

Mortgage News

Conduit Lenders Fleeing as Volatility Picks Up

Market volatility has pushed many CMBS conduit lenders out of the market, at least for now, while those that remain have sharply increased their loan rates.

Meanwhile, life-insurance companies, banks and the housing-finance agencies have picked up some of the slack. But they've become generally pickier in what they'll finance.

Borrowers and brokers say conduits that are still quoting loans - Morgan Stanley, Principal Financial, JPMorgan Chase, Wells Fargo Bank, Basis Real Estate Capital and a number of others - are setting rates pegged to swaps plus 350-400 basis points. That's up more than 200 bp since late May, when spreads on CMBS, which determine funding costs for securitized loans,

started ballooning.

With rates for 10-year swaps at roughly 2.15 percent, those higher spreads would result in rates of roughly 6.15 percent - a level "that some borrowers are still okay with," according to Jeanne Peck, director of the Real Estate Capital Institute, a Chicago research organization. She pointed out that since the market volatility began, conduit lenders that had

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Investment News

RiverOak Shifts Focus to Institutional Market

RiverOak Investment Corp., an 11-year-old investment manager that has raised capital primarily from high net-worth individuals and families, has turned its sights to the institutional-investor market.

The Stamford, Conn., company has launched a fund, RiverOak Urban Retail Investors Fund I, and has started marketing it to institutional investors.

It has set an equity target of \$300 million.

RiverOak has managed institutional capital in the past, but that has been done through separate accounts capitalized by foreign investors. The fund becomes its first effort at a commingled vehicle targeting U.S. institutions. It is aiming to take advantage of a move by an increasing number of

institutions to place capital with what they consider emerging managers, that is, those that might be relatively new to the institutional investment management arena.

Among large investors that have recently set up programs designed to allocate capital specifically to emerging managers are the California Public Employees' Retirement System, which has earmarked up to \$200 million for

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CMBS News

Latest CMBS Deals Nix Extra Loan-Sales Fees

A CMBS deal that was launched last week, Morgan Stanley Capital I Inc., 2011-C3, prohibits special servicers from earning extra commissions or fees for selling or working out loans that go bad.

A similar prohibition was included in DBUBS, 2011-LC3, which priced on Aug. 11.

Midland Loan Services, special servicer for both transactions, will receive an annual fee of 25 basis points of the balance of any loan it actively manages. In addition, it would earn a workout or liquidation fee of 1 percent, or \$1 million, whichever is less, of the amount it collects from any distressed loan that it corrects or liquidates.

But it won't be able to earn additional brokerage fees by selling loans. That would be a change from earlier CMBS deals, which didn't have such a restriction.

Some special servicers, namely LNR Partners and C-III Asset Management, had set up loan-sales advisory arms, Archetype Advisors and C-III Realty Services, respectively, that have been selling securitized loans via the Auction.com platform.

Their sales had raised the ire of loan-sale advisers, which effectively were shut out of the business of selling loans for the two servicers. Combined,

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THE INSIDER

Parkway Properties Chief Executive Resigns

Steven G. Rogers has resigned as chief executive officer and as a director of Parkway Properties Inc., effective at the end of the year.

James R. Heistand, the Jackson, Miss., REIT's executive chairman, was named acting CEO, effective Jan. 1.

Heistand joined the REIT in June as part of a deal in which a company he founded and led, Eola Capital, sold six office properties and its property-management operation to Parkway in a transaction valued at \$462 million.

As part of that deal, Henry F. Pratt III, who had been Eola's chief operating officer, became head of Parkway's asset-management and third-party services.

Eola's management unit, which oversaw 11.2 million square feet and last year generated \$21 million of fee revenue, increased Parkway's management portfolio by 89 percent.

Rogers joined Parkway in 1993 and was named CEO four years later.

Mark Silverstein Joins CapitalSource

Mark Silverstein, a managing director at Credit Suisse's CMBS operation, has joined CapitalSource as a managing director charged with distribution and syndication of commercial real estate loan assets.

Silverstein had been with Credit Suisse for nearly 12 years, most recently helping the investment bank sell off some of its commercial mortgage holdings. He had joined the bank when it acquired Donaldson, Lufkin & Jenrette in 2000.

