

## CMBS TOO FAST AND FURIOUS FOR SOME

Competition in the CMBS market is building rapidly with around 20 originators joining the race, but is the segment moving too fast? Many insiders feel the conduit lenders' need for speed could lead to disaster again in the future, and a slower, more controlled acceleration is the necessary route to success. Funny, but wasn't it just a year ago when everyone expected it to be a slow, tortuous, multi-year crawl back for the CMBS market's return and some even speculated it would never return?

Some think the recent revival of CMBS is due to a grab for yield and limited supply, as opposed to an actual correction of real estate fundamentals, which is a cause for concern. Stricter underwriting standards on loans are also bumping up demand, but unfortunately, as the competition heats up, those tighter benchmarks will loosen, possibly leading to shoddy lending standards going forward.

CMBS issuances came in at about \$10B last year. The offerings began growing rapidly as 2010 came to a close with a 298% increase Q4 over Q3. And new CMBS issuances are picking up a head of steam this year, with approximately \$11B forecasted for Q1. That's more than the entire total for last year. At least \$5B more is expected for Q2 and anywhere up to \$70B for the entire year, although some think that is a bit extreme. Compared to the more than \$230B in 2007, however, it's a drop in the bucket. Of course, all of this is contingent on pending financial regulations that are still being worked out.

Along with the recent additions of **Deutsche Bank** and **UBS'** \$2.5B offering and **Morgan Stanley/Bank of America Merrill Lynch's** \$1.5B pool, **Cantor Fitzgerald** is working on a \$1B offering with **Wells Fargo** for March, **RBS**, **Wells Fargo**, **Natixis** and **Basis Real Estate** are brewing up a \$1.3B pool and **Goldman Sachs** is rumored to be planning \$5B to \$6B of new CMBS deals this year. **KeyBank Real Estate Capital** will rev up its CMBS production after reducing its real estate exposure over the last two years. The bank will provide acquisition and renovation financing. KeyBank, which contributed about \$3B in 2007, recently closed its first CMBS loan in two years at an all-in rate of 5.75%. **Greystone Bank** offers up a \$97.7M small-balance transaction, *Waterfall Victoria Mortgage Trust, 2011-SBC2*, and boutique firm **Guggenheim Partners** is expected to originate around \$500M in CMBS loans this year.

Many lenders believe that some of the current CMBS platforms will not endure and they expect some to drop out and others to merge, as volume won't be adequate to justify continued investment in the segment. Investment banks will increase their partnerships with specialty finance lenders to get loans securitized more quickly, as many of the banks have been pooling loans in their conduits over the last year and would like to hit the market before mid-2011. If investors snap up these latest offerings, it's likely more lenders will join the fray. This, in turn, could lead to a wave of refinancing for the abundance of troubled legacy loans.

Borrowers with smaller properties outside major cities are benefiting the most from the CMBS resurgence, because issuers can rake in higher rates, which will help cover the costs of pooling and selling the loans. Approximately one-third of CMBS loans originated in 2010 were in tertiary markets, compared to only 6.6% for life companies. Only 47% of loans made by CMBS firms in 2010 were from primary markets, whereas, banks and life companies that hold CRE mortgages on their books carried about 70% in these locations, according to Real Capital Analytics.

Cantor Commercial Real Estate, which is new to the field, will focus on small and middle-market borrowers, the investment firm's niche and where competition is dwindling due to regional and local banks shutting down. The firm hopes to originate between \$5B and \$8B this year, which it can pool for CMBS, private placement or other structures.

Life Companies will also generate their largest CMBS allocations in several years. As maturing loans are paid off, the companies need to replace those loans with new ones to build their portfolios. **Prudential Financial** plans to originate about \$400M this year and will likely securitize the loans through Wells Fargo.

The insurer, which increased its lending volume by more than 50% last year to almost \$9B, should dramatically increase its activity again in 2011.

