
Sacramento CBD Recovers at Slower Pace Than Suburbs

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Published: June 2, 2016


The asset at 1401 El Camino Ave. was one of two office properties to receive funding.

SACRAMENTO—Even with the wide availability of capital in the market, many lenders are exercising extreme caution when it comes to financing smaller deals, especially in secondary markets such as Sacramento. The Sacramento CBD market was hit harder during the recession and has been slower to recover, making it difficult to secure financing for lower-priced assets here.

Presenting an additional obstacle in a recent funding transaction, two office assets were highly distressed and vacant. **Continental Funding** resolved this by pooling the two distressed office assets with a stabilized retail asset, leveraging the stabilized asset to secure the necessary financing at a loan-to-value rate of 65%.

The commercial real estate investment banking firm secured $11.5 million in mini-perm debt refinancing for one retail and two office properties encompassing 136,197 square feet on behalf of its client, a regional investment firm that specializes in acquiring and repositioning underperforming assets. The financing was arranged by Continental Funding Group executive vice president, **J.M. Grimaldi**. The assets were acquired in three all-cash transactions secured from an international bank. The five-year WSJ prime-based loan floats at 1% over the prime rate with a floor of 4.25%.

Grimaldi tells GlobeSt.com: “In today’s competitive market, sourcing capital to finance value-add assets in secondary markets is a challenge, especially in areas such as Sacramento that have been hit harder by the economic recession. The cost of capital tends to be higher in these markets as they present more risk to lenders. In order to attract the right lenders, we took a creative approach by pooling the properties together as a portfolio in order to leverage the stability of the retail asset with the distressed office assets. This creative approach has been a key to our success in structuring transactions in the 3 and 4 percent range.”

Bouncing back quicker from recession, the Sacramento market has been a higher performer in the multifamily sector during the past few years. As of the first quarter of 2016, the area edged out Portland as the metro region with the highest annual effective rent growth, according to **Axiometrics**. This type of rent growth has resulted in investor interest especially in the suburbs of El Dorado Hills, CA, 25 miles from downtown Sacramento. El Dorado Hills, the most affluent area in the Sacramento market, has high barriers to entry, as increasing construction costs and limited land options make development more cost prohibitive.

Built in 2013, **LeSarra Apartments** is the newest multifamily development in El Dorado Hills and one of only three in the area. The class-A 105-unit community was recently sold by **Ridge Capital Investors** for $28.5 million or $271,429 per unit to **Oakmont Properties**. The property is fully stabilized with a steady income stream, making it an attractive investment choice.

The multifamily community offers premium features in every unit. The property’s location is a short walk to the regional retail core and a quick drive downtown via Highway 50. **CBRE**’s Sacramento multifamily team, led by **Marc Ross**, represented the buyer in an off-market transaction.

In another upscale suburban Sacramento location, Granite Bay, CA, **Vestar** acquired **Sierra Oaks Plaza**, a neighborhood shopping center for $28.1 million. Sierra Oaks Plaza is located at the intersection of Douglas Boulevard and Sierra College Boulevard. The center totals 105,555 square feet and is anchored by **Walmart Neighborhood Market**. Other notable tenants include **Chick-Fil-A, Crunch Fitness, Tri Counties Bank** and **Habit Burger**.

“Sierra Oaks Plaza fits well in Vestar’s acquisition strategy of investing in grocery-anchored centers in high traffic, densely populated areas,” said **Clint Marchuk**, vice president of acquisitions with Vestar. “We plan to continue acquiring strategic centers in key markets that have strong demographics and growth such as Sierra Oaks Plaza.”

In the past year, Vestar has acquired six retail centers valued at $700 million throughout the western states.