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MEZZ LENDING PIQUING SOME INTEREST

Many firms are touting a dramatic increase in inquiries for mezzanine and alternative debt structures, and **Freddie Mac, Wrightwood Capital, Terra Capital and Pensam Capital** hope to have the right model to fit borrowers' needs. Freddie launches its multifamily mezzanine program, which has been in the works for several months now, with the approval of four lenders. Wrightwood Capital focuses on all four food groups for its high-yield fund, while Terra Capital sees interest rising with several new deals under contract. On the flip side, Pensam Capital steps away from mezz lending and instead focuses on hard money and bridge loans in its niche market of Florida.

Liquidity in commercial real estate is expected to continue to improve, but the fact is, there are a lot of ticking time bombs out there where the owner's equity is wiped out and they are kept afloat only by LIBOR-based loans. Properties that currently pay 2.5% to 3% interest will have serious problems once they are forced to pay 6% to 7%. Since senior loans are more conservative than before, mezzanine can raise the leverage and still be considered inexpensive equity. Rates on mezz loans have fallen sharply this year as more lenders enter the market. Last year, a mezz loan could easily have cost the borrower 18% and 2 points. Today most lenders are quoting 11% to 12% and 2 points. With all the debt maturing over the next few years, businesses will continue to find it difficult to get refinancing. Those that can secure credit are likely to find that it is much more expensive. So businesses will have to take a longer look at alternative debt structures, such as mezz and asset-based lending.

Freddie Mac rolls out its mezz program, officially pre-approving four lenders: **Essex Property Trust, Waterton Capital Solutions, Carmel Partners** and the **Berkshire Group**. Hoping to stem the tide of defaults, the program is aimed at recapitalizing multifamily properties and easing the deleveraging process. The program is not intended to increase leverage at the property level or fuel excessive risk taking by investors. The four lenders are experienced multifamily owners, operators or investors.

Freddie Mac will originate a first mortgage with a LTV up to 75%, then work with the mezzanine lender to provide additional leverage, up to another 15%. The GSE will then buy eligible first mortgages to either retain in its portfolio or securitize into its K Certificate multifamily mortgage backed securities. The mezz portion is backed by the borrower's equity, not the property. The mezz lenders can also bid on the B piece of a Freddie Mac K Certificate if the first mortgages are securitized. Additional terms include a minimum 10% cash equity in the property, first mortgage must be fixed-rate and mezz debt may be fixed-rate or adjustable-rate mortgage. DSC can't go below 1.05x.

Wrightwood Capital hopes to put its \$243M *High Yield Partners II Fund* to work by providing mezzanine loans up to \$10M. The firm will fund loans to bring LTV up to 90%. Wrightwood has a subordinate capital fund for mezz, equity and B pieces. But it's for discrete investments, not blanket mezz behind a pool of first mortgages. Mezzanine rates range as to leverage, pricing and risk, but typically stay between 11% and 18%. The company will look for a debt yield ranging from 7.5% to 8% based on the NOI divided by the first mortgage and the mezzanine piece.

Markets with populations of one million or more are desired and prospective borrowers should display local market expertise. Wrightwood keeps a keen eye toward San Francisco, Los Angeles, Houston, Dallas, Chicago, Orange County, Calif., and Connecticut. Any property type in the major food groups will pique interest, along with some allocation to the niches of student housing, medical office and self-storage. In addition to traditional mezz, Wrightwood will also provide preferred equity or recapitalization of existing debt.

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MEZZ LENDING PIQUING SOME INTEREST ...

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Terra Capital sees transaction volume pick up and pins down several mezz loans under contract. The firm reviews transactions in the 60% to 70% LTV range and wants to come in and provide the mezz piece at 75% to 85%. Terra has closed five deals this year on property types that run the gamut from retail, office and multifamily to industrial. Multifamily is ideal for Terra, but Fannie Mae and Freddie Mac don't provide much room to layer in mezz. The firm looks for solid sponsorship and good cash flow. Terra won't redline any markets, as even in bad markets there are good properties.