CapitalSource has been a relatively active real estate lender and three years ago acquired a banking franchise, Fremont Investment & Loan, giving it a reliable and relatively low-cost funding source. It focuses on providing relatively short-term loans, with terms of three to five years, to fund stable assets of all property types, discounted pay-offs of existing loans, loan acquisitions and, in some cases, value-add property investments.

It often syndicates large senior or mezzanine loans among other lenders.

David Monzella Joins Gaia Real Estate

David G. Monzella has been named acquisitions director at Gaia Real Estate, a New York investment and property manager.

Monzella spent the last 11 years with UrbanAmerica, where he originated more than \$2 billion of commercial and residential transactions and participated in raising about \$520 million of equity for the firm's two investment funds.

He also had spent time at Vornado Realty Trust, a Paramus, N.J., REIT, as an acquisitions associate.

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the two handle \$42.2 billion of loans, or 49.1 percent of the balance of all loans in special servicing. CMBS investors were also nonplused by the practice. Some argued that by selling loans through captive arms, the special servicers were essentially "harvesting fees" outside a competitive arena.

The language in the DBUBS and Morgan Stanley deals does not restrict special servicers from continuing to sell loans on behalf of other existing CMBS deals. But it might bring the issue to light among bondholders who could ask that the practice of selling loans through captive arms be halted.

In addition to the fees that special servicers earn when they liquidate or resolve loans, additional fees, of 1 percent or more, are paid by CMBS trusts to loan-sales advisers that handle sales.

That's what irritates some investors. Some argue that by setting up loan-sales arms to collect additional fees, special servicers might not be operating in their best interests.

Both Archetype and C-III Realty have relied on the auction.com platform to sell loans. Instead of charging sellers fees or commissions, auction.com charges a buyers' premium. In other words, an investor who turns in the highest offer for a loan has to tack on a fee of 5 percent of the purchase price, which is sometimes subject to a floor or cap.

Because the fee is structured as a buyer's premium, the argument could be made that the CMBS trusts aren't being hit for additional fees.

But investors generally take any costs into account when determining how much to pay for a loan. So while CMBS trusts aren't necessarily paying any additional fees when their loans get sold through the auction.com platform, they're getting lower proceeds from their loan sales.

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Subscription cost: \$1,925/year

The Weekly, Copyright 2011, is published every Friday, 52 times a year, by Commercial Real Estate Direct. The publication is a supplement to the Commercial Real Estate Direct Web site and contains a sampling of the latest week's major news stories.

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Inland to Raise up to \$1.8Bln for Latest REIT

Inland Real Estate Investment Corp. has registered to raise up to \$1.8 billion for what would be the sixth non-traded REIT the Oak Brook, Ill., company has sponsored, and its first since 2008.

The proposed REIT, Inland Core Assets Real Estate Trust, will target all major commercial property types throughout the United States, and be open to joint ventures with other investors. It will also look to acquire CMBS and invest in real estate operating companies.

Its targets include traditional multiple-tenant properties, as well as those with single tenants that pay rents on a

net-lease basis. It's interested in established properties, along with ones that are under construction or development or are being planned.

Like Inland's previous REITs, Inland Core Assets will generally raise capital by selling shares, for roughly \$10 apiece, to individual investors. While publicly registered, the REIT shares are not traded.

Inland Core Assets is a "blind pool" REIT, meaning that its management has not identified the specific properties to be acquired with the proceeds raised in the offering.

Within the retail sector, it will target all types of shopping centers and

single-tenant stores. It's particularly interested in properties anchored by grocery stores or retailers of other necessity-type merchandise.

Its office-sector focus will be on class-A or -B assets in central business districts and well-established suburban parks, while its preferred multifamily properties are garden-style low-rise or high-rise buildings in urban markets or non-urban areas with strong employment.

And in the industrial sector, it's after distribution or warehouse facilities in major hub markets near ports, airports or railroad stations, as well as major highway systems.

Hampshire Raises \$339Mln for Latest Fund

Hampshire Cos. has raised \$339 million of equity for its latest value-add investment fund.

The vehicle, Hampshire Partners Fund VIII, is targeting industrial, retail, office, self-storage and medical-office properties in the Northeast and mid-Atlantic regions.

It has already used about 20 percent of its equity to acquire nine assets with an aggregate value of about \$200 million, which would indicate that it has obtained about 66 percent loan-to-value financing for the deals.