Retail properties took top prize in the CMBS issuances of 2010 and continue to lead the way in new offerings coming to market this year. In last year's major issuances, retail made up more than 51% of loans, although that number did start declining at year's end. But *DB-UBS 2011-C1*, which carries 47 loans on 83 properties, carries 43.7% retail and Morgan Stanley/BofA Merrill Lynch has 43% retail on 37 loans for 79 properties. Office properties make up the second-highest level of loan counts, averaging 23%, but that number is increasing in the 2011 offerings. Issuances in CMBS 2.0 also have lower loan counts than in the past, where pools would contain hundreds of loans. The average loan count of CMBS 2.0 is less than 40, which means bigger loans and more portfolios.

On the flip side, Greystone Bank's *Waterfall Victoria Mortgage Trust, 2011-SBC2* holds 175 seasoned loans on 175 properties with a DSCR of 1.12x and a weighted actual interest rate of 7.09%. According to DBRS, the properties are predominately located in strong infill markets with high barriers to entry. About 61% of the pool is located in urban markets and only 2.7% in tertiary markets.

## OFFICE PROPERTIES PIQUING LENDER INTEREST

There is a robust office-lending pipeline brewing, with an excess of \$3B in transactions moving ahead. The slowly improving job market is key to this recovery. With absorption on the rise, vacancies declining and pricing for Class A product in CBDs going up, lending for the segment should continue to increase. And so will the competition, with about 80% of the lenders chasing 20% of the deals, which are top-tier products with good sponsorships and rent rolls.

After more than two years of continued occupancy losses, negative net absorption started to ease in 2010, although a full vacancy recovery is not anticipated until 2012. The national vacancy rate declined 29 basis points to 16% at the end of last year. Rents are down and have fallen anywhere from 12% to 30% from the mid-2007 peak, depending on the market. This could pull recovering companies back into buildings to lock in lower rents. Demand for quality assets in primary and select secondary markets will drive investment activity this year and sales are forecasted to improve a bit over the next few quarters but will not meet demand until there are several months of consistent job growth and more financing available for less desirable assets.

Banks, conduits and life companies will dominate the landscape when it comes to core cash-flowing assets. Big banks have recapitalized their balance sheets and now have capital to invest in mortgages. Office loans are No. 2 on the list behind retail for CMBS players such as **Deutsche Bank, Wells Fargo** and **JP Morgan**. The conduits are bullish on the \$10M and up transactions and originate office loans based on debt yield rather than debt service coverage. Life companies have bigger allocations for 2011 across the board and concentrate on office loans of \$1M and up, and for the first time in 15 years have an advantage over pricing. Expect conservative underwriting and strong sponsorship to be the norm on these loans, with more lenders quoting LTV at 65% and higher. Lenders will consider the basis relative to the land and the "go dark" value.

The capital markets are ahead of fundamentals and acquisition activity will pick up in certain cities as a result. Well-located and well-leased properties will get the most attention. Multi-tenanted CBD office properties with strong operating histories, no near-term rollover and healthy, experienced sponsorship will generate the most competition from lenders. Institutionally owned developments in core urban markets will also see a lot of interest. Single tenant deals are a challenge because the income is binary, but deals with strong sponsors in first-rate markets could get a pass. Gateway cities such as Washington, D.C., New York, Los Angeles, San Francisco, Houston, Seattle and Portland, Ore., will be attractive thanks to their strong underlying market conditions and long-term growth opportunities.

It remains to be seen how lenders will look at transitional projects. Suburban markets won't get as much play since office buildings continue to have high vacancies, declining rents and lofty concessions. Assets with large amounts of near-term rollover and above-market rents will also experience difficulty with financing, as will unstable, older properties with deferred maintenance issues.

Wells Fargo provides \$49.5M in acquisition financing to **Stirling Properties** for the Pan-American Life Building in New Orleans through its conduit program and **Walker & Dunlop**. The loan carries a 10-year term, 30-year amortization, a 5.86% rate and an LTC of 75%. Wells Fargo was drawn to the 28-story, Class A trophy property due to its location, tenant base and sponsorship.