Pensam Capital closes seven deals so far this year but backs off mezz lending and instead focuses on doing hard money and bridge loans. Right now, the company's mid-teen rates on senior debt makes more sense, whereas going back a few years, mezz lenders did deals in the mid-teens for the remaining 10% capital of stack. Pensam loans to relatively unstabilized assets with yields in mid-teens unleveraged. The private equity firm, using its own capital, focuses on smaller balance loans under \$10M in Florida. Working only in its home base gives Pensam a nice little niche to target as everything it underwrites it can get to in a one-hour plane ride or short drive. The company also does equity investing and likes Class B with a value-add component under \$25M. Multifamily is big on its list, but the company also has a couple deals under contract for shopping centers and office. By virtue of its debt business, Pensam gets more opportunistic.

FUND SMORGASBORD

Don't be surprised to see funds emerge as one of the best capital sources for real estate financing, as the availability of these investment vehicles will cater to pretty much any property type in any market. Mesa West Capital scores high and closes a \$600M-plus fund, while JCR Capital looks to provide \$30M in capital this year through its *JCR Capital Distressed Real Estate Finance Fund* with long term plans for up to \$500M. Don't be surprised to see more companies enter the securitized market, including EPN Investment Management. The firm puts together its *EPN Real Estate Fund* with a goal of raising \$400M and has more than \$100M already out. While EPN's immediate focus is on acquisitions, its charter does not preclude them from lending and it may lend in selected instances.

Limitations on commercial real estate lending ease up a bit in the first half of the year. LTVs on new loans increase around 5% and financing for properties above the \$10M mark becomes more available. But despite these positive trends, borrowers still have to maneuver around tight underwriting standards and stringent lender requirements. Many believe that there will be a shortage of available capital relative to the amount of demand over the next few years, creating an opportunity for funds to deploy money on good terms and attractive returns. There are around \$1.4T of CRE loans expected to mature by 2013 and with tighter underwriting standards at traditional banks, debt funds can fill that void for capital. Private equity real estate funds have more than \$100B of equity available for deals, and can take advantage of the fact that they have money to put to work in a time when the market is dislocated.

Mesa West Capital

The firm closes its second debt fund with more than \$614.5M in commitments, far surpassing its target of \$400M. *Mesa West Real Estate Income Fund II LP* originates approximately \$170M nonrecourse loans so far this year, with more on the way. Examples include loans secured by a 22-story, 420,000-s.f. Class A office building in Glendale, Calif., a 269-room hotel in Evanston, Ill., and a 291-room hotel in Austin, Texas. Look for the firm to complete more than \$2B in loans through the fund with average deals running between \$20M and \$30M. Rates range from 6.5% to 8% with two- to five-year terms and IRRs in the low teens are expected. The firm will stick to its path and focus directly on originating bridge financing with an emphasis on first mortgage debt for middle-market sized transitional and value-add properties in the Western U.S. and gateway cities on the East Coast. And while Mesa West isn't a distressed lender per se, the current state of CRE has given rise to new opportunities. In normal lending periods, Mesa West might not lend on Class A trophy properties, but now it's making loans on more stabilized assets, because borrowers need bridge loans and there are few competitors in the arena. Typical Mesa West borrowers are for the most part fund-based institutional buyers.

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STRAIGHT FROM THE MARKET*(Deals done within the past 90 days.)*

<u>Type of Loan</u>	<u>Property/ Location</u>	<u>Lender</u>	<u>Loan Amount</u>	<u>Rate</u>	<u>Fee</u>	<u>Term</u>	<u>Amortization</u>	<u>Loan to Cost/Value</u>
Construction	Retail/ Spartanburg, S.C.	Regional	\$1.465M	4.0%	N/A	12 Months	25 Years	75% LTV

Details: A Southeast-based regional financial institution does a \$1.465M loan for Dorman Crossings, a 9,833-s.f. Class A retail center located in Spartanburg, S.C. The construction/mini perm loan is interest only for the first 12 months followed by a 36-month mini perm on a 25-year amortization. The loan has an interest rate of LIBOR plus 300 basis points with a floor of 4%. Loan to value is 75% and loan to cost is 85%. DSC is 1.20x using an 8% rate at the end of 2011. Dorman Crossing is in an A location with major tenants Vitamin Shoppe and Mattress Firm. Renovations are underway. Three banks were quoted on this deal.

