois.com	National real estate lender focusing on apartment, self storage, mobile homes, leased asset retail, and possibly office or industrial.
First Commercial Bank 17808 Pioneer Blvd. Suite 108 Artesia, CA 90701	(562) 207-9858 Fax: (562) 207-9862 Victoria Bian victoria.bian@bankfcb.com	A wholly owned subsidiary of First Commercial Bank in Taipei and a California State chartered bank. Will provide predevelopment financing, permanent loans, construction loans, development bridge loans, or term loans for commercial real estate including retail.
Hudson Realty Capital 250 Park Ave. Third Floor New York, NY 10003	(212) 532-3553 ext. 263 Spencer Garfield sgarfield@hudsoncap.com	Private lender with new fund focusing on the purchase of first mortgages and debt buydowns.
Jefferson Bank of Florida 3711 Tampa Road Oldsmar, FL 34677	(813) 855-7500 Fax: (813) 855-7510 Susan L. Martin smartin@jeffersonbankfl.com	Community bank that offers commercial loans and project financing including singe-tenant retail.
North American Development Group 6210 Campbell Road Suite 140 Dallas, TX 75248	(214) 850-5186 Fax: (214) 522-8656 Stephen Preston	Real estate firm acquiring both large format and neighborhood retail centers, along with development sites in select markets.
Redwood Credit Union P.O. Box 6104 Santa Rosa, CA 95406	(707) 576-5274 Michael Downey mdowney@redwoodcu.org	Credit union serving Northern Bay Area counties in California. Currently has about 150,000 members and $1.7B in assets.

Continued on Next Page

DEALMAKER DATABANK™

(Continued from previous page)

Institution/Address	Phone/Fax/Contact Name	Lending Activity
StanCorp Financial Group 1100 S.W. Sixth Ave. Portland, OR 97204	(503) 321-7000 J. Greg Ness	Life company that lends on retail, office, industrial and apartments.
Stanford Federal Credit Union P.O Box 10690 Palo Alto, CA 94303	(888) 723-7328 Steven Weiler stevenw@sfcu.org	Credit union with more than 47,000 members serving the Stanford, Calif., area.
W Financial 149 Madison Ave., Suite 701 New York, NY 10016	(212) 684-2283 Fax: (212) 532-1222 Gregg Winter gregg@w-fund.com	Direct, private bridge lender with focus on commercial, multifamily and investment properties.

CREDIT UNIONS EYE EXPANSION …

Continued from Page 4

Keep an eye on credit unions working toward doubling the arbitrary member business-lending cap in an effort to make commercial real estate lending more accessible, which would bolster a quicker economic recovery. However, many local and regional commercial lenders are not in favor of CUs competing for additional space. Some suggest that instead of increasing the cap, CUs should become mutual savings banks. Right now the National Credit Union Administration (NCUA) regulations for MBLs (Member Business Loans) limit the amount of loans that a CU can make to 12.25% of their assets or 175% of their net worth. And many CUs, especially the smaller ones, are reaching their limit. As a result, CUs seek room for expansion and are pushing Congress to increase the limit to 25% of the assets (with no net worth requirement), which would position these lenders for a larger market share. Two bills are in the works to achieve this goal: Small Business Lending Enhancement Act (S. 2919) and Small Business Act (H.R. 3380). So far it seems that the administration is more in favor of S. 2919 because it incorporates more safety and sound measures.

Digital Federal Credit Union (DCU) looks to do about 50% more in commercial real estate originations this year compared to last. Currently, commercial real estate makes up 7% to 8% of DCU's $3B-plus loan portfolio. While the CU will generally lend up to 75% LTV on most properties, it may lend up to 80% on apartments and a max of 60% on single-use properties such as hotels. The lender's standard commercial real estate minimum DSC is 1.20x. Most loans carry a five-year adjustable interest rate with maturities of 10 to15 years and amortizations from 20 to 30 years. DCU uses the Federal Home Loan Bank's interest rates as an index. VP of Commercial Lending **Steve Mackowitz** states when the company underwrites loans it is putting much more reliance on historic figures rather than proformas these days, and looks for properties with stable leases and with strong grantor support.