Walker's SVP of Capital Markets **Andrew Coleman** expects to facilitate more office lending this year over 2010, noting that 12 months ago there were about 10% of the lenders that he has to work with today. Banks and life companies are back in business and over 20 conduits are actively looking for deals. The last two months have been very busy and Coleman has not seen a lull in the past six months.

**ING Investment Management** bucks the tide by doling out \$16M for the 147,549-s.f. Granite Park Regional, a single tenant office building in Sacramento, Calif. This is a 12-year fully amortizing refinance with the rate fixed for the entire term at 4.85%. LTV was 61% with DSC of 1.20x. ING liked that there was 10 years remaining on the lease with an investment grade credit tenant that has experience and financial strength. ING typically stays away from single credit tenant deals unless there is significant credit and term. The life company prefers to work with renovated multi-tenanted Class A or Class B offices.

ING SVP-Head of Real Estate Finance **Greg Michaud** sees average to high demand for office loans, and the company expects to allocate 20% to 25% of its planned \$2B to \$2.5B CRE originations to the segment. More than \$750M has already been committed, closed and/or is under application to close in 2011. About 15% of that is for office. The typical loan amount is \$25M and most are permanent fixed rate with LTV of 65% or less and 1.30x DSC or more. ING will include \$1.10 for TI and leasing above the line. Loans on retail, multifamily, industrial mobile homes and mini storage will also be in play this year.

**Edgewood Capital** provided \$8.1M in first mortgage funding for a newly built 93,000-s.f. Class A office building near the Portland airport in Oregon. The loan carried an interest rate of 10% and provided 75% of the total capital structure. It was funded with an initial advance to finance the discounted payoff of the existing first mortgage and provided additional funds for the lease up and operating carry of the building. At the time of the funding, the building's occupancy was 4% with one tenant occupying the property. The remainder of the square footage was in shell condition. Edgewood was able to provide bridge financing in a matter of weeks to enable the borrower to realize the discount and the lender to get the loan off its books by year-end. Edgewood differentiated itself from other lenders competing for this loan, thanks to its speed, flexible funding structure and non-recourse component. Managing Director **Jonathan Levirne** believes the borrower will do very well with this asset going forward as they have lowered their basis to a level where they can offer competitive rental rates for a first-class building.

**Prime Finance** looks to fund \$600M to \$800M this year, with around 25% targeted for office. The company originated about \$400M last year and \$80M has already gone out in 2011. The lender recently completed a \$21M refinance for Nexus Canyon Park in Bothell, Wash., a 152,000-s.f. biotech/lab building. The property is fully leased, less than one mile from the interstate and in the Seattle submarket. While Principal **Jon Brayshaw** notes that Prime typically funds first mortgages, the firm will also originate mezzanine and preferred equity loans.

Office properties need to have a good basis and a competitive advantage, so they can meet the market in rents and lease up. Prime prefers single tenant properties in secondary or tertiary markets where the rollover may result in a very binary outcome. Generally, debt to yield on office loans is 8% but with a clear path for the property to get 10%. LTV averages around 75%, but Prime has done some deals as high as 85%. Loans should fall in the \$15M to \$40M range and most are three- to five-year floating rate bridges. Brayshaw also will work with industrial, retail, hotels and multifamily nationwide.

**Mesa West Capital** originates a \$47M first mortgage financing for the 333,000-s.f. 5 Hanover Square in Manhattan, a three-year interest only loan. Principal **Raphael Fishbach** believes there will be plenty more office opportunities, as sponsors are willing to take on more risk given the job growth in certain parts of the country. This was the first deal for Mesa West in New York City, and Fishbach was attracted to the sponsorship and the fact that the building had a reset basis in the market and will lease up quickly. The private equity firm is a floating rate lender that will do acquisition, refinance and redevelopment loans but

keeps its distance from construction. Fishbach shoots for LTC of 60% to 65% on office deals. Typically, loans fall in the \$15M to \$100M area. Hotels, multifamily, industrial and retail are also in the cards.

