

**Real Estate Finance
This Week**

Private lenders, such as Hall Financial, Mercury Capital and Regional Capital Group, will be among the most active lenders for land loans this year.

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Wall Street conduit lenders, led by GE Commercial Finance, GMAC Commercial Mortgage and UBS, line up to approve more mortgages for extended-stay hotels.

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The residential condo conversion market is not cooling off as fast as many people believe as Corus Bank, Builders Bank and Ohio Savings continue to approve loans.

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A variety of lenders, including Bond Street Capital, Imperial Capital Bank, Moody National Bank and PMC Commercial Trust, will write more loans for special purpose properties.

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Capital will still be available for construction loans and permanent mortgages throughout this year as long as interest rates don't rage out of control.

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Wall Street Ready to Securitize Construction

Lenders seeking wider spreads in a commercial real estate world awash in capital are looking to climb a bit farther out on the limb. With perm spreads narrowing as a slew of conduits and life companies battle for deals, look for lenders to start pooling and securitizing construction loans. Among those considering this type of product are **Credit Suisse First Boston, Barclays Bank, CW Capital** and **JP Morgan Chase Commercial Mortgage**.

Wells Fargo Commercial Mortgage is looking at the securitization option, but isn't ready to talk specifics or even weigh in on the subject, an understandable reaction given the newness and risk profile of the product. Wells Fargo, and others, might be waiting for other lenders to jump into the construction loan pool before committing to a program of their own.

Growing demand for construction loan pools has prompted rating companies to formulate a plan for evaluating this type of deal. **Joseph Kelly**, a senior director at Fitch, sees these pools as having a higher risk characteristic compared to other CMBS, given the intangibles associated with erecting a building. Fitch has yet to rate a pool of construction paper, but has received feelers from lenders interested in the prospect of doing these types of deals.

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LCs Warm Up to Mixed-Use Properties

For many lenders, mixed-use projects are a little like a child staring at a plate of veggies. They know that the projects are good for the communities, and easier to entitle thanks to streamlined approvals, but that doesn't mean the projects are going to go down easy.

That said, life companies like **Principal Global Investors, Prudential Mortgage Capital** and **AIG Global Investors** have developed a taste for the property niche, and these days their plates include a helping of mixed-use property.

Mixed-use projects are generally gaining favor in part out of necessity and in part due to a trend among cities and counties to ease entitlement and project approvals, particularly in urban locales. In many major metro areas, developable land has become scarce. Underutilized land in downtown areas has become popular at city halls for conversion to mixed use that provides ground floor retail with either residential or office space above. In some cases, cities are under pressure to OK projects for economic development reasons, and for others, a need for housing is driving approvals.

Lenders have traditionally found mixed-use a challenge because the success of projects rests on the successful marriage of two different property types. What makes an office building succeed is not necessarily what works for an apartment complex. And a ground floor retail outlet may not thrive on just the patronage of office tenants or apartment dwellers.

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STRAIGHT FROM THE MARKET

(Deals done within the past 90 days.)

<u>Type of Loan</u>	<u>Location</u>	<u>Lender</u>	<u>Amount</u>	<u>Rate</u>	<u>Fee</u>	<u>Term</u>	<u>Amortization</u>	<u>Loan to Cost/Value</u>
Hotel Construction	Mayfield, Ohio	Private Lender	\$10.57M	Var.	2%	36 mos.	I/O	80% LTC

Features: Hall Financial Group wrote this loan for Landerhaven Hotel Venture LLC for construction of a 123-room Staybridge Suites by InterContinental Hotel Group in Mayfield Heights, an affluent suburb of Cleveland. Completion is slated for the fourth quarter of 2006. Donald Braun, Hall Financial president, liked the premium location, the strong local sponsors and the flag. The Frisco, Texas, lender priced the construction loan at 7% over LIBOR.