DCU will entertain loan requests for all types of commercial real estate, including apartments, office and industrial, however will practice extreme vigilance when it comes to new construction and land deals. DCU likes apartments in areas such as downtown Boston where occupancies are high and are supported by a strong university and medical population. The lender sees some heavy activity for retail properties, especially with credit tenants, due to some of the larger lenders like insurance companies greatly tightening their lending criteria. Its workload is split nearly 50/50 between refinances and acquisitions. It generally stays away from bridge loans unless it can also finance the permanent loan. Mackowitz will do loans between $100K and $10M, however the sweet spot is $2M to $3M. DCU is one of the largest MBL lenders in the country with about $400M in outstanding commercial loans.

Redwood Credit Union (RCU) sees burgeoning opportunities in the commercial real estate lending realm this year, especially on refinance and acquisitions. Of its commercial business, about 50% accounts for SBA and of its total business, commercial real estate makes up about 10%. The lender hopes to grow its commercial lending volume by 30% this year, and is on target to reach that goal. Like its counterparts, refinances and acquisitions are about equal, however, RCU expects to see a slight increase in refinances this year, and could end the year with 20% higher refinance originations compared to acquisitions. The lender works on general industrial, multi-tenant residential and VP of Business Services **Michael Downey** likes to work with owner users who want to own their own buildings.

Continued on Next Page

CREDIT UNIONS EYE EXPANSION …

Continued from Page 6

Because RCU's territory spans eight greater Bay Area counties — Sonoma, Marin, Mendocino, Lake, Napa, Contra Costa, Solano and San Francisco — it likes buildings up to 15,000 s.f. It will carefully consider special-use retail and office deals. An average commercial real estate loan is $800K to $1M, and will go up to $3M. RCU generally prefers five-year loans because of the nature of interest rates that offer fair value to the CU and its borrowers. The lender will do a couple seven-year loans also. It generally does not like to go higher than 70% LTV, and for products such as specialty-use it typically comes in around 60% LTV, depending on the deal. DCS across the board averages 1.25x.

Stanford Federal Credit Union (Stanford FCU) expects its 2010 commercial real estate volume to be slightly below 2009's originations. It did $650.4M in net loans in 2008 and $653M in 2009. The lender will look at just about any real estate product, including mixed-use and specialty use, and feels more comfortable with properties with at least 1.25 stabilized cash flow. Stanford FCU is not a supporter of lending on gas station properties due to the added risk, including environmental impact. Typical underwriting is 60% LTV or below with terms of three, five and seven years, fixed with a 30-year amortization schedule. Interest rates range from mid-5% to mid-7% with loan sizes from $500K to $7M. The lender is vigilant on construction financing and prefers owner-occupied deals with these loans. However, construction loans in the Bay Area are preferred because it likes to have easy accessibility to the project. Stanford FCU has more than $1B in assets and is the third fastest growing credit union in California by share growth.

RETAIL FINANCING THAWS OUT

Whether it be a large neighborhood center or single-tenant property, expect lending in the retail world to improve a bit in the next few months. **Deutsche Bank Mortgage Capital** works on financing for a Class A property in the San Diego MSA, while **First Commercial Bank** also pencils in a deal in Southern California. **CIBC** bets on a shopping center with a major grocery anchor in Texas, while **The Standard Life Insurance Company** puts together debt for a retail center in Florida. Others such as **BMC Capital** look into areas of the market with the most liquidity and puts emphasis on lending to single-tenant retail and apartment properties. **Jefferson Bank** also gets involved in single-tenant financing with a deal in its home base of Florida.

Last year saw investors, sellers and buyers freeze in the retail sector as sales slumped and big-box players like Mervyn's and Circuit City left large spaces dark in many centers across the nation. But the worst should be behind us as financing picks back up on retail properties. Many lenders are going back to basics and really look into the location, the type of existing tenants and the borrower profile. Because most retailers have to make their sales public, lenders can gauge a tenant's value and if there is a possibility of shutting down. Retail centers that offer potential for value creation through rehabs or internally grown NOI make attractive properties. Centers with a major grocery anchor are at the top of the wish list, along with consistent high occupancy (at least 90%), healthy population and major traffic intersections. Single-tenant retail spots are desired by lenders because there is no management fixed return and instead lenders rely on the credit of that one tenant. Lenders need to look at the credit worthiness of the borrower and make sure they are not underwater in their other assets.