**Pacific Life Insurance Company** looks for best-in-class, city center office assets that are well leased with well-laddered lease expirations and top quality sponsors. Overall, the firm will allocate \$2B to \$2.5B this year toward commercial real estate. Pacific Life will keep its distance from suburban offices unless they are part of a portfolio and cross collateralized. With a lot of office product coming out of New York City, count on Pacific Life to be active there this year. VP of Finance, Real Estate **Tony Premer** notes that loans will fall in the \$50M to \$400M range, and LTV should be between 50% and 65%. Debt yields, depending on quality of the leases and duration of the loan, will be around 10%. Pacific Life will also work with regional malls, apartments, industrial properties and hotels, but Premer will consider anything with the right sponsor. Acquisition loans, refis and preleased construction loans are also on the menu.

## LENDERS CAUTIOUSLY SHOP FOR RETAIL SPACE

Retail spending reached pre-recession levels, bolstered by consumer confidence that hit an eight-month high last month. This improvement should boost the outlook for retail investment properties this year, however, the actual impact will be very modest until unemployment rates drop significantly. Lenders will continue avoiding the big retail picture and instead place their attention to a property's income flow, key tenants, rollover risk and how everything would appear to the FDIC when audited. Overall, expect new activity in the retail arena this year, which can yield a greater return than the multifamily market, albeit at a much higher risk.

Debt institutions are softening their approach toward retail and most like a property that came out of the recession with better than market occupancy. This will help drive borrower demand as estimates suggest the 10-year Treasury will climb above 4% by Q4 2011, which will likely bump rates 50 to 75 basis points higher. As such, don't be surprised to see more owners absorb a 3% to 5% prepayment penalty to get out of existing loans and refinance at current rates. Borrowers, who are fairly liquid, experienced, diversified and have no contingent liabilities should have no trouble locking in new rates.

This year, bet on life companies to be the choice lender for deals \$10M and up, with credit (BBB+) anchors, limited lease rollover risk and in "B" or better locations in major MSAs. Also, borrowers with long-term hold plans are preferred and can go to life companies for 10-year or longer fixed-terms for the right property. As for Wall Street lenders, expect the large banks to increase their allocations for retail over the next few months. **Wells Fargo** is already getting its hands dirty with the development of its "small balance" program offering loans from \$1M to \$5M. Others like **Citi** have also started their engines and look to place some CMBS deals in coming months. However, on the conventional side of lending, many don't expect to see Citi at all this year. There is also a lot of chatter about CMBS making some noise.

Expect the conduits to play a much bigger roll this year than 2010, and chase the same deals as the life companies and big institutional lenders. CMBS has an added advantage as it offers non-recourse and longer amortization schedules, which are rare through local portfolio lenders. CMBS terms are also shorter compared to life companies.

Despite overall improving retail fundamentals and lenders opening up coffers for the right deal, vigilance is still the name of the game and there does not seem to be a ton of demand for the typical retail strip center in the current environment. Most lenders are focused on anchored properties with credit tenants in infill locations with barriers-to-entry, high traffic counts, staggered lease expiration dates and competitive market rents. If rents are significantly higher than the market, there is a possibility that tenants may move to a different retail location, adding risk to the property's cash flow.

## LCs AND OTHER LENDERS LIKE INDUSTRIAL

Many lenders look to balance their portfolio this year and industrial is one of the areas that is not as well funded as office, apartments and retail, prompting many to look for opportunities in the sector during 2011, especially the life companies. **Cornerstone Real Estate Advisers, PPM America** and **Wells Fargo** all recently complete industrial loans.