Hampshire's value-add strategy has focused on properties whose values and incomes can be boosted by physical

upgrades, expansions or more proactive management, and it's included some ground-up development. The Morristown, N.J., firm's property portfolio is valued at more than \$2.5 billion.

It closed the new fund's marketing after raising commitments from 20 investors that included endowments, foundations and pension funds such as the Montgomery County, Md., Employees' Retirement System, which committed \$15 million.

Fund VIII is a follow-up to Hampshire's Fund VII, a value-add vehicle that raised \$350 million in 2007. Hampshire typically begins investing new funds after their predecessors are

nearing or in their disposition phase.

In a 2009 SEC filing, Hampshire reported that Fund VIII had raised \$450 million of equity commitments. Having closed the fund this year after raising \$339 million could mean that some investors withdrew commitments they previously made.

A withdrawal of some commitments would not have been unusual given that real estate, as an investment class, fell deeply out of favor in 2009. At the time, the total commitments raised by private equity investment funds targeting real estate primarily in North America dropped 71.5 percent from the year before, according to the research firm Preqin.

RIVEROAK...From Page 1

emerging managers, and the Employees Retirement System of Texas, which has set aside \$50 million for those with less than \$2 billion of assets under management.

While RiverOak is relatively new to the institutional investment management arena, it has some \$280 million of assets under management and has invested in properties valued at more than \$868 million.

Urban retail, the property sector targeted by RiverOak's fund, is also a relatively new sector for the investment

manager. Historically, the firm has focused on providing gap equity for individual properties. It was making investments of, say, \$2 million to \$5 million in properties that might be valued at as much as \$100 million or more. For instance, it invested roughly \$1 million in Pickwick Plaza, a 238,000-square-foot office building in Greenwich, Conn., when it was purchased by Broadway Partners in 2002. The building was sold in 2006 for \$235 million, allowing it to make a generous profit.

It will pursue properties in the central business districts of seven major markets: New York, Boston, Philadelphia,

Washington, D.C., Chicago, San Francisco and Los Angeles, each of which is considered a 24-hour city.

But the fund won't invest in properties in well-established neighborhoods, like Manhattan's Fifth Avenue. Instead, it might look into up-and-coming areas, such as Manhattan's East Village, and target retail properties that might be in need of upgrades, renovations or remarketing. It might also pursue retail condominium interests in commercial buildings. But it won't develop properties from scratch.



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FDIC to Pair Small, Big Investors for Offerings

The FDIC has launched an effort to match small investors and asset managers with large institutional players that are pursuing its structured-loan offerings.

It has developed an automated database and is inviting small investors to register, identifying their expertise and capabilities. Large investors can access that information in order to form partnerships that would compete for stakes in FDIC's loan offerings.

The agency has sold stakes in 26 portfolios with a balance of \$23.6 billion through its structured-offerings program. The bulk has been acquired

by large players, such as Colony Capital and Starwood Capital Group. Most of its earlier offerings were very large and required substantial capital and resources, making them suitable only for the biggest investors.

But earlier this year, in an effort to broaden its potential investor base, the agency divided a \$1.5 billion portfolio into three packages. Those required substantially smaller capital contributions than the agency's earlier offerings.

While the FDIC wasn't able to prohibit well-heeled investors from pursuing the portfolios, it encouraged them to team up with small investors and

asset managers, particularly those classified as minority- or woman-owned businesses, or MWOBs. It hopes to facilitate that effort through its Investor Match Program.

In the end, Colony Capital, Oaktree Capital Group and Hudson Realty Capital won the pools. Hudson, a New York investment manager, is already classified as a MWOB, while both Colony and Oaktree teamed with MWOBs.

Colony has been teaming up with Cogsville Group, a New York investment manager led by Donald P. Cogsville, a former professional soccer player who previously was an investment banker at Merrill Lynch's global leverage finance group and a corporate attorney at Skadden, Arps.

Oaktree teamed with Calista Corp., an Anchorage, Alaska, investment company.

FFN Markets \$100Mln Loan Portfolio

First Financial Network has launched marketing of a \$100 million portfolio of performing and nonperforming commercial real estate and business loans.

The Oklahoma City loan-sales specialist is offering the portfolio on behalf of a bank client.