<u>Type of Loan</u>	<u>Location</u>	<u>Lender</u>	<u>Amount</u>	<u>Rate</u>	<u>Fee</u>	<u>Term</u>	<u>Amortization</u>	<u>Loan to Cost/Value</u>
Mobile Home Park Permanent	Fresno, Calif.	Conduit	\$4.6M	5.73%	N/A	10 yrs.	30 yrs.	80% LTV

Features: Credit Suisse First Boston closed this mortgage in just 50 days to refinance the Woodward Bluffs Manufactured Home Community. The borrower refinanced a fixed-rate loan two years prior to maturity to improve the interest rate and return equity to the partnership. Credit Suisse First Boston was able to lock in a new, 10-year loan with one-year of interest only that lowered the borrower's rate by 2%. The four-star Woodward Bluffs community, located at 9360 W. Blackstone Ave., features 63 single-wide homes, 105 doublewides and one triplewide. Built in 1974, all utilities are underground and each space is separately metered for gas, electricity and water. Amenities include a clubhouse, a billiards room, swimming pool, shuffleboard, weight room and RV storage. Located on 29 acres, it is currently 100% occupied. VP Damon Reed of GMAC Commercial Mortgage arranged the mortgage for the borrower.

Private Lenders Corner Land Market

Hard money private lenders see a plethora of land deals these days because of sustained demand to develop land, and anxious lenders want to write loans to cash in. Sometimes all that money and haste crashes. With land deals essentially being a dime a dozen, the trick for prudent lenders is to ferret out the good raw land deals that merit financing from the pipedreams. Lenders such as **Mercury Capital Corp.**, **Regional Capital Group** and **Hall Financial Group** are staying busy in the land lending sector.

New York-based Mercury Capital is a nimble, direct, nationwide bridge lender that can close a deal in 10 days when appropriate. **VP Joel Fogel**, however, is highly selective on deal propositions and has to say "no" frequently. With so much money in the market chasing so few quality deals, Fogel has seen a fair share of defaults on foolish loans. In the superheated atmosphere of this market, shaky deals get funded anyway. Underwriting standards get relaxed, creating a rise in defaults. Mercury Capital itself has about a 5% default rate. On land, Mercury Capital likes to deal in easily tradable urban locations that have a solid exit strategy in place.

Examples of recent Mercury Capital action include closure on a \$4M land deal for one acre in downtown Orlando to build a 191-unit luxury residential tower. The LTC was 80% on that deal. And Fogel is currently weighing a deal in Queens, N.Y. The general sweet spot for Mercury land deals is \$2M to \$12M, with an overall loan range of \$1M to \$20M. Typical

terms are 12 months to 36 months, interest-only. It can underwrite to a maximum 80% LTV. Recent pricing has been in the neighborhood of 12% interest and a 4% fee.

At Regional Capital Group, President **Paul Braungart** also sees lenders scrutinizing deals a little more closely heading into 2006. The direct lender deals mainly in the eastern United States on land loans. New Jersey-based Regional Capital does not have a great deal of competition for loans in its sweet spot range of \$1M to \$10M. By the end of 2006, RCG expects to book about \$100M in total loan volume. Regional Capital uses its own funds and does not sell its loans. Braungart puts an emphasis on creativity, thinking outside the box to get deals funded. Examples of recent Regional Capital closures include a \$1.6M bridge loan for a business park, \$3.6M on a construction loan and a \$1.5M mezz loan. All three were in Florida.

At Hall Financial Group, president **Donald Braun** writes deals nationwide, and is now pondering transactions in the Caribbean. Braun sees ample money in the sector, with steady demand for all types of real estate. Hall looks to book about \$100M in 2006 originations. Braun looks for land deals structured around 65% LTC, with a sweet spot of \$10M to \$20M and a range of \$5M to \$40M. Pricing is typically 7% to 8% over LIBOR with a 2% origination fee. Hall acts and funds as principal, using its own capital.

