

News

San Diego Office

CONTINENTAL FUNDING GROUP ARRANGES \$7M LOAN TO ACQUIRE AND REHAB DOWNTOWN OFFICE BUILDING

Sep 27, 2016 | Patricia Kirk, Bisnow, SD

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Courtesy of Eugene Rutenberg

Continental Funding Group director **Eugene Rutenberg** has arranged a \$7M bridge loan for a San Diego-based investor to acquire a 25k SF office building at 1200 4th Ave in Downtown SD's Financial District and fund its nearly \$2M makeover. CFG is a Los Angeles-based investment banking firm with a national clientele, and the buyer is a professional real estate investor specializing in value-add properties.

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firm with a national clientele, and the buyer is a professional real estate investor specializing in value-add properties.

"Downtown San Diego's office market is in the midst of a resurgence fueled by tremendous growth in tech and financial services industries," Eugene says. "Based on the enormous job growth and innovation in this district, demand for quality office space is on the rise, placing upward pressure on lease rates."

San Diego entrepreneurs launched more than 400 startups annually for the last two years, adding 1,650 jobs to the region's economy. The innovation sector now represents 25% of the city's GDP, according to a report from **CONNECT**, a nonprofit innovation company accelerator.

Downtown SD overall office vacancy in Q2 2016 was 16% and asking rents averaged \$29.04/SF, with Class-B and C product seeing the most positive net absorption year-to-date of 115,100 SF and 8,400 SF, respectively, compared with Class-A's negative net absorption of 31,200 SF, according to a **JLL SD office report**. "This property will hit north of \$34/SF after the sponsor's business plan is complete, indicating that while Class-A office continues to demonstrate steady rent growth, the real opportunity is in value-add product," Eugene says, noting many investors are targeting Class-B office assets and repositioning them to drive higher yields.

Below is the architect's vision of the building exterior following renovation.



Courtesy of Continental Funding Group

"In today's competitive financial market, many lenders remain conservative when it comes to financing value-add deals, even in primary markets such as San Diego," he says. Most lenders will not originate a bridge loan without a personal guarantee or at a coupon rate below 7%, especially for an unstabilized asset. "Given the potential risk to lenders,

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especially for an unstabilized asset. Given the potential risk to lenders, sourcing capital to finance a Class-B or C asset often requires a strategic approach in order to secure the most competitive rates."

"We take an individualized approach to each value-add deal we finance and come up with a strategy that will deliver the best rates," he tells *Bisnow*. For this transaction, Eugene says CFG prepared a pro-forma outlook over the next **36** months and provided a number of rental comps showcasing the asset's projected rent growth. "This allowed us to demonstrate the value that would be achieved through the sponsor's strategic renovations, reducing the uncertainty for the lender." The investor plans to reconfigure the interior from a single-tenant space to accommodate multiple tenants to achieve targeted rents and stabilize the property.

As a result, the lender underwrote the **three-year, interest-only** loan at **100%** of the purchase price, with a loan-to-cost leverage ratio of **75%**, and structured the loan with a **\$350k** interest reserve to cover the debt service shortfall and allow advances for renovation costs. "This short-term financing solution will enable the sponsor to easily refinance the bridge loan to a permanent loan once the business plan is completely executed," he says.

See Also: [Industrious Raises \\$37M In Series B Round, Plans 12 New Co-Working Locations](#)

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