Roughly 60 percent of the portfolio, by balance, is comprised of nonperforming debt. The remainder is made up of performing loans. Commercial real estate mortgages make up nearly half of the assets.

Loans are backed by properties or assets in New York and California.

First Financial has divided the portfolio into pools, based on collateral type, performance and location. Investors will be able to bid for pools or the portfolio in its entirety. First Financial will take offers on Oct. 12.

Separately, it is offering a \$3.7 million package of real estate and business loans for the FDIC. Collateral - land, residential properties and other assets - is in Oklahoma. Bids are due Sept. 27.

Miami Offices Lent \$79Mln

John Hancock Life Insurance Co. has provided \$79 million of financing for Airport Corporate Center, a 1 million-square-foot office complex next to Miami International Airport.

The 11-building property is owned by Hines REIT, which purchased it in 2006 for \$156.8 million. At the time, the Houston REIT, whose shares do not trade on any exchange, had assumed what was a \$91 million mortgage on the property.

That loan had matured in March 2009, when the capital markets were facing a sharp squeeze making it tough to refinance. So Hines made a \$13.1 million principal payment to extend the loan for an additional year. Last year, it refinanced that debt with a \$65 million mortgage from Westdeutsche Immobilienbank, along with \$12.9 million of cash. That loan had a two-year term and paid a rate pegged to Libor plus 550 basis points.

The loan that John Hancock provided has a 10-year term and pays a fixed rate of 5.14 percent. It requires only interest payments for the first two years, then it amortizes.

CMBS Loan on Wis. Mall Gets 3-Yr. Extension

The largest loan in the collateral pool for JPMorgan Chase Commercial Mortgage Securities Corp., 2005-CIBC11, has been modified, with its maturity extended by three years to April 2015.

The loan, with a balance of \$124 million, is backed by 617,000 square feet in the Southridge Mall, a 1.2 million-sf shopping center in the Milwaukee suburb of Greendale, Wis. It is owned by Simon Property Group, by virtue of its acquisition of Mills Corp. in 2007.

It was moved to special servicing last February and was scheduled to mature in April 2012. It was expected to struggle to refinance given that two anchor tenants, Steve and Barry's

and Linens and Things, had vacated when they filed for bankruptcy. Those vacancies pushed down the property's value substantially. It was 58.1 percent occupied as of the end of last year.

But Simon has developed a renovation plan in an effort to bring Macy's into one of the vacant anchor spaces. That plan, according to a report from the CMBS deal's trustee, would require a \$36 million investment, part of which would be funded with \$12 million of tax-increment financing. Essentially, Simon would be borrowing against the future increased taxable value of the property. It would also put up \$11.6 million in cash for its plan and guaranty another \$12.4 million of borrowing.

Jobs Bill Includes Carried Interest Tax Hike

The jobs bill that President Barack Obama promoted during a speech last week includes increasing the tax on the carried interest of investment partnerships to the same rate that ordinary income is taxed from its current capital-gains rate.

That could equate to an increase of 133 percent in the tax rate. The regular income tax rate tops out at 35 percent, while the capital-gains tax rate for long-term investments is 15 percent.

Carried interests represent a portion of partnerships' profits and are paid to general partners as incentive compen-

sation. Because they represent profits as opposed to regular income, they've long been taxed at the same rates as capital gains.

Previous proposals to increase the tax on carried interests have failed. In 2009, the United States House of Representatives, which was then solidly in the hands of Democrats, passed a bill increasing the tax in a partisan vote. But it died in the Senate.

The National Multi Housing Council and the National Apartment Associa-

tion warned that an increase in the tax on carried interests would have a "devastating effect" on rental housing. Much of the apartment housing stock in the country is owned through limited partnerships. As such, the two groups said that increasing the tax on those would "not only increase the cost of producing new housing, it would decrease the supply by making many deals financially unworkable."

The proposed tax hike would also "kill jobs and depress income for cities and counties," the groups said.

Cerberus: Market to Blame for Nixed Innkeepers Deal

Cerberus Capital Management said it pulled out of its agreement to buy Innkeepers USA Trust for \$1.125 billion because of turmoil in the markets, according to its response to a lawsuit filed by Innkeepers.

Cerberus had teamed with Chatham Lodging Trust in its agreement. But the team had pulled out of the deal late last month, just days before the venture's deal to buy 64 hotels was to have been completed.