DEALMAKER DATABASE

<u>Institution/Address</u>	<u>Phone/Fax/Contact Name</u>	<u>Lending Activity</u>
AIG Global Investment 1 SunAmerica Center Los Angeles, CA. 90067	(310) 772-6110 Fax: (310) 772-6030 Alan Nussenblatt	Life company lends on hospitality, medical offices, parking garages, mixed-use buildings and the four major property types.
Banc of America CMBS Capital Markets 9 W. 57 th St. New York, NY 10019	(212) 847-6457 Fax: (212) 847-5695 Rochelle Dobbs rdobbs@bofasecurities.com	Conduit writes perms for tenant-in-common sponsors.
Bank of America 600 Peachtree St NE Atlanta, GA 30308	(404) 607-6578 Eugene Godbold	Commercial bank writes mortgages for affordable housing.
Barclays Capital 200 Park Ave. New York, NY 10166	(212) 412-1761 Fax: (212) 412-1607 Don Haber	Conduit writes loans for multiple property types.
Bond Street Capital 5236 Colony Drive, Suite 101 Agoura Hills, CA 91301	(818) 865-4104 Fax: (818)-865-3595 Joseph Forman jforman@bondstreetcapital.com	Conduit lender writes loans for special purpose properties.
Builders Bank 11111 Santa Monica Blvd., Suite 550 Los Angeles, CA 90025	(310) 473-7509 Fax: (310) 477-0040 Shannon Eidman	Bank writes construction loans for income property.
Corus Bank 3959 N. Lincoln Ave. Chicago, IL 60613	(773) 832-3542 Fax: (773) 832-3540 Michael Stein	National bank lends across all property types, and does bridge, mezzanine, construction and perms.
Credit Suisse First Boston 11 Madison Ave. New York, NY 10010	(212) 538-3098 Adam Raboy adam.raboy@csfb.com	Conduit writes loans for multiple property types.
CW Capital 400 Madison Ave. Suite 7D New York, NY 10017	(646) 253-8827 Fax: (646) 253-8849 Tammy Heyman theyman@cwcapital.com	Conduit writes loans for multiple property types.
GMAC Commercial Mortgage 8614 Westwood Center Drive Suite 630 Vienna, VA 22182-2233	(703) 749-4360 Fax: (703) 749-4399 Bruce Lowrey	Conduit writes perms for extended-stay hotels.
Imperial Capital Bank 888 Prospect St. La Jolla, CA 92037	(800) 860-0965 Fax: (866) 225-6055 Scot Cunningham	Bank writes loans for special purpose properties.
JP Morgan Chase 10940 Wilshire Blvd. Suite 2200 Los Angeles, CA 90024	(310) 893-2330 Fax: (310) 893-2399 Brad Wilmot brad.Wilmot@jpmmc.com	Conduit writes loans for multiple property types.
LaSalle Bank 135 S. LaSalle St., Suite 3410 Chicago, IL 60603	(312) 904-7675 Fax: (312) 904-0900 Nate Stearns	Conduit writes perms for tenant-in-common sponsors.
Lowe Enterprises 11777 San Vicente Blvd. Los Angeles, CA 90049	(310) 820-6661 Fax: (310) 207-1132 Bleeker Seamen	Institutional provider of equity financing.
Moody National Bank 2801 Network Blvd, Suite 705 Frisco, TX 75035	(972) 467-7108 Fax: (972) 542-0365 Tim Moore tmoore@moodynational.com	Bank writes loans for special purpose properties.
Ohio Savings Bank 1801 E. Ninth St., Suite 200 Cleveland, OH 44114	(216) 588-4039 Fax: (216) 588-4253 Frank Bologna	Bank specializes in residential development.
PMC Commercial Trust 17950 Preston Road Suite 600 Dallas, TX 75252	(972) 349-3200 Fax: (972) 349-3265 Laurie Ivy l.ivy@pmctrust.com	Private lender, REIT, SBA lender writes loans for special purpose properties.
PNC Real Estate Finance 249 Fifth Ave. Pittsburgh, PA 15222	(412) 762-2676 Fax (412) 705-1645 Andrew Siwulec	Bank writes construction loans on income properties.
Principal Real Estate Investors 801 Grand Ave. Des Moines, IA 50392	(515) 246-7003 Fax: (515) 248 8090 Todd Everett	Life company and conduit lender that writes loans for income properties and participates in JV equity partnerships.