Deutsche Bank Mortgage Capital puts together a loan for the 250,000-s.f. **Solana Beach Towne Centre** in Solana Beach, Calif. **American Assets Inc.** is the borrower on the $40M refinance loan. LTV is 60% and DSC is around 1.65x. This is a sub-6% fixed-rate loan on a 10-year term with 30-year amortization. The retail community shopping center was 97% occupied at the time of closing and was attractive because of the major tenant rollover and strong sales history. Deutsche looks for anchored, shadow anchored and unanchored shopping centers, as well as lifestyle, power and outlet centers. Single-tenant properties are considered on a case-by-case basis. Deutsche wants LTVs to be 75% to 80%. DSC should be 1.20x to 1.25x. and is based on type, age, physical condition, location and competitive market position. Loan maturities are typically five, seven or 10 years with a 25- to 30-year amortization, depending on the property. Deutsche also lends to multifamily, office, industrial, hospitality, mobile home parks and self-storage. Financing can be fixed rate, short-term floating rate, credit tenant lease loans and mezzanine.

Continued on Next Page

RETAIL FINANCING THAWS OUT …

Continued from Page 7

First Commercial Bank does a conventional balance sheet loan for the sale of **Del Amo Plaza**, a 58,126-s.f. retail neighborhood center in Cerritos, Calif. The $5M loan has a 10-year term and 30-year amortization. There is a fixed-rate of 6.5% and the LTV is 50%. The fees were 1 point. First Commercial offers redevelopment financing, permanent loans, development bridge loans and construction loans on commercial properties. The company focuses on shopping centers, owner-occupied office or warehouse buildings or other income properties with strong rental income. VP and Brand Manager **Victoria Bian** expects the bank to originate more retail loans this year than in 2009.

Conduit lender CIBC takes over an existing $10.6M conduit loan on **The Commons at Presidio Square**, a Class B shopping center in Houston. **North American Development Group** is the borrower and the loan matures in June 2014. The rate is 6.26%. Canada-based CIBC will work with multifamily, office, industrial, mixed-use, hotels, seniors housing, self-storage, mobile home parks and student housing. Loans are in the $3M to $50M range and can be construction, mezzanine, bridge, fixed rate and variable rate.

The Standard Life Insurance Company puts together a $3.6M fully amortizing permanent loan for the Class B+ **Pembroke Place North Plaza** in Pembroke Pines, Fla. The term is 25 years with an interest rate of 6.25% fixed for five years and adjusted every five years. LTV is 55% and DSC is 1.91x. The lender fee was 1 point. This deal came about because the borrower had a CMBS loan that was maturing and was tired of dealing with it. The borrower is a private investor. **StanCorp Financial Group** is parent company of The Standard Life Insurance Company.

BMC puts all its eggs in the single-tenant retail basket and recently closed on a loan for a Dollar General store. President and CEO **Keith Van Arsdale** feels comfortable with these type of deals because discount retailers have not been hit as hard in the recession, so they are reliable tenants with good lease terms. BMC currently puts together two financing packages for an Arby's and a Popeyes restaurant and has worked with big players like FedEx, CVS and Walgreens in the past. Van Arsdale also notes there has been a lot of activity on retail property acquisitions as buyers look to get into older centers at a good price and lease them up or re-tenant them. He looks for LTVs at 75% but will work with 60% to 70%. The lowest DSC would be 1.20x but most come in from 1.25x to 1.40x. The majority of retail loans will be in the $500K to $10M range and fixed-rate, acquisitions, refinances and adjustable rate are all on the menu. Apartments are also very attractive to BMC, along with office and industrial.

Jefferson Bank does a full recourse loan on a 2,940-s.f. 7-Eleven convenience store in Hudson, Fla. The $1.2M loan has an interest rate of 6.375% and is fixed for three years, changing to 300 basis points over the three-year LIBOR, based 25-year amortization. The LTV is 65% and DSC is 1.35x. A half point will go to the bank and 1 point will go Thomas D. Wood & Company, which secured the financing. 7-Eleven has an A credit rating and is not likely to leave the space even when the lease expires, making this an attractive loan. The lender also liked that this deal was right in its backyard and it was a NNN lease. The borrower is a small investor that owns four properties in Florida.

Customer Service *Newsroom Fax:* (415) 475-1576
Tel: **(800) 421-3483** Fax: (949) 900-3760
E-mail: market@crittendenonline.com

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 *Crittenden Report on Real Estate Financing*™, P.O. Box 1150, Novato, CA 94948-1150.