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WESTERN REAL ESTATE BUSINESS®

Connecting Real Estate in the West

DIV Industrial's first project is El Dorado Valley Logistics Center, a LEED-certified, 1.7-million-square-foot logistics development in southeast Las Vegas.

DIV INDUSTRIAL TAKES A NEW APPROACH TO INDUSTRIAL INVESTMENT

The firm will focus on stewardship and inclusion as it builds its industrial portfolio.

By Nellie Day

Nicholas Ilagan and Jessica Quesada founded DIV Industrial in February 2022 with one goal in mind: to reframe and redefine how people interact in industrial real estate. Formerly a partner and senior vice president of asset management for CapRock Partners, Ilagan redirected his career to co-create a minority- and woman-owned industrial real estate development and investment firm that emphasizes diversity, equity and inclusion (DEI) initiatives and responsible environmental, social and governance (ESG) practices within the industry.

DIV Industrial will target new development through land acquisitions in select Western and Southwestern markets. The firm is actively raising capital for its first fund, which will allow for more than $2 billion of industrial development and entitlement projects throughout the West.

WREB sat down with Ilagan to talk about his new firm, his new priorities and what projects are kicking off this new phase of his career.

see INDUSTRIAL, page 38

BORROWERS SEEK FLEXIBILITY AMID VOLATILE LENDING LANDSCAPE

Owners with loans nearing maturity are exploring ways to recapitalize their assets via new short-term debt structures or fresh equity sources.

By Taylor Williams

After eight interest rate hikes totaling 450 basis points over the last 10 months, courtesy of the Federal Reserve's war on inflation, commercial borrowers can only hope that the fundamental law of gravity — "what goes up must come down" — will start to become reality in 2023.

But the economic clarity that the commercial lending community seeks is muddied by conflicting agendas. On the one hand, the nation's central bank has made some headway in taming inflation through the rate hikes. The Consumer Price Index fell from an annual rate of 9.1 percent in June 2022 to 6.5 percent in December, but is still well above the Fed's 2 percent target rate.

On the other hand, expansionary fiscal policy such as the $1.2 trillion infrastructure bill signed into law in late 2021 and the $1.7 trillion omnibus appropriations bill passed in December 2022 could undermine the Fed's efforts to curb inflation, say some economists. The U.S. national debt stood at a record $31.5 trillion as of press time due to the cumulative effect of recessions, wars, tax cuts, the COVID-19 pandemic, and excessive government spending. The ratio of U.S. federal debt to GDP as of press time was 120.3 percent.

Greystone has provided a $30.4 million Fannie Mae DUS loan to refinance Parkview Terrace Apartments, a 206-unit multifamily property in Thornton, Colo. The loan is a permanent exit from bridge acquisition financing provided by Greystone in July 2021.

Against that backdrop, direct lenders and financial intermediaries across the commercial real estate industry do anticipate some slowdown in the frequency and magnitude of short-term interest rate hikes in 2023. But for borrowers seeking to refinance their assets or in need of acquisition or construction financing, hope and expectation aren't much to hang their hats on.

Patience is a Virtue

Borrowers are looking for outside-the-box solutions to reshape their

see LENDING, page 35

INSIDE THIS ISSUE

CLOSING DEALS. OPENING DOORS.

Nationwide commercial bridge loans

We're a fully capitalized bridge lender serving clients nationwide. Through our lending strategy, we provide financing on cash-flowing commercial real estate including affordable housing, seniors housing, self-storage and all other major asset classes. Our loans range from $5 million to $75 million and we work fast, typically closing in 30 DAYS. Give us a call to discuss your next investment. We'd love to hear from you.

RECENT FINANCINGS*

VILLAGE AT WHITE RIVER JUNCTION, VT

LOAN AMOUNT	$29,000,000
PURPOSE	Stabilization and Bridge to Refinance
OVERVIEW	Refinanced the construction loan on a newly constructed high-end AL/MC facility in White River Junction, VT. Loan proceeds were also used to pay off minor cost over-runs and preferred equity partner.

BURBANK OFFICE IN BURBANK, CA

LOAN AMOUNT	$8,000,000
PURPOSE	Bridge to Refinance
OVERVIEW	Acquisition of an existing 15,267 SF commercial / office building in Burbank, CA. Previously used as a family fun center, loan proceeds will also be used to fund tenant improvements and convert to mixed-use office.

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*Represents a sampling of recent loan transactions during Q2 and Q4-2019. Provided as representative examples of some of the types of loans provided. Terms of each loan may vary.

OUR DIFFERENCE IS IN THE DATA

By the Numbers

- 11,165 RE/MAX Commercial brokers in all segments (agents with COMM or COMRES as primary specialty)
- 66.4% year-over-year growth in sales and lease volume*
- 50,000+ Worldwide commercial transactions
- 641 RE/MAX Commercial offices and divisions (offices with COMM or RESCOM specialty)
- 110+ Countries and territories with RE/MAX representation**
- 89 Countries with closed commercial transactions***

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*Global commercial sales and lease volume. **Network-wide, including residential. ***Number of countries reporting 1+ commercial transaction for YE2021.

DOING THINGS DIFFERENTLY

It's a new year and, unfortunately for many, a new marketplace. The firehose that was the past few years hasn't dried up, but you may have to work a little harder to get that water out. This has brought about the creation of new firms, including Irvine, Calif.-based DIV Industrial.