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Conduits Ramp Up Extended-Stay Perms

Conduits are following the lead of business travelers and checking into extended-stay hotels. Wall Street lenders like extended-stay's thick operating profit margins, which tend to be 5% to 10% wider than that of limited- and full-service properties. Another plus is the relative stability of occupancy and historical heartiness, as extended-stay properties were relatively resilient in the months proceeding 9/11. Look for the bevy of conduits who did a healthy limited-service business in 2005 — including **GMAC Commercial Mortgage**, **UBS** and **GE Commercial Finance Franchise Finance** — to set their sights on more extended-stay deals in the coming year.

While extended-stay properties tend to be more expensive to build, attributable to the suites requiring more space and amenities, once they're up and running they can prove to be cash cows. Net operating income is a strong consideration when lenders consider pricing, which can range between 1.2% and 1.35% over Treasury for these perms nowadays.

Among the most coveted extended-stay flags are Hilton's Homewood Suites and Marriott's Residence Inn. Staybridge Suites is another name

that pops up on a lot of lenders' radars. Of course, the ultimate desire is to find a property in a hot urban locale that offers access to potential guests and a high barrier-to-entry.

GMACCM likes extended-stay properties in both urban and suburban locales. Depending on the borrower and the market's barrier-to-entry, the lender will go up to 80% LTV. Interest-only strips are not out of the question.

For competitive pricing, the lender likes reserves in the 4% to 5% range and a 1.4 DSC. Deal size usually starts at \$10M, although the lender will go lower for special situations such as repeat clients. GMACCM is looking to originate around \$1B in hotel deals in 2006.

UBS likes a stable operating history and reasonable operating margins. Barrier-to-entry is a strong consideration. The lender will go up to 75% LTV for a first lien and up to 90% with mezz. Terms are for five and 10 years, with up to 25 years of amortization. Deal size starts at \$5M, with the lender's sweet spot between \$15M and \$25M. Look for the conduit to originate around \$3B in loans in 2006.

Lenders Warm Up to Tenant-In-Common Deals

Tenant-in-common sponsors have seen lenders go from luke-warm to aggressive in trying to win their business. Equity is the perfume that attracts these potential suitors, as investors in these deals are coming to the table with plenty of skin in the deal.

With LTVs in the neighborhood of 65%, look for lenders like **RBS Greenwich Capital**, **JPMorgan Chase Commercial Mortgage**, **KeyBank**, **LaSalle Bank**, **Citibank** and **Banc of America CMBS Capital Markets** to court TIC deals in the new year.

A new lender approaches **Doug Johnston**, CEO of TIC sponsor **SCI Real Estate Investments**, every two or three weeks. SCI bills itself as one of the top two or three sponsors in the industry,

which has grown to include about 80 sponsors doing between \$10B and \$12B in business per year. Despite the attraction from top-notch lenders, Johnston doesn't see SCI looking to raise its leverage in deals, given that the equity invested in a commercial real estate deal is often tax-driven, with TIC investors seeking to shelter capital gains.

Once upon a time, a lot of lenders considered TIC deals somewhat exotic, and inferior to traditional one-borrower-per-property transactions. As the vehicle has become more sophisticated and prevalent, lenders have changed their tunes and now see TIC deals as a significant portion of the marketplace. For example, SCI is shooting to close around \$900M in deals in 2006 after doing \$500M in 2005.

SCI focuses primarily on multi-tenant retail and multifamily properties nationwide. Right now the borrower is seeing 10-year interest-only terms, priced in the mid-5% range. While conduits are generally pulling back on interest-only, the substantial equity offered by TICs makes this feature sensible.

Once a TIC sponsor finds a consistently competitive lender, look for both parties to seek a sustaining relationship. The TIC sponsor likes it when its legal team is on the same page as the lender.

Of course, the lender likes it when it can find a fountain of repeat business. TIC sponsor **Triple Net Properties** has done a slew of office deals with **Wachovia Securities**, a leading TIC lender.

INCOME PROPERTY RATES

Even though lenders across the country have been saying that the condo conversion craze is played out, a check of banks shows that lenders are still writing deals in this niche. Borrowers may find that lenders are becoming choosier about properties or that some markets are drying up, but there is still money out there for the right sponsor with the right project in the right market.

