

Grandbridge Real Estate Capital

Capital Markets Update | 1.2012

While global economic uncertainty and domestic political jostling continue to cause wide swings in the stock and bond markets, real estate fundamentals continue to improve and capital remains available at historically attractive rates. Insurance companies funded nearly \$35 billion in commercial mortgages during the first three quarters of 2011, on pace to fund the highest ever annual loan volume. Agency lenders continue to have success in funding multifamily loans and commercial real estate transactions have rebounded significantly since reaching bottom in 2009.

Grandbridge Real Estate Capital arranged 587 loans totaling more than \$4.8 billion in 2011. Grandbridge's success is rooted in its wide range of capital capabilities as a MAP-approved HUD lender, Fannie Mae DUS® lender and Freddie Mac Program Plus® Seller/Servicer in 22 of 24 markets as well as its representation of 50 insurance companies and a select group of CMBS lenders.

The following is a summary of recent developments in each capital source sector. Please contact your Grandbridge real estate professional for more information.

Insurance Companies

In 2011 insurance company production for Grandbridge was extremely robust. Grandbridge closed 256 deals with 45 separate insurance companies, a 68 percent annual increase in the number of transactions closed. Our volume of closed loans has increased by 67 percent over 2010; from \$919.5 million to \$1.54 billion!

- Some bifurcation exists in the market. Increased competition amongst this capital source for top quality multifamily, retail and industrial properties has seen loan-to-values increase to near 75 percent. For less than top tier assets, most insurance companies continue to limit loans to 65 percent loan-to-value.
- With U.S. Treasuries at or near historic lows, most insurance companies continue to quote loans with floor rates. Nonetheless, these minimum yields sought by insurance companies remain very attractive.
- Today, 10-year fixed interest rates range from 4.5 percent to 6 percent depending on product type, leverage and asset quality.
- We anticipate that insurance company demand for commercial and multifamily assets will increase by a factor of approximately 20 to 25 percent in 2012. Competition for these (top tier) assets will be fierce and should serve to marginally loosen underwriting parameters in small, but deliberate and positive, increments.

Agency Lending

While Fannie Mae and Freddie Mac continue to be engulfed in the political wrangling related to the future of each firm, these two important providers of multifamily capital have had strong, robust years. Both Fannie Mae and Freddie Mac have reported profitable operations from their multifamily businesses. Total taxpayer support for the firms exceeded \$160 billion, and the real estate industry continues to push for regulations that will provide ongoing liquidity for the multifamily sector. To be sure, the future of Fannie Mae and Freddie Mac remains in doubt. Speculation includes the merger of the two firms, the spin-off of each firm's multifamily unit, or shutting down the businesses altogether.

It is difficult to imagine the multifamily financing arena without Fannie Mae and Freddie Mac. However, the politicized nature of the discussion makes it almost impossible to predict the final resolution. What we can say for sure is that long-term interest rates continue to be at all time lows, so we advise long-term holders of real estate to lock down permanent interest rates at these levels before the opportunity slips away. Grandbridge had an extremely successful year with Fannie Mae and Freddie Mac closing approximately \$2 billion of combined production in 2011.

Fannie Mae recently reported that multifamily mortgage purchases through the first three quarters of 2011 reached \$17 billion, which is approximately what the firm did in all of 2010.

- Fannie Mae and its DUS® (Delegated Underwriting and Servicing) lenders, under pressure from heightened competition in 2011, have stepped up efforts to remain a primary source of multifamily financing.
- Aggressive pricing and an increased availability of interest-only periods are two key components that have kept Fannie Mae competitive. Fixed rates today can be as low as 3.8 percent for lower leverage transactions with a 10-year term and a 30-year amortization schedule. Most full leverage loan rates are closer to 4.4 percent.
- Fannie Mae's ARM 7/6 program has been very attractive to owners looking for an adjustable rate loan with flexible prepayment (locked for one year then open with 1 percent penalty thereafter). The program typically offers seven-year loan terms with a low going-in interest rate and a capped rate in the mid 7 percent range.

Freddie Mac has continued the momentum that it had built during the second half of last year making for a very successful 2011. Based upon recent conversations, Freddie Mac is very close to achieving a record setting production year.

- Freddie Mac's multifamily division continues to be profitable, and is not requiring funds from U.S. taxpayers.
- Freddie Mac's Capital Markets Execution (CME) has thrived, even as the CMBS markets were rocked by recent events with S&P. Freddie Mac has issued almost \$14 billion of securities in 2011.
- Delinquency rates continue to fall, fueling Freddie Mac's desire to expand its multifamily business.
- Freddie Mac recently announced revisions to its Early Rate Lock programs to be able to better respond to clients in 2012. The stated goal is to rate lock in two to five days from receipt of a signed application for repeat clients.
- Ten-year fixed CME rates today can be as low as 3.75 percent with most higher leverage loans pricing closer to 4.5 percent.
- Freddie Mac has also added adjustable rate mortgages (ARM) to CME, providing the pricing benefits of CME to investors that prefer the flexibility and lower initial rates of ARM loans.

FHA Multifamily program centers, in order to create transparency in the loan processing queue, are to begin posting loan application logs. The logs indicate, by FHA project number, all deals submitted for processing, noting the loan program, current status, and estimated completion date.

