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Dealmaker: Continental Partners Secures $21M for Office, Retail

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Continental Partners, Los Angeles, secured $9.2 million for a Class A office and retail property in Orange County submarket Tustin, Calif.

The recently renovated and currently vacant property can accommodate multiple uses including creative office, flex/R&D and retail. It is adjacent to the Tustin Legacy master-planned community of existing and upcoming housing, retail and offices.

Continental Partners Director Eugene Rutenberg said the sponsor sought to replace an existing loan on the property to lock in a sub-5 percent interest rate in the current rising-rate climate. "A major challenge was the timing of the property's vacancy," he said. "The asset was in transition; after a long-term biotech tenant exited, the owner took the opportunity to renovate and reposition the property into a modern mixed-use space. Though the sponsor was in negotiation with several tenants regarding new leases, the vacancy caused hesitancy among most lenders."

Continental demonstrated the flexibility of the 44,000-square-foot property and the value of its proximity to Tustin Legacy and several shopping and dining options, Rutenberg said. "By positioning the application correctly, we were able to meet the sponsor's requirements and source a loan sized at 70 percent of the current value of the property from a balance sheet lender. We presented letters of intent from potential tenants and worked closely with the lender to ensure that they had understood the sponsor's strong track record and business plan."

Rutenberg noted the sponsor successfully executed long-term leases with two credit-worthy tenants during the loan application period.

The five-year loan included $8.7 million in initial funding and $588,000 to be released as cash-out proceeds after the sponsor completes minor tenant improvements to fully stabilize the property. It priced at 4.75 percent with three months of interest-only payments followed by a 30-year amortization schedule.

The firm also secured an $11.3 million loan secured by the 102,780-square-foot Mira Loma Shopping Center in Reno, Nev. Executive Vice President J.M. Grimaldi secured the acquisition financing.

"Lenders continue to take a conservative position when approaching commercial loans, and this is especially true of distressed retail assets, which tend to be viewed as higher risk," Grimaldi said. "To secure competitive financing for this property, we demonstrated to potential lenders the strong fundamentals presented by the shopping center despite neglect from previous ownership and how the asset would benefit from the sponsor's plans to establish a hands-on landlord approach."

The sponsor plans light value-add renovations to the center and will remediate environmental contamination issues caused by a former tenant, Grimaldi said.

"The Reno retail market is thriving, posting an increase in net absorption and a decrease in vacancies in the fourth quarter," Grimaldi said. "Further, the asset, which boasts a high-credit and established tenancy, is situated in an area experiencing housing and employment growth."

But despite these strong fundamentals, several hurdles to securing attractive financing remained, Grimaldi said, noting the fact that the property was in foreclosure and required a full remediation. Continental approached nearly 30 lenders to secure a loan that provided a balance of strong loan-to-cost and competitive leverage with interest-only payments for four years.

An international bank supplied the financing at 220 basis points over the 10-year swap rate at a 69 percent loan-to-cost ratio.