Innkeepers, which had filed for bankruptcy last year, had sued the Cerberus team in an effort to get the bankruptcy court to compel it to complete its agreement.

Cerberus had said that it pulled out of the deal by triggering the agreement's material adverse impact clause. But it never defined what material adverse event had taken place.

According to *Reuters*, which cited documents that Cerberus had filed with the bankruptcy court earlier this month, the hedge-fund operator said "unforeseeable" turmoil in markets had impacted Innkeepers' business. Specifically, it said, "adverse changes in the debt and equity capital markets between May 16, 2011, and today" had impacted Innkeepers and said hotel operators similar to Innkeepers had seen declines in equity value of up to 40 percent.

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Bid Date: September 20, 2011

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Oaktree Team Buys Another FDIC Portfolio

A venture led by Oaktree Capital Management has won a stake in a portfolio of 508 acquisition, development and construction, or ADC, loans backed by commercial and residential properties with a balance of \$386 million.

The acquisition would be the third of an FDIC portfolio for Oaktree.

Last year, it teamed with Toll Brothers Inc. and Milestone Asset Opportunity to buy a stake in a \$1.7 billion portfolio of commercial ADC loans

that previously was held by AmTrust Bank of Cleveland. And last month it teamed with two Anchorage, Alaska, companies, Calista Corp. and FACP Mortgage Investments, to buy a 25 percent stake in a portfolio of real estate and ADC loans with a balance of \$158 million that had been held by the failed FirstTier Bank of Louisville, Colo.

Its latest purchase was also made with Calista and FACP. Oaktree invested through its Oaktree Real Estate Opportunities Fund V, which is raising \$1

billion of equity commitments.

It bought a 50 percent stake in the portfolio and received some \$61 million of financing from the FDIC to fund the acquisition. The Oaktree team ended up putting up only \$30.9 million in cash to complete the deal. That valued the portfolio at \$122.8 million, or 31.8 percent of par.

Its latest acquisition is comprised of loans from a number of failed banks. Roughly 85 percent of the latest portfolio is comprised of nonperforming debt.

RATES...From Page 1

committed to writing loans had closed them, but often they've had to increase their rates. In addition, they've become more stringent in underwriting.

Nonetheless, some borrowers, particularly those with very stable, high-end properties, are looking elsewhere. As a result, conduit lending and CMBS issuance volumes are expected to be far lower than they were expected earlier this year.

"Spreads are wide enough that investment banks and conduit shops are losing business," explained Philip Feder,

chair of Paul Hastings' global real estate practice. "Insurance companies are picking up the void. But they're very conservative" in their underwriting.

So far, \$16.5 billion of CMBS has been issued in the U.S., not including transactions floated by Freddie Mac or Fannie Mae. Another \$6.5 billion is in the pipeline, with at least two deals pricing this week or early next. The expectation coming into the year was that some \$40 billion would be issued all year. Given the sharp slowdown in lending, it would be surprising if the market saw more than \$25 billion of issuance for the year.

With the relative dearth of competition from conduits, life-insurance companies have been able to beef up their loan portfolios. But they're "cherry picking loans," according to David Sonnenblick, principal of Sonnenblick-Eichner of Los Angeles. They'll often only pursue the highest-quality properties. In addition, the rates they're quoting are generally subject to floors. Typical five-year loans are being quoted with floors of 3.75 percent to 4 percent, while 10-year loans are quoted with floors of 4.5 percent to 5 percent. But they'll fine-tune those numbers for the best properties.



