

## **Commercial Mortgage Advisors**

### **Credit Tenant Lease (CTL) Financing**



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# Credit Tenant Lease Financing

## Executive Overview

### Credit Tenant Lease (CTL) Loans

- **What is a CTL loan?**

The underwriting of a CTL loan is primarily based on the underlying credit of the tenant with fundamental real estate analysis being secondary. While the real estate is pledged as security, the loan is viewed as a bond rather than a real estate loan.

- **Who is a credit?**

Investment grade entities that have a Moody's rating of Baa3 or a S&P rating of BBB- or higher. Private companies can be rated as well if their financials are deemed to be equal to investment grade credit.

- **What property types qualify for CTL loans?**

Any property type can qualify for a CTL loan including drug stores, grocers, retailers, healthcare, office and industrial. Non-traditional CTL's such as municipal, state and federal government facilities and not-for-profit entities such as colleges, universities, hospitals and charities also qualify.

- **What are the characteristics of a CTL loan?**

- LTV (loan to value) typically 85% to 100%
- Fully amortizing over the lease term, generally 15-25 years.
- Loan formula: NNN Lease: Net income divided by 1.01 DCR divided by the constant.
- Loan formula: NN Lease: Net income divided by 1.05 DCR divided by the constant.

- **What type of lease structures qualify for a CTL loan?**

While a bond lease is the ideal lease structure, bond leases are not found frequently. Triple net leases work well for CTL loans. Double net or even gross leases can also qualify for a CTL loan with some expense and reserve deductions included for underwriting.

## Credit Tenant Lease (CTL) Loans (continued)

- **How is the interest rate determined?**

The interest rate is priced using a spread over the interpolated treasury for the calculated average life of the loan. The interest rate is fixed for the life of the loan. The spread is determined based on the quality of credit, size of transaction, lease structure and transaction structure.

- **When can the interest rate be locked?**

The interest rate can be locked upon acceptance of the commitment and payment of all deposits.

- **How are the payments based?**

The payments are based on 30/360. (An advantage of about 10 bps over actual.)

- **Are CTL loans prepayable?**

The CTL loans are immediately open to prepayment with yield maintenance calculated at the interpolated treasury plus 50 basis points for the remaining average life of the loan.

- **What are the costs of getting a CTL loan?**

CMA's correspondent CTL lender requires a \$2,500 inspection fee with their application, along with a 1% refundable application deposit. An additional 1% refundable deposit is due upon acceptance of their commitment. Letter updates of existing appraisal and environmental reports are acceptable. A structural report is not required. The 2% deposit is refunded after the closing.

- **How long does it take to close a CTL loan?**

Once the lease is received for review, the application can be out in 3 business days, the commitment can be issued in an additional 5 days and closing can occur within 45 calendar days or less.

## Credit Analysis

- Determine if the tenant has a public credit rating from Moody's Investor Services and/or Standard & Poor's.
- If a public credit rating is not available, then the tenant may have previously issued debt in the private placement market and received a rating from the National Association of Insurance Commissioners ("NAIC").
- Tenant's credit needs to be at least investment grade.

<u>RATINGS COMPARISION GRID</u>		
<u>Moody's</u>	<u>S&amp;P</u>	<u>NAIC</u>
Aaa	AAA	1
Aa1, Aa2, Aa3	AA+, AA, AA-	1
A1, A2, A3	A+, A, A-	1
Baa1, Baa2, Baa3	BBB+, BBB, BBB-	2
Ba1, Ba2, Ba3	BB+, BB, BB-	3 Non Investment Grade
B1, B2, B3	B+, B, BB-	4 Non Investment Grade
Caa1, Caa2, Caa3	CCC+, CCC, CCC-	5 Non Investment Grade

# Credit Tenant Lease Underwriting Parameters & Process

## Summary of Credit Tenant Lease Structure

- Typically viewed as a bond rather than a real estate loan.
- Underwrite to NAIC Guidelines, not securitization guidelines.
- Investors look to the underlying credit or the Lessee's ability to pay as the primary underwriting criteria, as opposed to fundamental real estate analysis.
- Lessees are typically investment grade with published credit ratings by Moody's or Standard & Poor's .
- Leases generally have little or no Lessor responsibilities (Double Net, Triple Net or Bondable Leases).
- Borrowing entities are structured as single asset or special purpose entities.
- Term of financing is coterminous with initial lease term (up to 25 years).
- Any risks beyond credit are mitigated through insurance policies and reserves. Not all leases require mitigation.

## CTL Funding Process and Timetable

Pre-Application	Initiation	Circle	Documentation & Due Diligence	Closing
Credit analysis Term Sheet Review lease Propose lease amendment if necessary	First week...  Application and 1% refundable deposit received	Within 1-2 weeks of offering...  Purchase offers summarized, negotiated and “circled”  Investor(s) selected  Commitment letter issued and signed  1% refundable deposit received	Immediately thereafter begin preparation of documentation  Investor due diligence (site visit may be required)	Within 4 to 6 weeks after commitment acceptance...  Negotiating of the documents  Closing and funding

### Required Documentation

Loan documentation is very similar to a standard commercial real estate loan financing with specific allowances for the private placement nature of the transaction. An updated appraisal and environmental report is required, but existing reports can be used with a reliance letter. An engineering/physical structure report is generally not required.