The industrial sector tends to follow the economy and the last half of 2010 saw more industrial deals than the past few years. This year lenders will favor and compete for stabilized industrial properties with long-term leases and strong tenants. Every life company in the market has more money for 2011 than in the last few years for real estate originations and they are all seeking out good product and industrial will be on the radar. But, don't expect LCs to go back to the underwriting standards seen in 2007 and most will shoot for LTV in the 65% to 70% range. Most industrial deals will fall in the \$2M to \$10M area, with some larger than \$20M. Many of the larger LCs such as **John Hancock** and **MetLife** and the CMBS players will want Class A products and will be very cautious before jumping on the B and C assets. They will also have to be pretty sizable deals to get the attention of these large lenders. Count on both life companies and CMBS lenders to target multi-tenant industrial properties and keep their distance from non-credit single tenant assets. Most of the life companies' originations will be for long-term permanent money and they could also dip their toes into owner occupied product. Major banks such as Wells and regional guys will be bullish on built-to-suit construction and acquisitions.

Port cities and any market with increasing economic activities should see some pick up in industrial this year and the big four industrial markets are Chicago, Los Angeles, Dallas/Fort Worth and New Jersey. Pipelines will flow in Chicago with around 23% of the nation's intermodal traffic coming out of Illinois, second only to California. But, Illinois has not seen the highs and lows that California has during the recession. Chicago's industrial sales in 2010 were up 24% over 2009 and vacancy fell to around 11% at the end of last year. The Windy City will have reduced concessions and no corporate expansion until the economy gets stronger, proving some lending opportunities on existing product. Los Angeles' vacancy at the end of last year was 9.1% and port activity rose considerably in the second half the year, mostly due to imports. DFW had a nice spurt of leasing activity in the last quarter of 2010, with some built-to-suite product coming out of the ground. Vacancy is around 12% and most expect it to fall to around 9% in 2011.

Cornerstone Real Estate Advisors, whose parent is **MassMutual**, will lend out around \$3B by year's end and Chief Investment Officer-Finance **Rob Little** bets on about 10% to 20% going toward industrial. The lending appetite is large and Cornerstone will work on anything from core properties to aggressive repositioning loans. When considering an industrial property Little will look at sponsorship, rental rates, access to the highway or railways and the asset itself needs to be fundable and attractive to multiple users, since leases tend to be shorter. LTV will be 65% or less and DSC will be 1.35x or better. Little prefers portfolios over one-off deals. Cornerstone's appetite for investments and debt is growing and the lender has already done \$100M in loans this year. Little likes core space and value-add, and is more focused on large transaction lending. Hotels, apartments, some office and possibly retail will be on the radar too.

Cornerstone puts together a \$23M refinance loan for a portfolio of properties located in the recently developed Wood Hill Crossings Business Park in Woodbridge, Ill. Interest was 3.58%, fixed for five years. LTV was 45%. The lender liked that there was low leverage, with an experienced borrower and that it is a Class A multi-tenanted property with rollover leases. Many life companies put in bids on this deal.

PPM America, on behalf of **Jackson National Life Insurance Company**, doles out \$6.4M in refinancing for the two-building Mystic Commerce Center in Chelsea, Mass. The life company liked that the Class B/C property is in an excellent location with immediate access to Boston and Logan Airport and that a number of the tenants have been there for years. It is a five-year fixed-rate loan.

Wells Fargo puts out \$9.99M in refinancing for the 166,600-s.f. 940 Remillard Court in San Jose, Calif. This is a 5.98% fixed-rate loan for the fully leased industrial/warehouse facility. The loan has a 10-year term and 30-year amortization and proceeds are retiring a maturing loan on the property. Wells was confident in the location close to major interstates and the San Jose International Airport.

## LENDERS EXPLORE NEW RELATIONSHIPS

Competition heats up between lenders in the next few months leading to an expanded pool of borrowers and more favorable LTVs. Wall Street is feeling good about the hospitality segment again, so expect the goodwill to trickle down to the regional and local lenders as well. Every lender targets a hotel with a strong brand and sponsorship, as well as positive NOI, so they need to get more aggressive if they want to finance the most desirable deals. LTVs are currently hovering between 65% and 70%, a significant improvement

from six months ago when borrowers were lucky to get 60%. Rates will not drop any further because treasuries are going up. During the rest of this quarter and Q2, rates will likely be status quo, but expect to see a slight rise in rates later in the year. However, increased lender appetite in the marketplace will ensure better terms and leverages going forward.