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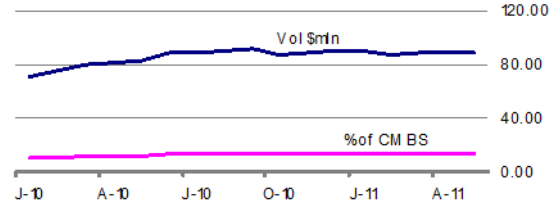
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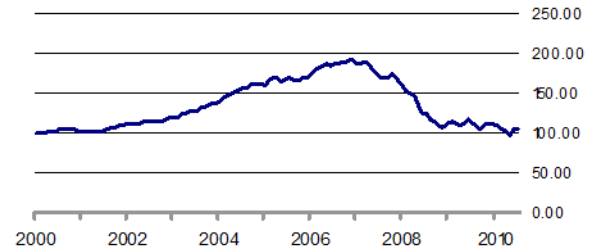
Size \$mln	Description	Seller	Bid Date	Adviser
100.0	Portfolio of nonperforming (60%) and performing commercial real estate and business loans in NY and CA.	Bank	Oct. 12	First Financial Network
102.2	Mixed performance commercial real estate loans in the midwestern and northeastern U.S.	Bank	Oct. 4	DebtX
10.3	Nonperforming mortgage against a 56,000-sf office building in New City, N.Y.	CMBS trust	Oct. 4	Mission Capital
100.0	Nonperforming notes and commercial REO in 17 states.	NA	Sept. 26-27	auction.com
87.2	Mixed performance commercial real estate loans in AZ, CO, NM.	Bank	Sept. 20	DebtX
45.0	64 performing and nonperforming commercial real estate and business loans on assets.	Federal Trust Bank	Sept. 20	Garnet Capital
115.9	Mixed performance commercial real estate and C&I loans throughout the U.S.	Bank	Sept. 20	DebtX

CMBS LOANS IN SPECIAL SERVICING



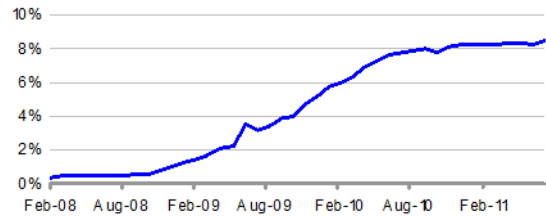
Source: Morningstar

PROPERTY VALUES (CPPI Index)



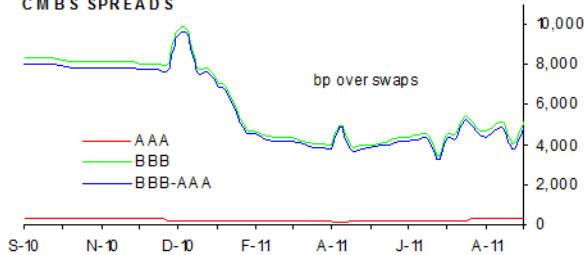
Source: Moody's/Real Commercial Property Price Indices

CMBS DELINQUENCY

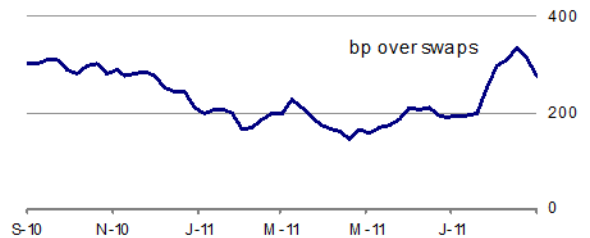


Source: Morningstar

CMBS SPREADS



SUPER-SENIOR AAA CMBS



CMBS Pricing Matrix

Median Spreads (bp over swaps)

Bond	9/9	9/2	8/26	8/19
3-yr AAA	230	225	218.50	213.50
5-yr AAA	295	285	300	290
7-yr AAA	300	305	315	307.50
SuperSr AAA	275	314	335	310
20%Sub AAA	762.50	750	800	700
Junior AAA	1,325	1,300	1,325	1,300
AA	2,632.50	2,950	2,620	2,597.50
A	3,555	3,200	3,522.50	3,462.50

Note: Medians were compiled using spreads provided by several investment banks. Spreads are for generic conduit paper backed by newly-originated, call-protected, balloon mortgages.

Reporting banks were quoting five-year swaps at a median spread of 29bp over Treasuries, while 10-year swaps priced at 19bp more than Treasuries.

CMBS Pipeline (Upcoming Deals)

Seller/Borrower	Deal Type	Size (\$mln)	Underwriter	Launch
JPMorgan Chase	Floater	350.0	JPM	3Q
Deutsche Bank	Floater	500.0	DB	3Q
GS Mortgage 2011-GC5	Conduit	1,000.0	GS, Citi	3Q
CFCRE, 2011-C2	Conduit	600.0	CF	3Q
WF-RBS 2011-C5	Conduit	1,500.0	WF, RBS	3Q
	Total	3,950.0		

For historical data points, please visit the Commercial Real Estate Direct Web site, at www.creneews.com.

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