

The Apartment Report™

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BORROWERS CAPITALIZING ON LOW RATES

Apartment players look to cash in on today's favorable rates and ink long-term refinancing to protect against inflation. The majority of multifamily activity as of late has been refinancing and recapitalizations. For a 10-year deal, average rates range 5.25% to 5.5%. Although many borrowers are constrained by current loans, some are even opting to take repayment penalties in order to refinance at today's rates before increases. During the peak of the market, there was a flurry of shorter-term five- to seven-year financing deals. Many of these deals have recently matured or will mature within the next few years. The debt market has improved and refis that were previously just out of reach are now feasible.

CMBS and LCs are back and busy in the sector. While they are not quite competing on leverage, they can certainly compete on rates, especially in stable secondary and tertiary markets. The dogfight between LCs and CMBS has led to Freddie and Fannie to increase their appetite for refinancing loans in that deal space. Fannie and Freddie are still the best option for leverage of more than 70%. With big multifamily players focusing their full attention on Class A core products in major markets, it looks like smaller owners and operators are the key borrower. That means strong, creditworthy borrowers who have weathered the economic storm are sitting at the top of the list. While LCs and CMBS continue to gain momentum, banks of all sizes are filling the gap on transitional and short-term assets.

Summit Management Services Inc. secures a 35-year, 4.12% fixed-rate, FHA-insured loan for \$9.9M through **JS MultiCapital** to refinance the 120-unit **Landmark Apartments** in Fort Collins, Colo. The non-recourse note is self-amortizing, assumable, and assignable should Summit sell the property during the course of the term. LTV is around 80% and DSC is between 1.17x and 1.20x. A portion of the refi was used to pay off an existing loan with **US Bank**, who supplied Summit with a three-year floating-rate mortgage in 2008 to acquire and stabilize Landmark before seeking long-term refinancing. The Class A student housing property is fully occupied and located next to Colorado State University.

Principal **Herbert Newman** points out that Summit has many years of experience in acquiring FHA financing and looks to close long-term deals with very low rates. Newman notes that FHA is not only for low-income properties, as his company has secured six FHA loans with rates under 4.5%, all on Class A properties. Summit is well capitalized and actively looking to acquire multifamily communities in secondary markets.

HFF secures a \$17.18M loan for ColRich Investments through **Freddie Mac** to refinance **San Ventura Apartments** in Chandler, Ariz. The seven-year, 5.07% fixed-rate loan is non-recourse at 75% LTV. It has a 30-year amortization with the first two years interest only and will replace the existing loan on the property. Built in 1995, the Class A complex features 272 units and is at 97% occupancy. DSC is 1.30x. The proceeds were used to pay off a first trust deed on the property. HFF worked with ColRich Investments to provide an early rate lock to capitalize on a dip in Treasury rates and combined that tactic along with buying down the rate in order to maximize loan proceeds.

HFF funded the loan as the seller servicer. The lender was attracted to the deal because the property has demonstrated strong rebound characteristics over the last 12 months, as occupancy and rents have both increased, while concessions have also burned off. ColRich Investments had a short-term loan on the property and wanted to secure more permanent long-term financing with a fixed rate.

Wells Fargo lends \$21.6M for the refinancing of a 276-unit multifamily property in Los Angeles. The 10-year loan amortizes over 30 years. The deal has an LTV of 70% and DSC of 1.30x. Financing was difficult to secure because the building was constructed in the 1960s and features tuck-under parking,

which many California lenders avoid because of state earthquake regulations. Wells Fargo was attracted to the long-term owner of more than 20 years, solid occupancy and favorable operating history. The borrower will use the proceeds to retrofit the building to meet seismic regulations.

Walker and Dunlop doles out \$10M through Fannie Mae for the refinancing of **The Woods Apartments** in Tucson, Ariz. The 10-year, 5.4% fixed-rate refi has 30-year amortization, 65% LTV and a DSC of 1.35x. **The Woods Apartment Investment LLC** owns and manages the Class B, 359-unit property and had an existing 10-year loan on the property coming to maturity. VP **Jay Thomas** credits the property's consistent occupancy levels and great track record of the borrower with making the deal attractive. The Woods Apartments was built in 1985 and 98% leased at the time of closing.

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