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FUND SMORGASBORD ...*Continued from Page 2*

Mesa West Principal **Ryan Krauch** credits the successful capital raise to his firm's experience from the debt perspective. Mesa West was formed in 2005 when you could count on your hands the number of debt funds in existence. Now there are more than 80, but many of those new funds have never played in the debt market. Mesa raised \$207M in 2005 and 2006. That fund closed investing in 2008 and is delivering positive returns for the company, not something many funds can say. The fund provided \$1.5B in 83 financings on multifamily, retail, office, industrial and hotel properties. A wide variety of investors, including labor unions, endowments, foundations, insurance companies and county, city and state pension funds, make up the funds. The majority of the investors are pension funds (PF) and Mesa West sees an increase in their investment activity this year as PFs return to the game after new allocations came in.

JCR Capital Distressed Real Estate Finance Fund

JCR Capital puts together its \$30M fund with a near \$50M spending capacity. Debt equity and preferred equity are both on the menu, along with borrower note repurchases, restructures and acquisitions of notes and real estate. The fund will not finance fixed-rate loans and deals will be considered in the Western U.S., the Southeast and Mid-Atlantic. It looks like rates run around 13% for short-term money with no prepayment penalty or yield maintenance, depending on the deal. The fund closed in March and is open to new investments for the next closing. It is made up of large anchor institutional investors, insurance companies, fund of funds, family offices and high net worth investors. Around 35% of the money is already invested. Principal **Jay Rollins** has done large deals with some limited partnerships on a few finished lots and condos. Deals will be in the \$1M to \$10M range. The fund will be opportunistic and go where the action is but do not expect money to go toward hospitals or new construction. Rollins sees a lot of demand for distressed properties and opportunistic players. Targeted return is 17% net of management fees. Deals will be short-term capital from six months to three years. Rollins is in growth mode with an institution sponsorship with a lead investor that should grow the platform to about \$400M to \$500M in commitments in three years.

EPN Real Estate Fund

Stepping in as a lender may be on the horizon for EPN Investment Management, but for now, it stays busy raising and investing a \$400M fund. It invested \$120M on a recent transaction for retail properties in 23 states. Count on another \$280M to come from the fund over the next two years. CEO **Alex Berman** focuses mainly on retail but has some flexibility with other property types. He will consider deals throughout the continental U.S. Berman expects the fund will put money toward five to seven large portfolio deals much like the first closing as opposed to individual properties. Expect deals to be in the \$50M to \$75M area. The fund has several sponsors including some institutions outside the U.S., and two separate entities alone put in \$100M each. Underwriting requirements say that leverage needs to be 50% to 60%, cash-on-cash should be about 10% and caps should be in the high single digits. The fund aims for a five-to seven-year hold period. Berman also prefers distressed owners in non-distressed properties, but are not his primary objective. The first closing was in June.

LENDERS FLEX REFINANCE MUSCLE

Lenders keep a vigilant eye on the commercial real estate sector, which might be the next shoe to drop, causing a double-dip recession. Refinances are the mainstay for many lenders, even with a growing acquisition market. However, the true extent of refinances driving the market is a mixed bag. Players like **Modern Bank**, **Alliant Capital LLC** and **Greystone Servicing Corp. Inc.** are bullish and fill their books with at least 60% in refinances this year, while **Avant Capital Partners** aim for 20% to 50% in total volume. Even though **Citizens Business Bank's** business will make up 50% in refinances, it does not see an increase in requests due to borrowers limiting their business expansion capacities. Meanwhile, **Banco Popular** also sees fewer refi deals and feels unless rates fall below current levels, borrowers are not incented to refinance. Instead it keeps busy with loan restructuring to improve debt coverage. Also bet on some refinance activity from **Home Federal Bank**, which starts to see a greater shift in refinance versus acquisition originations. Multifamily is the top refi pick for many.