RETAIL REFINANCE LOANS

LENDER	RATE	FEE	DEAL SIZE	TERM	LOAN TO COST
CORUS BANK	3.5%-4.5 + LIBOR	1.5-2%	\$20M-\$135M	12-36 months	80% LTC
BUILDERS BANK	PRIME+1%	1%	\$5M-\$16M	12-18 months	85% LTC
OHIO SAVINGS BANK	PRIME+.5-1%	1%-1.5%	\$5M-\$180M	12-36 months	80% LTC

Each issue, the Income Property Rates section will focus on a specific property category, featuring rates from the relevant lenders.

Condo Conversion Market Not Cooling Off

As 2005 drew to a close, you couldn't swing a construction crane without hitting a lender or equity player saying they were putting the brakes on condo lending. But as the new year rolls in, it appears that some lenders aren't quite ready to convert from conversion.

Chicago-based **Corus Bank** is still making condos the centerpiece of its lending programs, whether it is ground-up construction or conversion. Windy City neighbor **Builders Bank** is also still doing conversion deals, but is running though the properties with a fine-toothed comb.

Ohio Savings Bank, a lender better known for underwriting single-family residential subdivisions, is still open to conversion projects. Credit giant **GMAC Commercial Mortgage** is still writing condo conversion deals on a case-by-case basis. **HSBC** started off the new year as the lead lender on a \$250M luxury project in — where else? — Las Vegas. They are not going it alone, however, as **PB Capital** and **Bank Leumi** are also in for a piece.

Conventional wisdom says it is time to get off the condo train before over-supply and higher

interest rates cause a derailment and put lenders into the condo sales business. Markets like San Diego, Chicago, Southern Florida and Las Vegas are thought to be over-supplied. Worries about the Fed roughing up the interest rate in the first quarter has given some lenders the shakes, as they fear for-sale condos coming back as upscale apartments if first-time homebuyers get shut out.

That said, there are always contrarian strategists who see wisdom in not following the pack, or lenders who believe they know condos or certain markets so well that they are insulated and enjoy insights that other lenders don't. Corus Bank certainly falls into this category, with a volume of \$5.7B last year and the majority of those loans from the condo niche.

The lender is at home whether it is construction or conversion, even in volatile markets like Vegas or San Diego.

Builders Bank is active in smaller conversion projects, mostly under 30 units. The bank likes New York, Miami, Chicago, Los Angeles and Washington, D.C., as conversion markets. VP **Shannon Eidmans** thinks that SoCal is particularly ripe for conversion

because of unaffordable single-family housing.

Ohio Savings still has an appetite for conversion plays, to the point that it will put its head in the lion's mouth, underwriting deals in Sin City. It is worth noting that there are 74 condo projects on the boards, with 17 under construction in Las Vegas. Therefore, the saving bank's willingness to continue going forward is a testimony to VP **Terry Jones'** knowledge of the market. That said, Ohio is steering clear of high-rise projects.

The lender is looking nationally for conversions that make sense in both infill locations and suburban markets. The bank is looking for pre-sale qualifiers at 50%, and real deposits of 25% down before they give the green light.

One investment philosophy is to put all of your eggs in one basket, and watch that basket carefully. Corus has done that with condo loans, according to its fourth quarter earnings statement. Of the \$8.3B loans the Chicago-base lender made, 91% of them was either a ground-up condo construction or conversion loans. Of the 196 loans made for the quarter, the lender did just 39 outside the condo niche.

Lenders Compete for Special Purpose

Banks, SBA lenders and private lenders compete against each other for mortgages on special purpose properties as life companies and conduits shy away from these riskier properties. **Bond Street Capital, Imperial Capital Bank** and **Moody National Bank** face off with SBA lenders such as **PMC Commercial Trust** for small loans in the special purpose property niche. But SBA lenders will step aside and let non-SBA lenders tackle larger loans, usually more than \$2M. Imperial Capital will compete for SBA loans as well. SBA lending is heating up right now because the government has increased loan limits, creating a profitable niche for small banks.

At Bond Street Capital, COO **Joe Forman** has approved gas station and small motel deals in the last six months. Bond Street can go up to 80% LTV on select gas station deals. It also offers a credit-tenant-lease program, done through a bond, where it can go up to 100% LTV. Bond Street's gas station loan program goes up to \$4M. On church loans, Bond Street can go from \$500T to \$20M. Bond Street looks to do more

than \$100M in church lending in 2006. Total loan volume at Bond Street exceeded \$350M in 2005.

