

Grandbridge Real Estate Capital

Capital Markets Update | 9.2011

While fiscal and economic growth concerns at the national and international level clouded both the equity and fixed income markets during August and early September, many real estate investors have taken the volatility in stride while others have made adjustments to their lending parameters to deal with the uncertainty.

Even with Standard and Poor's (S&P) downgrade of the U.S. credit rating, investors worldwide have sought U.S. government debt driving Treasuries to their lowest level since December 2008. The Federal Reserve has also contributed to low Treasury yields by saying it will keep interest rates static until mid-2013. In early September the yield on the 10-year Treasury was under two percent.

Despite the economic turmoil, insurance companies and agency lenders have continued to lend at historically low interest rates. At the same time CMBS lenders have been forced to widen spreads due to several securitizations pricing higher than initially forecast. Investors of these bonds have challenged some of the securitization structures forcing lenders to offer more investor protections and find the new market price. Grandbridge Real Estate Capital has experienced great success in the first two thirds of 2011, closing 340 loans totaling more than \$2.73 billion.

The following is a summary of recent developments in each lending segment. Please [contact](#) your Grandbridge real estate professional for more information.

Insurance Companies

Insurance companies remain active and seek investments in multifamily, industrial, retail, office and hospitality properties. Lenders continue to allocate more funds to these sectors due to higher returns relative to other long-term, fixed rate investments such as corporate bonds.

- With record low Treasury yields, many insurance companies have instituted rate floors to guarantee a minimum yield.
- Even with floors, most insurance companies are quoting rates of 4.75 percent to 5.5 percent for full-leverage loans. Borrowers seeking lower leverage can transact with rates less than 4.5 percent on a 10-year term.
- Return to commercial lending is evidenced by insurance companies having accepted applications and funded more than 150 loans for office, industrial and retail properties through Grandbridge in 2011.
- Increased competition among insurance companies has driven many platforms to increase loan to value parameters up to 75 percent.
- Insurance companies continue to aggressively quote multifamily transactions offering loans on properties that are not stabilized, longer-term loans with flexible amortizations and the ability to lock an interest rate at application – an important distinction in today's market.
- Grandbridge represents more than 55 different insurance companies and portfolio lenders, finding the most competitive execution available.

Agency Lending

Bonds issued by Freddie Mac, Fannie Mae and the Federal Housing Administration backed by the implied guarantee by the U.S. government have continued to see strong demand from investors. The result is that rates have continued to fall alongside U.S. Treasuries. The multifamily segment continues to reflect the best fundamentals among property types.

Multifamily lender **Fannie Mae** continues to aggressively quote and close on multifamily deals generally in the range of \$3 million and up.

- Fannie Mae recently reported that multifamily mortgage purchases at mid year have reached \$12 billion, which is ahead of the firm's forecast.
- Fannie Mae and its Delegated Underwriting and Servicing (DUS®) 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.
- Fannie Mae seems focused on financing newer vintage communities and lowering the effective age of its portfolio. This means that owners can expect much more aggressive structuring on newer properties, especially those located in some of the firm's preferred markets (San Antonio, Portland, San Jose, Raleigh, Austin, Salt Lake City and Seattle).
- Deal terms are best for loan amounts over \$10 million. Older properties, especially those in Sun Belt markets where new supply has fewer constraints, will see more conservative terms including a growing number of 25-year amortization schedules.

Freddie Mac, which has continued the momentum that it had built during the second half of last year, is having a very successful 2011. Based upon recent conversations, Freddie Mac needs only to close what is currently in the pipeline to exceed its 2011 funding goals.

- Freddie Mac's Capital Markets Execution (CME) has thrived, even as the CMBS markets were rocked by recent events with S&P.
- When S&P said that it could not deliver a final rating for the Goldman Sachs/Citigroup securitization in late July, the deal fell apart and investors walked away. The shocks to the CMBS market are still being felt.
- Freddie Mac was going to the market with the next CME pool at about the same time as the Goldman deal, and elected to continue the sale even after S&P pulled its preliminary rating. Freddie Mac reported that investors showed an increased interest in the CME offering and classified it as a flight to quality.
- All of this is good news for multifamily owners, as Freddie Mac's primary mechanism for purchasing multifamily mortgages withstood a shock that caused CMBSs to go back to the sidelines.
- 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 an ARM loan.
- Grandbridge is a Freddie Mac Program Plus® Seller/Servicer in 23 of 24 of its markets.