The core issue still facing the CRE market is hyper-levered loans that were underwritten using very aggressive assumptions. This resulted in widespread property value declines and cash flow anxieties, which ultimately led to underwater assets flooding the market and bringing acquisitions to a screeching halt. Research suggests banks are sitting on nearly \$176B in sour CRE loans, and to avoid write-offs and pressure to place capital, lenders ramp up refinance and modification activity, even if it means reducing the income stream due to lower interest rates. About 2% of today's loan modifications are in rate reductions, 8% accounts for a change in amortization and 31% involves maturity extensions. Restructured CRE loans account for about \$24B in Q1 2010, nearly triple year-over-year, which can partly be attributed to the almost two-thirds busted loans maturing between now and 2014. The good news is, property price indexes appear to back at 2005 levels, which means assets financed in 2004/2005 should be easily refinanced, whereas those from 2006/2007 are will most likely need recapitalization. Properties with high vacancy rate such as office (17% national average) and industrial (14% national average) have little chance of being refinanced, especially as lenders tighten underwriting and chase more recession-resistant assets like apartments.

Modern Bank is relatively new to the commercial real estate lending scene and launched the CRE group in connection with an investment from Fisher Brothers last year. Look for the majority of Modern Bank's loan originations to be refinances, likely balancing between multifamily and office. The lender also has a fairly healthy retail pipeline. Refinance underwriting looks at debt yields with multifamily clocking in at about 9% and other commercial properties between 10% and 12%. It sees more refis than acquisition requests but should do a decent amount of acquisition financings this year, likely around 35%.

Modern Bank's footprint spans New York and Miami, and it will selectively do deals in other resilient markets with diverse economies such as Washington, D.C., Los Angeles and San Francisco. On the multifamily front, look for Modern Bank to mimic rates comparable to community banks routinely in the low-5% range, and LTVs 65% to 75%. It will do 75% on multifamily properties and mixed-use properties may see rates 50 to 100 basis points higher. On multifamily loans **Managing Director George Duncan** likes stabilized assets and does fixed- and floating-rate deals and construction on a selective basis. Typical underwriting is at least 1.25x DSC, seeking higher 1.35x DSC for non-multifamily properties. Loans are typically \$10M or less.

Alliant Capital LLC's appetite for commercial real estate lending for the rest of 2010 is \$1B, and bank on refinancing to count for about 85% of total volume. Overall loan production is down about 20% from 2009. It sees lower interest rates driving increases in both acquisition and refinance activity this year. Five-, seven- and 10-year Fannie Mae rates are down about 25 basis points since May, allowing Alliant to generate more business. The GSE also shows some flexibility with liquidity and net worth. Alliant Capital is only a commercial lender, issuing notes on apartments and manufactured housing communities on a national level. Typical underwriting requirements are 75% LTV (80% in selected circumstances for no cash out) and 1.25x DSC. It offers fixed-rate, adjustable-rate, acquisitions, refinances, permanent and supplemental loans.

Alliant recently closed on a \$2.650M Tier 2 cash-out refinance transaction in Oceanside, Calif. The interest rate was in the mid-5% range and was delivered at par. The 1964 property has 25 units consisting of one studio, three ones, 20 twos and one three.