At Moody National Bank in Texas, **Tim Moore**, president of the bank's hospitality group, sees hotels as having the largest upside among all commercial real estate property types over the next two years. Moody specializes in hotel loans and writes loans from \$3M and up, with a sweet spot of \$8M to \$15M. Despite rising construction costs Moore still predicts that new projects will continue to come out of the ground. He also sees cap rates starting to creep back up.

Laurie Ivy, director of hospitality lending at PMC Commercial Trust, likes making deals for hotels and gas stations, in part because of steady consumer demand for lodging and gasoline for as far as the eye can see. PMC Commercial Trust writes SBA, commercial and business loans. Small hotel and motel loans make up about 85% of PMC's loan volume. Gas station lending comprises about 5% to 10% of PMC's volume.

Competition is fierce in this sector, forcing Ivy to sometimes lend at a lower spread and to be aggressive with rates. PMC will lend nationwide, but sometimes finds more value in the middle of the country. PMC doesn't do as many deals on the West and East Coasts because of high valuations and the LTV that borrowers are looking for in those prime locales. Total loan volume in 2005 was about \$65M, and Ivy is shooting for a significant jump to \$100M for 2006. Part of PMC's strategy to reach that higher goal will include reaching out to new construction loans, and providing loans to first-time hotel, motel and gas station owners who may be underserved by banks and other lenders. Ivy anticipates that interest rates will level off in 2006, perhaps bringing the yield curve into a more normal range.

Imperial Capital Bank VP **Scot Cunningham** does conservative, selective lending on hotels and motels, less than 5% of Imperial's total lending activity. The typical LTV is 50% to 65% in the special purpose property sector.

Wall Street Ready to Securitize Construction...

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Some speculate that conduits saw the potential for securitizing construction pieces as a result of doing a spate of condo conversion takeouts in the past few years. As more and more investors look to add securitized commercial real estate products to their portfolios, look for lenders to empty their cupboards to find new ways to make a buck, especially in such a competitive lending environment.

When considering these deals, look for rating agencies to want a diversity of loan sizes, with initial pools probably in the vicinity of \$500M in total value. Of course, this amount will likely creep up as the players become more comfortable with the product. One of the many challenges of securitizing construction pieces will undoubtedly be track-

ing all the moving parts associated with these types of loans.

Two of the most important considerations will be the profiles of the sponsor and loan servicer, who must be able to address a snafu in a timely manner given the deadline structure of a construction piece. The sponsor must have the experience and expertise to allay fears and ensure that they can pull off the job. Unlike CMBS collateralized by stabilized properties, the other major consideration for securities backed by construction loans is cash flow, which usually comes from interest reserves and sponsor equity. Again, the execution of the project by the developer will prove paramount to the success of these loans.

Lender Notes...

The Buzz

In a move sure to make plenty of developers and lenders more than a little uncomfortable, the Feds have signed off on the **Bank of America** and **PNC Financial** going into the development business.

Sort of.

The **Comptroller of the Currency** has OK'd projects by the two banks that go beyond the normal bounds of building a trophy office building, slapping the bank moniker on it and calling it a world headquarters. The Bank of America is building a 15-story, 150-room \$60M Ritz Carlton hotel in Charlotte, N.C., as part of its new headquarters complex. PNC is developing a 30-story building that will include 150 hotel rooms, as well as 30 condos and office space. The project carries a \$170M price tag.

In the past banks have been allowed to build and own office buildings for their own operations, but other development has been off-limits. The fear has been that banks have access to cheap capital and could use it to dominate the commercial real estate market if allowed to go into the development business.

A secondary worry has also been that if banks are heavily invested in commercial real estate via their own portfolios and the market tumbles south in drastic manner, banks and the general economy could follow suit.

LCs Warm Up to Mixed-Use Properties ...