HUD's total multifamily Initial Endorsements reached 1,000 apartment loans in July. According to HUD data, over the same period last fiscal year, HUD's multifamily housing office initially endorsed 775 loans despite staffing challenges in many offices. HUD remains on track for a second consecutive year of record-setting production. The Grandbridge HUD platform ranks #11 nationally in terms of Initial Endorsements (excluding LEAN Healthcare) with HUD for the Fiscal Year 2011; a great improvement compared to #28 in 2010.

- HUD year-to-date closings reached \$12.7 billion with one and one half months remaining in the HUD fiscal year.
- Three-fourths of the HUD multifamily production has been refinance transactions, with new construction financing representing the remaining production.
- HUD is implementing program enhancements for expedited processing of affordable multifamily transactions. There has been substantial progress on a pilot program for financing Low Income Housing Tax Credit projects, and details will be forthcoming in September 2011.
- HUD has also entered into a contract with a third-party consultant to process the backlog of HUD-insured healthcare refinance applications. The turnaround time from application submission to HUD, to assignment to the HUD underwriting team has shown immediate improvement.
- HUD insured mortgages can have loan terms of up to 40 years in addition to offering interest rates near historic lows.

As a MAP-approved HUD lender, Fannie Mae DUS® lender and Freddie Mac Program Plus Seller/Servicer, Grandbridge is able to make a market for all multifamily deals and provide the most efficient and competitive financing for stabilized multifamily assets.

BB&T Real Estate Funding

BB&T Real Estate Funding (BBTREF), Grandbridge's proprietary lending platform, has recently added a new ground-up construction program to its established bridge lending program. This new program provides construction loan capabilities to markets located out of the BB&T bank footprint. To further increase the capabilities of the platform, BBTREF has also doubled its funding capacity to \$800 million. BBTREF's Construction Lending guidelines are found below:

- Multifamily focus including student and senior housing, along with other commercial real estate property types with strong credit tenants and an identifiable exit strategy
- Loan sizes of \$10 million to \$35 million
- Potential recourse burndown available at CO and stabilization
- Greater than 70 percent loan to cost is available on new construction opportunities
- Two- to three-year initial terms with up to two one-year extension options available
- Interest-only during construction with flexible prepayment terms
- Additionally, 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

Commercial Mortgage-Backed Securities

The Commercial mortgage-backed securities (CMBS) market experienced volatility during July and August causing spreads to widen; many programs have halted new originations.

- In early August investors and S&P forced a securitization by Goldman Sachs and Citi to reprice and adjust ratings appointed to investment grade classes causing a dislocation in the market.
- A Deutsche Bank and UBS deal in mid August priced significantly wider than previous securitizations. Higher rated tranches received tepid demand and non-investment grade classes had few bids.
- CMBS spread widening ultimately impacts the lender's cost of capital and rates offered to borrowers.
- The current market puts CMBS lenders at a competitive disadvantage compared to insurance companies and other portfolio lenders.
- While some CMBS lenders continue to quote new business, the interruption is unfortunate as the CMBS market was expected to provide additional liquidity to the market.
- Grandbridge continues to monitor the CMBS market and has identified a select number 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 \$24.8 billion, making Grandbridge one of the largest full-service commercial mortgage banking firms in the country. The production team also works closely with BB&T bankers and 20 of its offices are located within the BB&T service area. 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 and Targeted Affordable Housing lender, and an active participant in multifamily products insured by the Federal Housing Administration (FHA).

Recent Closings

Loan Amount	Location	Property Type	Purpose	Investor Type	Size
\$23,000,000	Chattanooga, TN	Hospitality	Refinance	CMBS	186 Rooms
\$14,750,000	Bloomington, MN	Hospitality	Refinance	CMBS	259 Rooms
\$21,000,000	Charlotte, NC	Multifamily	Acquisition	Agency	372 Units
\$34,000,000	Corte Madera, CA	Senior Housing	Refinance	Agency	118 Units
\$26,801,800	Mount Pleasant, SC	Multifamily	Development	Agency	240 Units
\$6,300,000	Lafayette, LA	Seniors Housing	Acquisition	BBTREF	86 Units
\$18,000,000	Madison, WI	Multifamily (Student)	Refinance	Insurance	127 Units
\$8,510,000	Lafayette, LA	Multifamily (Student)	Bridge	Bank	192 Units
\$12,000,000	Louisville, KY	Office	Refinance	Insurance	278,243 Sq. Ft.
\$31,736,000	Ft. Lauderdale, FL	Office	Bridge	Insurance	391,473 Sq. Ft.
\$15,800,000	Miami, FL	Retail	Refinance	Insurance	94,809 Sq. Ft.
\$2,450,000	Woodbridge, VA	Industrial/Warehouse	Acquisition	Insurance	36,000 Sq. Ft.