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DEALMAKER DATABANK™

<u>Institution/Address</u>	<u>Phone/Fax/Contact Name</u>	<u>Lending Activity</u>
Alliant Capital LLC 2300 E. Katella Ave. Suite 100 Anaheim, CA 92806	(714) 464-6028 Fax: (714) 456-0073 David Boyles dboyles@alliantcapitalllc.com	National manufactured and multifamily Fannie Mae DUS lender. It offers fixed and adjustable rates on acquisitions, refinances and permanent loans.
Atlas Properties 1055 Foch St. Worth, TX 76107	(817) 924-9780 Fax: (817) 806-5006 Adam Blake adam@atlasprops.com	Real estate organization that owns, manages and develops commercial and mixed-use properties. Its Fort primary market is Dallas/Fort Worth.
Banco Popular P.O. Box 690547 Orlando, FL 32869	(800) 377-0800 Vernon Aguirre vaguire@bpop.com	Subsidiary of Popular Inc., which provides financing in the U.S., Puerto Rico and the Caribbean.
Canyon Capital Realty Advisors 2000 Avenue of the Stars 11 th Floor Los Angeles, CA 90067	(310) 272-1500 Fax: (310) 272-1501 Jonathon Roth jroth@canyonpartners.com	Money management firm that provides debt and equity capital to real estate owners, operators and developers. Targeted properties include retail, mixed-use, land, multifamily, industrial, office, hospitality and mobile home.
Citizens Business Bank 701 N. Haven Ave. Ontario, CA 91764	(909) 980-4030 Christopher D. Myers	California lender and subsidiary of CVB Financial that has more than \$6.5B in assets.
Avant Capital Partners 209 Bruce Park Ave. Second Floor Greenwich, CT 06830	(203) 612-9580 Adam Luysterborghs adam@avant-capital.com	Multifamily, office, retail, industrial and hospitality lender, focusing on the Northeast, Southeast, Texas, Oklahoma and Chicago areas.
EPN Investment Management LLC 707 Skokie Blvd. Suite 600 Northbrook, IL 60062	(312) 915-0690 Fax: (312) 915-0691 Alex Berman aberman@epngroup.com	EPN Real Estate Fund with a goal to raise \$400M for large retail transactions throughout the continental U.S.
Freddie Mac 8200 Jones Branch Drive McLean, VA 22102	(703) 905-2445 Mike May mike_may@freddiemac.com	Government-sponsored enterprise that buys home mortgages to provide funding for rental and single family.
Greystone Servicing Corp. Inc. 2 Kings Highway W. Haddonfield, NJ 08033	(856) 354-7660 Richard Wolf rwolf@greystoneusa.com	FHA and Fannie Mae lender for apartment housing, including market-rate, senior, student and manufactured housing.
Home Federal Bank 225 S. Main Ave. Sioux Falls, SD 57104	(605) 336-2470 Curt Hage chage@homefederal.com	Lender that issues loans on apartments, retail and office in South Dakota and Minnesota. Subsidiary of HF Financial Corp.
JCR Capital 1225 17 th St. Denver, CO 80202	(303) 531-0202 Fax: (303) 531-2097 Jay Rollins jayrollins@jrcrcapital.com	JCR Capital Distressed Real Estate Fund will provide debt, participating debt, preferred equity and equity to distressed and opportunistic properties. The goal is for around \$50M of commitments this year.
Mesa West Capital 11755 Wilshire Blvd. Suite 1670 Los Angeles, CA 90025	(310) 806-6300 Fax: (310) 806-6301 Steve Fried sfried@mesawestcapital.com	Lends on the four food groups and flagged hotels with five-year terms. Expanding into gateway cities after opening New York office.
Modern Bank 667 Madison Ave. New York, NY 10065	(212) 323-1100 George Duncan gduncan@modernbank.com	Private bank expanding its commercial real estate platform and doing commercial loans in New York, New Jersey and Connecticut.
Mutual of Omaha Bank 13220 Metcalf Ave. Suite 370 Overland Park, KS 66213	(913) 685-1489 Joe Neuerburg	Life company that specializes in financing for commercial real estate developers, owners and investors. Will do condos, multifamily, office, retail, industrial and storage.
Pensam Capital 777 Brickell Ave. Suite 1200 Miami, FL 33131	(786) 539-4999 Mike Stein mstein@pensamcapital.com	Private lender providing bridge, mezzanine and equity funding secured by residential, office, retail, multifamily, hospitality and industrial assets.

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DEALMAKER DATABANK™*(Continued from previous page)*

<u>Institution/Address</u>	<u>Phone/Fax/Contact Name</u>	<u>Lending Activity</u>
Terra Capital 805 Third Ave. Eighth Floor New York, NY 10022	(212) 753-5100 Dan Cooperman dcooperman@tcp-u.s	Global lender that originates and manages mezzanine and equity investments in all major food groups for institutional, high net worth and retail investors.
Wrightwood Capital 2 North LaSalle St. Ninth Floor Chicago, IL 60602	(312) 324-5965 David Friedman dfriedman@wrightwood.com	Lender with a fund for mezzanine, equity and B pieces in the four food groups.

LENDERS FLEX REFINANCE MUSCLE ...*Continued from Page 4*

Greystone Servicing Corp. Inc.'s commercial real estate lending hums with activity. A core player in the multifamily space, the lender has a significant capacity to lend via Fannie Mae, FHA and some Freddie Mac. Senior Managing Director **Richard Wolf** suspects the firm's workload will be 80% refinances this year, however, he starts to notice a nominal uptick in acquisitions. Many borrowers coming to Greystone tend to be traditional bank customers because of these lenders' inability to match aggressive rates offered by FHA and Fannie Mae lenders. The primary driver behind refinances is attractive rates with seven- and 10-year notes being the most popular option.