Existing relationships were extremely important when the financing markets first thawed out, but now some lenders are getting more flexible and strive to build new relationships. Around 50% of the loans inked in January were between lenders and borrowers that didn't have a previous borrowing history. Lenders see the opportunity in hospitality and will need to expand their initial comfort zone by adding new clients to help build for the future.

Acquisition financing will start to extend to transitional properties in Q2 and Q3. With many lenders finally seeing loans mature and get paid off, it will free up capital that can be redistributed to these assets. This will help create room for rates and terms to improve for transitional properties. At first loans will be issued for the properties that need the least amount of improvements to get NOI on the rise. Value-add situations should find financing as long as the problems aren't too deep. Initially, lenders plan to target hotels with strong brands to justify a looming PIP. And with the huge wave of PIPs scheduled for this year, more lenders will start to include the price of the renovations when underwriting the loan. This way the lender can be sure that the hotel will get the improvement attention it deserves.

Georgetown Hospitality Partners (GHP) will serve as a direct funding source for short-term rehabilitation loans. The newly formed company sees pent up demand due to the downturn for hotel owners to be able to find loans for upcoming PIPs and renovations. The executives at GHP, including Jon Wright, John York and Michael Lispon, will initially focus on relationships that they have developed over the past 25 years with borrowers and lenders. Expect GHP's loans to be at low leverages around 65%. The company requires at least 20% equity. The loans will act similarly to mezz debt, but with lower rates and a higher constant for up to seven years amortization. GHP is traditionally a recourse lender, which has provided historically low default rates even in the down cycles. Expect to see the company deploy around \$100M throughout this year. Loans typically range from \$500K to \$5M. GHP's loans are somewhat unique in that they will cover both hard and soft costs. The company's long-term approach is to aggregate portfolio transactions, which are later packaged and sold into the capital markets via institutional lenders. The company expects to close several loans in this quarter.

## **LENDERS FOCUS ON HOW ASSETS PERFORM NOW**

For the next six months, Wall Street banks and CMBS originators will target hotels that currently post solid NOIs and cash flows, as this type of property matches their comfort level. Trophy assets in the top eight markets will be favored for this first round of CMBS loans. Within the next three to six months more financing will become available for the rest of the top 30 markets. Location, brand affiliation and sponsorship will be a significant factor to banks when choosing what properties to write on loans on.

Banks are underwriting loans that represent values at a 20% to 25% discount from the peak with LTVs around 60% to 65%. Debt yield is coming in at about 10% to 12%. Hallway talk at the ALIS Conference in San Diego last week has the big banks toying with 70% to 75% LTVs. Interest rates are at their lowest and their slow and steady rise will begin shortly.

### *CMBS 2.0: Weighing The Pros And Cons*

CMBS loans have the most favorable interest rates available right now, but also come with low LTVs coming in around 60% to 65%. It's important for hoteliers to keep in mind that taking on a CMBS loan with a low LTV can restrict their options in the future. If the hotel increases in value and the borrower wants to add more debt, they will most likely be stuck with much higher mezz rates.

CMBS can also be hard to exit early. If borrowers want the option to payoff early, CMBS is not always a good fit. Fees for early payoffs are often in the low single-digit millions, because the loan pool will need to buy U.S. Treasuries to replace the return that investors were getting. Selling a hotel with a CMBS loan can have the same problems. The best sales method would be for the buyer to assume the loan, but that can be hard if the LTV was 60% because the buyer would need to come up with a huge chunk of cash.