## **Pricing and Closing Advantages**

- Quotes are “on the run” versus “off the run” which will result in savings of 8-10 bps.
- Interest is calculated based on 30/360 which will result in savings of 10-12 bps.
- Efficient closing process:
  - Can issue the commitment 7 to 10 days after receipt of the signed application and deposit.
  - Closing can occur 4 to 6 weeks after acceptance of the commitment and deposit.
- Creative structures can be arranged to address “one off” situations.

## **Lock in the interest rate for the long term**

Since CTL loans can be amortized over the entire lease term, interest rates can be fixed for periods as long as 20 to 25 years.

## **Letter of credit funding**

CTL loans can be funded in advance of rent commencement on new construction by the borrower securing a bank letter of credit. The loan is closed and funded immediately using the LC as security. This eliminates interest rate risk for the borrower as well as removes the need for the traditional construction loan.

## **Properties in secondary or tertiary markets**

Since CTL financing relies on the credit of the tenant and not the underlying real estate, CTL financing is an excellent choice for those properties located in markets where traditional mortgage financing or sale is not available.

## **High LTV and high dollar per SF loans**

Properties with credit tenants where the borrower wants a high loan to value and/or a high loan per SF is available with CTL financing, as the underwriting criteria is based on the tenant’s investment grade rating and not the real estate. CTL Loan to Values (LTV’s) are not limited to the typical LTV’s of conventional real estate lenders.

## Commercial Mortgage Advisors Overview

























CMA's correspondent CTL lender has been a leading source of private placement capital for CTL loan financing nationwide since 1996. They understand the business and have a successful track record of closing over \$1 billion in CTL financing ranging from \$2 million to over \$100 million. They do not securitize any of their loan transactions and avoid the economic disadvantages of securitized CTL lending. As evidenced by their many repeat borrower clients, they offer unparalleled service, quick turnarounds and aggressive execution.

CMA's correspondent CTL lender analyzes the underlying leases and underwrites the loan to ensure compliance with the National Association of Insurance Commissioner (NAIC) guidelines for treatment by life insurance companies as bond (Schedule D) investments. To the extent that a lease does not qualify, the CTL lender can work with the owner or buyer to see if necessary amendments or modifications to the lease can be obtained.

The marketing of qualifying CTL loans is handled by CMA's correspondent lender and their investment banker which is headquartered in Chicago and was founded in 1937. They have a national focus and a global reach with over 1,200 employees in offices throughout the United States and London. Almost all of their CTL loans are funded with life insurance companies and pension funds for which the long term CTL loans are a perfect match.

Legal documentation is handled by CMA's correspondent lender's law firm, which is also headquartered in Chicago. They have an established track record in documenting CTL bond transactions and have more than 30 partners and associates in their private bond area.

# Credit Tenant Lease Tombstones – Cumulative through Year End 2009

<p>\$539,752,987</p>  <p>(160 Stores)</p>	<p>\$178,738,537</p>  <p>(70 Stores)</p>	<p>\$111,432,000</p>  <p>(Hospital and Medical Office Building)</p>	<p>\$109,219,579</p>  <p>(11 Stores) (1 Office)</p>	<p>\$107,100,000</p>  <p>(10 Stores)</p>	<p>\$83,645,750</p>  <p>(8 Medical Office Buildings)</p>	<p>\$65,745,914</p>  <p>(5 Stores) (1 Ground Lease)</p>
<p>\$55,504,343</p>  <p>(3 Stores)</p>	<p>\$50,000,000</p>  <p>(Corporate Headquarters)</p>	<p>\$44,291,000</p>  <p>(1 Call Center)</p>	<p>\$42,500,000</p> <p>WILLIAMS-SONOMA</p> <p>(Warehouse Facility)</p>	<p>\$39,414,000</p>  <p>(2 Stores)</p>	<p>\$36,908,000</p>  <p>(4 Stores)</p>	<p>\$36,152,642</p>  <p>(19 Facilities)</p>
<p>\$33,000,000</p>  <p>(1 Office Building)</p>	<p>\$31,545,000</p> <p>Beaumont HOSPITALS</p> <p>(1 Office Building)</p>	<p>\$31,222,991</p>  <p>(1 Store)</p>	<p>\$30,920,000</p>  <p>(3 Buildings)</p>	<p>\$29,887,000</p>  <p>(1 Facility)</p>	<p>\$27,862,984</p> <p>KOHL'S</p> <p>(5 Stores)</p>	<p>\$26,180,000</p>  <p>(2 Stores)</p>
<p>\$25,725,000</p> <p>Westchester County, NY</p> <p>(1 Office Building)</p>	<p>\$25,395,389</p>  <p>(3 Stores)</p>	<p>\$23,685,000</p>  <p>The world's networking company™</p> <p>(1 Building)</p>	<p>\$22,698,000</p>  <p>(7 Bank Branches)</p>	<p>\$21,500,000</p>  <p>(3 Buildings)</p>	<p>\$20,675,492</p>  <p>(1 Office)</p>	<p>\$20,023,000</p>  <p>(4 Convenience Stores)</p>