Greystone is one of Fannie Mae's largest small-loan lenders, and hopes to do about \$400M in small loans this year. About 20% of its business is direct lending, while 80% is wholesale business. Wolf maintains a national presence and he likes primary markets and sees a lot of activity in Southern California. Secondary market deals will be considered, while tertiary markets are likely not on the horizon for this lender. Greystone typically exceeds \$1B in total annual originations and expects this year to be no exception.

Look for 20% to 40% in refinances of Avant Capital Partners' total loan volume this year, of which about \$30M has been originated YTD. Overall, the lender aims to originate between \$200M and \$300M in loans this year and will lend on multifamily, office, retail, industrial and hospitality, in that order of preference. Principal **Adam Luysterborghs** expects refinance volumes to be higher than last year for two reasons: more deals are being recapitalized as special servicers cut losses, and rates are lower, enticing owners of stable assets to lock in longer term rates.

Luysterborghs deems multifamily the most active refinance play because there is the best liquidity available and long-term, low fixed-rates. Land and hotels deals are the most troublesome. Avant Capital issues refis with LTVs ranging from 50% to 80%, which varies among asset types. Average deal size is \$7M to \$8M. Luysterborghs likes refi deals that involve new equity because he sees them being recapitalized at good valuations. Overall, Avant Capital expects the demand for refinances to increase and considers this is a good year due to low rates and depressed values. The lower values mean lenders are originating at lower prices per pound.

About two-thirds of Citizens Business Bank's business is in commercial real estate, of which about 50% accounts for refinances. It looks to grow its overall portfolio, which is slow going because of the low volumes of applicants and greater number of out-of-state lenders attempting to gain market share. On a general scope, the lender does not see an increase in refinances and does not expect volumes to increase this year and drive the market. This is because new originations are depressed by most businesses not expanding. However, those refinances taking shape are maturing five-, seven- and 10-year loans. Citizen Business is an advocate of industrial owner-occupied deals, and it also looks at construction loan products. Its territory spans California with relationships in other states such as Nevada. Typical underwriting is 70% to 75% LTV, 1.25x DSC and up to 25 years amortization with fixed-rate and adjustable-rate options. Deal sizes are between \$10M and \$20M. CVB Financial Corp. is the bank holding company for Citizens Business Bank.

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STRAIGHT FROM THE MARKET*(Deals done within the past 90 days.)*

<u>Type of Loan</u>	<u>Property/ Location</u>	<u>Lender</u>	<u>Loan Amount</u>	<u>Rate</u>	<u>Fee</u>	<u>Term</u>	<u>Amortization</u>	<u>Loan to Cost/Value</u>
Acquisition	Class A Office Fairfield County, CT	Avant Capital Partners	<\$5M	High teens	N/A	12 Months	N/A	60%

Details: Avant Capital Partners provided a loan for the acquisition of a 65,000 s.f. Class A office building located in Fairfield County, Conn. The property was acquired vacant and the interest-only loan has no prepayment penalty. The loan request was closed within 72 hours of the borrower's acceptance of terms and no appraisal was required. The borrower required an unusually fast closing due to fallout of some of their equity partners days before the closing deadline. They were originally planning on closing all-equity. The borrower had a hard deposit under their purchase and sale agreement that would have been forfeited.

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LENDERS FLEX REFINANCE MUSCLE ...*Continued from Page 6*

Banco Popular's California Region Executive **Vernon Aguirre** sees greater volumes of loan payoffs as many borrowers opt to sink in extra dollars and get out of a loan, prompting the lender to modify loans to keep the performing assets on its books. It may issue incentives such as rate changes, interest-only options or loan extensions. Many borrowers are especially drawn to breakeven cash flow options. Banco Popular likes owner-occupied commercial real estate because it is underwritten to the business, and it will generally originate a loan if it is at least 50% occupied by the owner. The lender is very selective of investment real estate deals from new customers and in general prefers existing customers. Banco Popular's commercial real estate runs the gamut, with \$600M in multifamily loans in California alone, and about \$600M in other California commercial real estate. Its underwriting typically requires at least 1.20x DSC with 20-year amortizations. Of its overall California business, commercial real estate accounts for two-thirds. However, expect the lender to become more active on the SBA front due to the secondary market coming back, thereby making SBAs more attractive. **Popular Inc.** is the parent company of Banco Popular.