### *Transitional Properties, Construction Loans Are On the Horizon*

Once lenders start to get more comfortable with acquisition loans, expect to see more debt available for companies looking to pick up a transitional asset in need of repositioning, rebranding and/or renovating. Watch for lenders to give preference to companies that they already have established relationships with. Without that working relationship, loans for assets in need of value add will be tougher to get, so buyers may want to pay all cash and then worry about leveraging the asset after the deal closes. Some of the Wall Street banks may want to leverage a pool of assets with one borrower, rather than a single property.

The first few construction loans have squeaked through in the last month and more will come throughout the year because older product will need to be replaced during this cycle's climb. Companies are already gearing up for the next boost in the hotel market and new construction is inevitable. Watch for the first handful of construction loans to favor select-service product in gateway cities. Once select-service prices are higher than a 20% savings of replacement costs, more construction loans will be written. Sales prices on are on the rise in the gateway cities, due to the fact that the pool of buyers is robust in those markets. New York City, Washington, D.C., and San Francisco will be at the top of that list. Nationwide construction costs are down about 15% from the peak and land availability is much higher, making it a great time to launch construction for qualified developers that already own land.

### **SINGLE-TENANT TO ATTRACT MORE CAPITAL**

Sale/leasebacks and corporate dispositions will stimulate the single-tenant market nationwide with investors Excel Trust, Getty Realty and Realty Income among names to watch. Sustained REIT performance should lead to increased purchases with operating partnership units, similar to a recent Excel Trust contract, especially if cap rates decline from a very broad 6% to 9%-plus range for various types of single-tenant assets, depending upon property and location. Overall, don't be surprised to see more sale/leasebacks of gas station/convenience store (c-stores) blends and restaurants, as companies seek to refinance debt used to finance mergers and acquisitions in the previous cycle with sales or simply decide to liquidate real estate holdings for cash.

Following its largest deal as a public REIT, Getty Realty looks towards more purchases of gas stations and c-stores to add to its more than 1,000-property portfolio nationwide. Future deals may resemble an estimated \$111M sale/leaseback deal of a 59-property Mobil gas station and convenience store portfolio in the New York metro area's Rockland and Westchester counties and the lower Hudson Valley. The triple net-leased portfolio attracted the buyer because of high volume in areas of long-term growth. Purchase-price ranges in the \$10M to more than \$100M are sought in fee-simple through note purchases of single assets and portfolios.

Also poised for growth in the sector is Realty Income, with a \$425M unsecured revolving credit facility to replace the preceding \$355M line that matures March 2014. In late 2010 the buyer paid \$248M for a 135-property portfolio of a SuperAmerica gas station/c-store portfolio in Minnesota and Wisconsin. The buy boosts its portfolio to more than 700 c-stores nationwide, a sector which accounts for the company's second highest source of revenue after restaurants as of Sept. 30. It also ramps the buyer's presence in Minnesota and Wisconsin. Before the deal, Realty Income owned a combined 41 properties in Minnesota and Wisconsin; top markets by property concentration are Texas, Florida, Georgia, Tennessee and Ohio.

Future Excel Trust single-tenant acquisitions could resemble a \$23.6M contract to acquire a suburban San Diego theater with a blend of operating partnership units and debt assumption, which shows the likelihood of similar transactions in the sector if stocks and asset values escalate because of demand for perceived single-tenant net leased safety.

An indication of REIT strength is the revival of operating partnership units used on acquisitions. Less than a year since its IPO, Excel Trust plans to use OP units for the first time since going public, in a contract to

pay an estimated \$23.6M for the 100,511 s.f. single-tenant Edwards Theatre in San Marcos, Calif. The company will assume a \$12.5M loan priced at 6.74% and issue OP units priced at \$14 per share. However, that deal doesn't mean Excel Trust only has single-tenant in its sights. Its \$68.5M contract to acquire the multi-tenant Gilroy Crossing could pencil out to an estimated 7.73% cap rate. If it closes, the deal will follow the company's \$92.5M acquisition of the Park West Place Shopping Center in Stockton, at a 7.78% cap rate. The company expects single-tenant properties will comprise less than 10% of its overall portfolio centered around multi-tenant properties.

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