

LCS TO CONSIDER MED OFFICE CONSTRUCTION

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For smaller loans to local investors and doctor groups, local banks are a better bet. First National Bank & Trust of McAlester, Okla., wrote a \$4.73M construction/perm for a three-story property in Bridgeport, Texas. First National is a \$380M community bank that provides commercial mortgage lending in Oklahoma and its contiguous states, as well as Louisiana. EVP **Evans McBride**, the bank's chief lending officer, is not a traditional construction lender. The bank will underwrite construction loans with a permanent component and is most active in the \$2M and \$6M range. Loans are priced off of the prime rate, up to 80% LTV with a minimum 1.2 DSC.

First National Bank wrote the Bridgeport loan as an 18-month, interest-only construction loan that rolls into a 25-year, fully-amortizing perm. **Tucker Knight at Holliday Fenoglio Fowler** brought this deal to First National, which sources most of its loans through brokers.

PREFERRED EQUITY PROVIDES SOLUTIONS

The credit crunch has made it difficult for buyers who want to assume a CMBS loan, but equity lenders plan to solve this growing problem with preferred equity. **GE Real Estate, Buchanan Street Partners, Hudson Realty Capital** and **NBS Realty** prepare to do more preferred equity business in this area to bolster their already strong joint venture equity platforms.

CMBS loans written a year or two ago are 1% to 2% cheaper than what lenders can quote today. Buyers are more willing to assume one of these loans. The problem is that most CMBS loans forbid a borrower from placing additional new debt if the property value increased since the original loan was written. A first mortgage that originally covered 75% of the original price would cover much less of the current value, especially if it had been amortizing, forcing the buyer to come up with the difference in real equity.

And even in cases where the borrower wants to find a new CMBS mortgage, many lenders require pre-approval to place mezzanine debt before the deal closes. Preferred equity allows the debt to be structured more like a partnership, avoiding the debt restrictions. The blended rate for the borrower may not be much cheaper than taking out a new loan. But if the borrower can add value to the asset quickly, it can pay off the preferred equity and keep that cheaper financing without giving up too much control and profit. First mortgage lenders favor this structure because it protects them from defaults. Expect interest rates to be in the low- to mid-teen range, plus a participation of profit.

GE Real Estate's North American Equity division could produce between \$100M to \$250M in preferred equity deals under the direction of **Dan Brook**. Brook, a 17-year veteran at GE, was recently appointed joint venture preferred equity leader to specifically target the growing need for preferred equity, as well as pari passu JV partnerships. He has already seen a surge in applications for preferred equity after doing only a handful of such transactions earlier this year.

GE can write preferred equity starting at \$5M, but will likely be most active in the \$10M range as it targets projects with a total capitalization between \$50M and \$75M. It can go as high as 95% of LTV. Equity in the higher end of the capital stack will have interest rates in the mid-teens, plus a participation component. But borrowers wanting to keep debt below 60% could get equity without participation and single-digit interest rates. Interest rates can be fixed or floating. Brook's group will put most attention on the four main property types.

GE will find competition from Buchanan Street Partners, which will be doing more preferred equity transactions next year. This year could end close to \$400M in preferred equity deals, but next year Buchanan Street could do another \$100M more as it tries to do a minimum of \$15M per deal. The institutional money manager has been utilizing two investment funds that are just about fully committed. So expect Buchanan Street to start fund-raising a new vehicle next year that could be capitalized with \$1B, becoming its largest fund. The boost will come from international asset management firm **TCW Group**, which acquired a majority interest in Buchanan Street Partners. TCW is expected to help raise more investment capital for Buchanan Street, which is TCW's only real estate platform.

Buchanan Street has been a value-added JV partner, specializing in office and apartment upgrades of Class B properties. But expect it to do more activity in the industrial sector, similar to the deal it recently closed in Irvine, Calif.

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STRAIGHT FROM THE MARKET

(Deals done within the past 90 days.)

Type of Loan	Location	Lender	Amount	Rate	Fee	Term	Amortization	Loan to Cost/Value
Office Condo Bridge Loan	Washington, D.C.	Private	\$3.71M	11%	3%	3 mos.	Interest only	81% LTV

Features: Western Capital Partners LLC took care of a quick close situation for a commercial condo investor in Washington, D.C. The loan includes a three-month extension option. The property is a 3,400 s.f. ground-floor retail unit in an office property. The unit will be occupied by a national bank for 20 years. Western Capital specializes in bridge lending and considers commercial condo sales. Bret Berglund, who originated this transaction, pays special attention to condominium issues such as property associations and their limitations, as well as insurance coverage.

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It provided \$14M in JV equity toward a \$57M warehouse and data center property. Buchanan Street works best for the experienced developer who welcomes an active finance adviser partner. But as debt becomes more expensive, Buchanan Street sees opportunity in the preferred equity segment. It will go as high as 100% of the capital stack, but is usually accompanied by a JV component. Preferred equity alone will often start between 10% and 15%, depending on the risk. Coupled with JV capital, Buchanan tries to blend returns toward the mid to high teens.

At the lower end of the market, Hudson Realty Capital and **NBS Realty** compete for preferred equity deals under \$5M. Expect **NBS Realty** to launch the \$100M Morrison Street Fund III next year, which could produce \$30M in equity, bridge and mezzanine debt in 2008. Preferred equity rates start as low as 8% for more stabilized assets. Recent deals include \$1.1M in preferred equity to convert a business park in Hillsboro, Ore., into commercial condos. CEO **Rance Gregory** sees the company being most active in the \$2M to \$4M range as its sources deals from community banks.

Hudson Realty Capital will compete in the same range with a new \$350M equity fund. HRC Fund IV will supply up to 90% of cost for preferred equity in the \$2M to \$25M range. The fund will also invest in wholly-owned acquisitions and JV partnerships, as well as mezzanine debt. Managing Director **Spencer Garfield** expects to be more active in office and industrial deals, but also considers multifamily, hospitality and retail. He likes fast growing markets in coastal regions.

DEALMAKER DATABANK™

Institution/Address	Phone/Fax/Contact Name	Lending Activity
Anglo Irish Bank 265 Franklin St. 19 th Floor Boston, MA 02110	(617) 720-2577 Fax: (617) 261-4783 Tony Campbell	Bank based in Ireland lends on the four major food groups.
Arbor Realty Trust 375 Park Ave., Suite 3401 New York, NY 10152	(516) 832-6595 Fax: (516) 832-6495 Fred Weber	Mortgage REIT writes mezzanine loans for commercial properties.
Bank of America 600 Peachtree St. N.E. Atlanta, GA 30308	(404) 607-6578 Eugene Godbold commercialrealestate@bankofamerica.com	Commercial Bank writes commercial real estate mortgages and lends on affordable housing.
Bear Stearns 383 Madison Ave. New York, NY 10179	(212) 272-7918 Fax: (212) 272-7047 Christopher Hoeffel choeffel@bear.com	Conduit lender and investment bank.
BMC Capital 3110 Monticello Ave., Suite 400 Dallas, TX 75202	(214) 526-7178 Fax: (214) 526-2297 Jonathan Morris	Nationwide lender specializes in small balance multifamily loans.
Buchanan Street Partners 620 Newport Center Dr., Eighth Floor Newport Beach, CA 92660	(949) 721-1414 Steve Blue smb@buchananstreet.com	Institutional fund manager forms joint ventures and provides preferred equity.
California State Teachers Retirement System 7667 Folsom Road, Room 250 Sacramento, CA 95826	(916) 229-3722 Fax: (916) 229-0502 Mike DiRie	One of the largest pension funds in country and a major real estate equity player.

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