Home Federal Bank chairman and CEO **Curt Hage** saw more refinances than acquisitions until about a year ago, and he expects the pendulum to continue this shift unless interest rates change dramatically. Overall, the lender bets on 2010 to yield similar loan volumes as 2009. Preferred property types include office, retail, hotels and apartments. The majority of its business is retail based. Home Federal does business across South Dakota and Marshall, Minn. LTV is typically 75% or less, 1.25x DSC and the bank likes to lend on long-term fixed-rate deals.

CONDO LENDING DEALS FEW AND FAR BETWEEN

A tough condo market does not stop **Mutual of Omaha Bank** and **Canyon Capital Realty Advisors** from doling out loans in a time when most other lenders keep their distance. Mutual of Omaha puts together a deal for a mini perm loan on a condo purchase, while Canyon Capital does a bridge loan toward some condo construction.

Financing for condos, especially new development, comes to a screeching halt because tighter lending standards make it difficult for developers to get approvals. Government lending programs including Fannie Mae have regulations that say that at least 70% of the units in a development must be pre-sold to get a project approved. Coupled with lack demand, a bulk sale of condos has become a popular way to sell off distressed properties. In 2007, there were 27 bulk deals. But in 2009, bulk sale transactions rose to 82, adding up to \$839M. Lenders are more willing to participate in these bulk sales since the buyer will likely be a well-capitalized company with a game plan to either slash prices to sell the condos or convert them into rentals.

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CONDO LENDING DEALS FEW AND FAR BETWEEN ...

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But not all the news is bad, as recent financing on two deals in Kansas City, Mo., show that some lenders are still willing to lend to condos, where demand still exists. During Q1 builders had 420 condos underway in Kansas City. Also, development is slowly picking up again with SK&I Architects designing 850 new condos for **Halstead Square at Dunn Loring** in Fairfax, Va., and **A&B Properties** recently acquired two sites in Honolulu entitled for a 43-story and an eight-story condo building. These new developments can give lenders the confidence they need to get back in the condo-lending realm.

Life company (LC) Mutual of Omaha puts together a \$1.8M loan for the acquisition of a fractured condominium complex **Liberty Lofts** in Kansas City, Mo. **Atlas Properties** is the borrower and it was a five-year mini perm loan. Proceeds will be used to acquire 27 vacant condo units and complete construction left behind by the original developer. Senior Commercial Banker **Joe Neuerburg** notes that Mutual of Omaha has a strong appetite for quality real estate deals and there is plenty of money to put out the door. But the LC will not compromise credit and underwriting standards. Depending on property type or the borrower, LTV can go up to 75% and DSC should be 1.25x or higher.

Mutual will work on loans nationwide and the main focus is on multifamily, multi-tenant and owner. There is a thrift charter that requires Mutual to maintain 65% of its portfolio in residential lending. The lender has also done deals on office, retail and storage properties. Acquisition, refi, fixed-rate, adjustable-rate, construction, bridge construction or mini perm are all on the menu. Originally built in 1904, Liberty Lofts entered redevelop efforts in 2004 for 34 luxury condos, but 27 of the units are vacant and unfinished. Neuerburg expects to grow the loan portfolio and originations from 2009.

Canyon Capital provides a \$25.5M senior bridge loan to go toward an existing construction loan for **One Park Place** in Kansas City. The borrower, **Park Place KC LLC**, will use the loan to facilitate the completion of the interior finishes on 85 unsold condos and launch an active sales and marketing campaign. Anticipate Canyon to lend around \$500M in senior bridge, mezzanine and preferred equity loans this year, a big jump from the \$50M it put out in 2009.

Canyon will do bridge loans from \$15M to \$200M, with a \$25M to \$30M sweet spot on all loan types. LTC can go up to 70% with a maturity of five years. Look for debt placement on acquisitions, pre-development, construction, recapitalization, refinancing, DIP financing, repurchasing of existing debt, liquidity management and asset liability management. Canyon does short-term loans for two years and possible extensions. It will lend on retail, entertainment, multifamily, industrial, office, hospitality, land, mobile homes and mixed-use. One Park Place was constructed in 1963 as a corporate headquarters and has been converted to residential condos.

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