# Credit Tenant Lease Tombstones – Cumulative through Year End 2009

<p>\$18,200,000</p>  <p>(Office Building)</p>	<p>\$17,500,000</p>  <p>(3 Facilities)</p>	<p>\$15,187,000</p>  <p>(1 Medical Facility)</p>	<p>\$15,100,000</p>  <p>(Headquarter Building)</p>	<p>\$14,399,094</p>  <p>(1 Office Facility) (1 Warehouse Facility)</p>	<p>\$12,800,000</p>  <p>(Medical Office Building and Wellness Center)</p>	<p>\$12,100,000</p>  <p>(Office/Call Center)</p>
<p>\$11,499,086</p>  <p>(1 Medical Facility)</p>	<p>\$11,120,000</p>  <p>(1 Research Lab)</p>	<p>\$11,085,627</p>  <p>(2 Buildings)</p>	<p>\$11,000,000</p>  <p>(1 Building)</p>	<p>\$10,917,000</p>  <p>(2 Stores)</p>	<p>\$10,504,000</p>  <p>(1 Facility)</p>	<p>\$9,725,339</p>  <p>(1 Facility)</p>
<p>\$9,625,000</p>  <p>(1 Building)</p>	<p>\$9,345,000</p>  <p>(1 Building)</p>	<p>\$8,762,000</p>  <p>(4 Stores)</p>	<p>\$8,742,000</p>  <p>(3 Stores)</p>	<p>\$7,725,000</p>  <p>(1 Bank Branch)</p>	<p>\$7,575,000</p>  <p>(1 Building)</p>	<p>\$7,095,000</p>  <p>(2 Theaters)</p>
<p>\$6,760,000</p>  <p>(1 Facility)</p>	<p>\$6,750,000</p>  <p>(1 Facility)</p>	<p>\$5,779,000</p>  <p>(1 Building)</p>	<p>\$4,486,000</p>  <p>(1 Store)</p>	<p>\$4,411,000</p>  <p>(1 Building)</p>	<p>\$3,928,935</p>  <p>(1 Warehouse Facility)</p>	<p>\$3,880,000</p>  <p>(1 Recycling Facility)</p>

# Credit Tenant Lease Tombstones – Cumulative through Year End 2009

<p>\$3,618,000</p>  <p>(2 Ground Leases)</p>	<p>\$3,543,000</p>  <p>(1 Building)</p>	<p>\$3,371,000</p>  <p>(1 Bank Branch)</p>	<p>\$3,299,000</p>  <p>(1 Bank Branch)</p>	<p>\$3,263,000</p>  <p>(1 Convenience Store/Gas Station)</p>	<p>\$3,000,000</p>  <p>(1 Office Building)</p>	<p>\$2,889,000</p>  <p>(1 Ground Lease)</p>
<p>\$2,830,000</p>  <p>(1 Bank Branch)</p>	<p>\$2,758,000</p>  <p>(1 Ground Lease)</p>	<p>\$2,598,000</p>  <p>(1 Building)</p>	<p>\$2,421,940</p>  <p>(1 Facility)</p>	<p>\$2,300,000</p>  <p>(1 Building)</p>	<p>\$2,242,000</p>  <p>(1 Bank Branch)</p>	<p>\$1,621,000</p>  <p>(1 Facility)</p>
<p>\$1,560,000</p>  <p>(1 Bank Branch)</p>	<p>\$1,044,000</p>  <p>(1 Facility)</p>	<p>\$900,000</p>  <p>(1 Facility)</p>	<p>\$825,000</p>  <p>(1 Ground Lease)</p>	<p>\$35,000,000</p>  <p>(1 Headquarter Facility)</p>	<p>\$27,000,000</p>  <p>Commonwealth of Pennsylvania Department of Environmental Protection</p> <p>(1 Office and Lab Building)</p>	

**Additional Financing Services can be viewed by clicking on our Logo below, then clicking on any of the blue highlighted items that summarize those services.**

**Loan placements in order of lender preferences are:**

- 1. Credit Tenant Leased (CTL) properties with BBB- ratings or higher (proposed or existing). Forward commitments are available.**
- 2. Health Care properties, including Medical Office, Multi-family, Senior Housing, Assisted Living Facilities, Retirement and Independent Living (proposed or existing).**
- 3. Conventional properties for Retail, Office Warehouse, Industrial, Flex Buildings, Self Storage and Hospitality.**
- 4. Structured Finance programs for Distressed Asset Buyouts or Acquisitions and Loans on Discounted Property Refinancing or Acquisitions.**
- 5. Joint Venture and Equity transactions arranged institutionally.**
- 6. All other loan requests handled on a case basis.**

**Our lending relationships include banks, life insurance companies, pension funds, conduits, investment bankers, Credit Tenant Lease (CTL) lenders, HUD/FannieMae/FreddieMac lenders, Structured Finance lenders, SBA/USDA lenders and Industrial Development Bond lenders.**



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