- HUD issued the first update to the Multifamily Application Processing (MAP) Guide since 2002. Revision 1 to the MAP Guide was issued November, 23, 2011, and implements HUD's updated risk mitigation underwriting provisions, and integrates previous Frequently Asked Questions, Housing Notices, and Mortgage Letters into the Guide.
- With regard to healthcare transactions, in FY 2011, the Office of Residential Care Facilities (OHP) processed \$3.7 billion in new commitments for 473 projects. Once the Firm Application was placed into HUD Underwriting, processing times averaged 60 days to underwrite and approve commitments, and less than 90 days to close after commitment. While loan application queues remained long through the past year (223(f) applications were in the queue 181 days prior to underwriting, 223(a)(7) applications averaged 118 days, and other types of applications averaged 176 days prior to underwriting), with a combination of contract outsourcing of underwriting, and a 50 percent increase in staff, OHP has greatly increased the velocity of transactions moving through the queue.

- Long-term FHA loans remain at historically low rates.
- Grandbridge closed 31 HUD insured loans in FY 2011 totaling more than \$243 million making Grandbridge the 11th largest multifamily MAP underwriter by loan volume.

BB&T Real Estate Funding

BB&T Real Estate Funding (BBTREF) is Grandbridge's proprietary lending platform. BBTREF provides nonrecourse bridge loans with two- to three-year terms (with up to two, one-year extension options) to developers seeking to rehabilitate properties or close quickly in order to take advantage of opportunities in the marketplace. BBTREF also recently added a new ground-up construction program with a focus on market rate, student housing and seniors housing developments.

- BBTREF finished 2011 in strong fashion, closing \$230 million of loans, its best year ever!
- BBTREF opened an office in Dallas, Texas, in September, with Tim Ross joining the BBTREF team. Tim is focusing on the Texas markets where BBTREF is targeting significant production volume in future years.
- Loan closings include multifamily, retail, office, seniors housing, in markets throughout the continental U.S.
- BBTREF is targeting new loan originations of \$300 million in 2012.

Commercial Mortgage-Backed Securities

The Commercial Mortgage-Backed Securities (CMBS) market is slowly recovering from its standstill in August and September. CMBS lenders continue to quote and close on commercial real estate loans which generally have higher loan-to-values than portfolio lenders, but also carry higher interest rates and less flexibility.

- CMBS lenders will securitize approximately \$32 billion in 2011, according to Commercial Mortgage Alert, down from a projected \$40 billion, but still significantly higher than \$12 billion securitized in 2010.
- Borrowing spreads have decreased to pre-August levels making rates more competitive with bank and insurance company offerings.
- Expectations are that the market will continue to build and add liquidity to the nearly \$350 billion in commercial real estate loan maturities that are scheduled in 2012.
- CMBS lenders continue to focus on loans ranging from \$5 million to \$50 million
- Grandbridge continues to monitor the CMBS market and has identified a select group of credible CMBS 2.0 partners that will allow Grandbridge professionals to remain partners through the life of the loan through servicing relationships, providing clients with a greater certainty of loan funding and service.

Grandbridge manages a loan servicing portfolio with assets totaling in excess of \$25 billion, making Grandbridge one of the largest full-service commercial mortgage banking firms in the country. The production team operates out of 24 offices and consists of 80 producers and 60 analysts. Twenty of its offices are located within the BB&T service area offices and work closely with BB&T bankers. The broad investor base is one of the strongest in the industry and includes leading insurance companies, pension fund advisors, CMBS investors and commercial banks as well as proprietary products. The company is a Fannie Mae DUS lender, a Freddie Mac Program Plus Seller/Servicer, Seniors Housing and Targeted Affordable Housing lender, and an active participant in multifamily and healthcare products insured by the Federal Housing Administration (FHA).

Recent Closings

<p>\$144,432,200 AZ, CO, TX Manuf. Home Community 4185 Sites; 11 Communities Acquisition Agency and CMBS</p>	<p>\$34,500,000 Indianapolis, IN Multifamily 421 Units Refinance Insurance Company</p>	<p>\$72,030,000 Jacksonville, FL Multifamily 1,112 Units Refinance Agency</p>	<p>\$18,000,000 Madison, WI Student Housing 127 Units Refinance Insurance Company</p>
<p>\$22,200,000 Buffalo Grove, IL Multifamily 236 Units Acquisition Agency</p>	<p>\$21,969,590 Kansas City, MO Industrial 1,259,187 SF Modification Insurance Company</p>	<p>\$17,000,000 Conroe, TX Medical Office 100,000 SF New Construction Insurance Company</p>	<p>\$2,696,000 Moore, OK Multifamily 60 Units Refinance Agency</p>
<p>\$60,000,000 NC, VA Hospitality 4 Properties; 582 Rooms Refinance CMBS</p>	<p>\$12,000,000 Louisville, KY Office 278,243 SF Refinance Insurance Company</p>	<p>\$50,000,000 CA, GA, OR, TX Office Bridge 4 Properties; 724,000 SF BB&T Real Estate Funding</p>	<p>\$3,800,000 Brooklyn Center, MN Office 85,000 SF Refinance Insurance Company</p>
<p>\$10,200,000 Upland, CA Retail 76,212 SF Acquisition Insurance Company</p>	<p>\$34,000,000 Corte Madera, CA Seniors Housing 118 Units Refinance Agency</p>	<p>\$26,801,800 Mount Pleasant, SC Multifamily 240 Units Development FHA 221(d)(4)</p>	<p>\$5,200,000 Charlotte, NC Office 64,637 SF Acquisition Insurance Company</p>
<p>\$4,620,000 Attleboro, MA Manuf. Home Community 172 Sites Refinance Agency</p>	<p>\$2,500,000 Louisville, KY Multifamily 60 Units Refinance Insurance Company</p>	<p>\$3,800,000 Metairie, LA Retail 15,120 SF Refinance Bond</p>	<p>\$16,000,000 Dublin, OH Multifamily 238 Units Refinance Agency</p>