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Principal is undaunted by these issues, so much so that it has underwritten a \$44M spec project in Alexandria, Va. The five-story project, which is located in Old Town, will feature three floors totaling 95,300 s.f. of office space above two floors containing a total of 73,000 s.f. of retail space. Generally, Principle likes urban locations though they will venture into the 'burbs for the right deal. Although the Old Town project is office/retail, the LC will look at retail/residential as well. While Principal hopes to do \$6B in loans this year, mixed use will end up being a small piece of that. Loan parameters on this kind of project vary with each deal, but generally the LC favors a lower LTC and a loan minimum of \$2M and a max of \$100M.

Prudential Mortgage Capital has an appetite for mixed use. Favoring major metro markets and close suburbs, expect the LC to fund loans between \$3M and \$300M. Prudential does not shy away from

BofA and PNC have been allowed to move on the projects with the understanding that eventually the majority of the hotel rooms will be occupied by bank clients and vendors and the direct access to cheap hotel rooms will help the banks control costs.

But lending and construction insiders are worried that the projects are simply the camel's nose in the tent, and that other banks will be encouraged by the Comptroller's actions and soon begin ramping up their own projects. It is worth noting that **Wachovia Bank** is at work on a downtown Charlotte project that includes an office tower, condos and arts complex that eventually will be owned by the city of Charlotte.

●●●

Equity player **Lowe Enterprises Investors** is shopping hard for joint venture partners for a new national multifamily acquisition program. On behalf of investor clients, Lowe is combing the country for partners with experience and knowledge of local markets for acquisition of value-added multifamily properties in infill locations. Lowe kicked off the new program by acquiring a 60-unit complex with JV partner **Sebren Development**, staying close to home in Los Angeles.

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large scale projects requiring more time, as a recent deal in suburban Cleveland demonstrates. The ambitious project includes almost 400,000 s.f. of retail, 80,000 s.f. of office space and 158 apartments. The 10-year, \$100M loan was the refinance of a construction loan. Prudential hopes to originate \$6B in loans this year.

AIG Global Investment Group is no stranger to mixed-use finance. The LC is open to projects on a national basis and is willing to fund loans beginning at \$5M and topping out at \$200M. AIG's comfort with the niche results from the fact that it not only finances projects, but has experience on the development side of the table as well. AIG is underwriting and developing Atlantic Station in Atlanta, a mix of more than 800,000 s.f. of retail and 1,600 apartments and condos, as well as more than 500,000 s.f. of office space. Expect the lender to favor lower leverage loans and insist on 1.45 DSC.

Rates Inch Higher, But Capital Available for Loans

Expect 2006 to be another good year for commercial real estate finance, although lenders will be more cautious after another year of heavy competition for loans on apartment, industrial, office and retail properties and unusually high volume for new residential condominiums and condo conversions. Short-term interest rates used for land acquisition, development and construction loans rose throughout last year, driving up the cost of new projects as well as redevelopments. Treasury indices, on which longer-term fixed-rate mortgages are based, also moved higher driving up the cost of construction takeout loans, existing property acquisitions and refis. Higher rates will slow down the markets a bit, but tight lender competition for loans should keep enough capital in the market to keep the industry healthy.

Rising residential mortgage interest rates are good news for the apartment market, but not so good news for the residential condo market. Expect the apartment market to show signs of recovery with higher occupancy rates and rents if interest rates continue to rise and put the clamps on home ownership. Banks and other lenders who have been writing new condo and condo conversion construction

loans would be wise to proceed with caution, as many major markets have been saturated with projects. For-sale condos could revert back to for-rent status if the residential sale market begins to freeze up.

The hotel market shows signs of taking off as rising occupancy and room rates make new development more attractive. Hotel markets across the nation are showing their best results since the hospitality depression caused by 9/11. As business and leisure travel grows and the economy remains steady, lenders get more comfortable writing land AD&C loans and construction/perms for both full-service and limited-service hotels. The hotel/condo niche, which is in its infancy, will show signs of life this year as long as interest rates don't rise drastically.

The industrial, office and retail markets will remain as strong as the economy performs. Rising interest rates will all but kill the refi market, except for properties with expiring loan terms. But demand for commercial real estate as an investment will keep acquisition perms and land AD&C loans rolling until other investments, such as stocks and bonds, become more attractive.

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