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Dealmaker: Continental Partners Secures $30M for California Retail, Multifamily Assets

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Continental Partners, Los Angeles, secured $29.5 million to refinance two central California retail and three southern California multifamily properties.

Continental Partners Executive Vice President J.M. Grimaldi secured $11.9 million for a 152,300-square-foot shopping center in Sacramento and $9.5 million for a 150,000-square-foot, retail property in Los Banos.

"Lenders across the board are being more conservative when it comes to financing commercial deals, especially distressed assets in secondary and tertiary markets," Grimaldi said. "With the Dodd-Frank regulations taking effect this month and an anticipated increase in interest rates on the horizon, lenders are lowering their loan proceeds and are pricing in interest rate hikes in their underwriting. Given the anticipated rise in interest rates, many borrowers are looking to refinance and are pursuing long-term loans to lock in lower rates."

Grimaldi noted that the private real estate investor sponsor specializes in repositioning underperforming assets. "In the first transaction, the borrower needed a fixed-rate loan to refinance the Sacramento retail asset and cash out the proceeds to invest in new acquisitions," he said. "The challenge, however, was that most lenders were underwriting the loan with an unfavorable appraisal based on comps in the area."

Continental Partners approached several lenders that would originate a loan based on the property's new leasing activity and stabilized value. In 2013, the asset was highly distressed and only 57 percent occupied. At refinancing, it was 93 percent occupied, with a new lease signed with CircusTrix, an indoor trampoline park operator.

"By demonstrating the potential value of this asset and emphasizing the sponsor's long-term investment strategy, we were able to increase the loan covenant from 65 percent to 70 percent," Grimaldi said. Continental Partners structured the 7-year loan with a 70 percent loan-to-value ratio and a 30-year amortization schedule.

In another transaction, the sponsor requested a $9.5 million fixed-rate loan to refinance a JC Penney-anchored Los Banos retail center.

"The property's location in a tertiary market, coupled with its current tenant mix, presented an initial challenge," Grimaldi said. "The anchor tenant, JC Penney, is in its first option period of the lease with no sign of renewing."

Continental found a state-chartered credit union that understood the sponsor's value-add investment strategy and the asset's potential value upon stabilization. It arranged the loan based on the total stabilized value and incorporated an earn-out structure that enabled the borrower to draw the remaining funds over the next 12 months.

"By incorporating a 'good news' money structure, which would release additional loan proceeds upon stabilization of the asset, we were able to obtain a fixed-rate product with a flexible pre-pay option," Grimaldi said. "In doing so, we eliminated the interest rate risk over the next year."

In Los Angeles County, Continental Partners arranged $8.1 million to refinancing three multifamily properties totaling 69 units. Grimaldi arranged the financing with Associate Matt Shelton.

The sponsor engaged Continental Partners to secure a $3.49 million 30-year hybrid loan commitment with five years fixed at 3.15 percent. The remaining two properties received 30-year hybrid loans fixed for the first seven years at 3.50 percent. All three loans included step-down prepayment penalties.