The minority- and woman-owned industrial real estate development and investment firm is building its first project, the 1.7-million-square-foot El Dorado Valley Logistics Center in southeast Las Vegas, and it's doing so while emphasizing ESG (environmental, social, governance) and DEI (diversity, equity and inclusion).

A changing market can also lead to changes in investment strategy, as this month's Western experts can tell you. Some say to lean into fear — to find the opportunities while others have their heads in the sand. Others say don't force a deal simply because you have cash and prices are lower. Everyone agrees, however, that this market requires a different mentality.

Taking a step back and looking at something with a refreshed sense of self can certainly do a lot of good. And hopefully this new market will inspire others to make tangible commitments to change…for the better.

Jerry France
Chairman & CEO/
Publisher

Scott France
President/
Co-Publisher

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FINANCIAL SCOREBOARD

Loans Recently Closed For Western Properties

PROPERTY	CLASS	LOCATION (CITY, STATE)	SIZE	AMOUNT	LENDER	ARRANGED BY
32nd and Eliot Apartments	Multifamily	Denver	124 units	$24.3 million	FirstBank	JLL Capital Markets
TREEO South Ogden	Seniors Housing	Ogden, Utah	143 units	$22.5 million	Regional bank	Greystone
Two undisclosed properties	Multifamily	Lawndale and Oceanside, Calif.	50 and 18 units	$17.4 million	iBorrow	Undisclosed
Market Place at Town Center	Retail	El Dorado, Calif.	134,600 SF	$16.7 million	Undisclosed regional bank lender	Gantry
Lafayette Park Hotel	Hospitality	Lafayette, Calif.	138 rooms	$15 million	Undisclosed life insurance company	Sonnenblick-Eichner Co.
Church Ranch Self-Storage	Self Storage	Westminster, Colo.	663 units	$4.2 million	Undisclosed correspondent life insurance company	PSRS

CORE5, MBK BREAK GROUND ON SPEC 49,291 SF ARROW BUSINESS CENTER

RANCHO CUCAMONGA, CALIF. — A joint venture between Core5 Industrial Partners and MBK Industrial Properties has broken ground on Arrow Business Center, a Class A industrial building in Rancho Cucamonga. Slated for completion in September, the speculative facility will offer 49,291 square feet of warehouse space. Situated on 2.4 acres at 11770 Arrow Route, Arrow Business Center will feature five dock-high doors, one drive-in position, 32-foot clear heights, 145-foot-deep truck court, six-inch floor slab and an ESFR sprinkler system. The property will also feature solar power and ample parking with five trailer parking stalls and 46 vehicle stalls. David Neault of KW Commercial will handle leasing for the project.

PROGRESSIVE REAL ESTATE PARTNERS ARRANGES SALE-LEASEBACK OF LIFESTREAM BLOOD BANK BUILDING

ONTARIO, CALIF. — Progressive Real Estate Partners has brokered the sale-leaseback of a medical retail building located at 1959 E. 4th Street in Ontario. Duckett-Wilson Development Co. acquired the asset from LifeStream Blood Bank for $1.2 million. LifeStream occupies the 3,060-square-foot, single-story, freestanding building, which is an outparcel to the 85,000-square-foot Vineyard Ontario Plaza shopping center. LifeStream is a non-profit blood donor that provides blood products and services to Southern California hospitals and medical facilities. Paul Su of Progressive Real Estate represented both parties in the transaction.

FAIRFIELD CARMENITA SELLS ALIVIA APARTMENTS FOR $49.6 MILLION

WHITTIER, CALIF. — Fairfield Carmenita LP has completed the disposition of Alivia Apartments, a multifamily community in Whittier, to NexGen Properties Group for $49.6 million, or $387,695 per unit. Completed in 2022, Alivia Apartments features seven residential buildings comprising 68 one-bed/one-bath units and 60 two-bed/two-bath units. All units offer stainless steel appliances, washers/dryers, kitchen islands with storage and wood-style plank flooring. Community amenities include a resort-style pool and spa, fitness center, social lounge, dog park and outdoor fire lounge. Kevin Green, Joseph Grabiec and Greg Harris of Institutional Property Advisors, a division of Marcus & Millichap, represented the seller and procured the buyer in the deal. Michael Derk of Marcus & Millichap Capital Corp. arranged a 10-year, $19.1 million, non-recourse loan for the buyer.

Arrow Business Center in Rancho Cucamonga, Calif., will feature 49,291 square feet of speculative industrial space.

BALBOA RETAIL PARTNERS PURCHASES 91,000 SF RETAIL CENTER

PINOLE, CALIF. — Balboa Retail Partners has purchased Pinole Square, a community shopping center at 1201-1577 Tara Hills Drive in Pinole. A private family sold the asset for an undisclosed price. Nicholas Bicardo and Cheyne Bloch of Newmark facilitated the transaction. Safeway and CVS/pharmacy have anchored the 91,000-square-foot retail center for more than 50 years.

LOWE DEVELOPS 113,000 SF OFFICE BUILDING IN LOS ANGELES ARTS DISTRICT

LOS ANGELES — Lowe as developer and manager, along with Ware Malcomb as architect/designer and Swinerton as general contractor, has completed construction of a nine-story creative office building at 2130 Violet Street in Los Angeles' Arts District. Totaling more than 113,000 square feet, the building includes 109,100 square feet of office space, 3,400 square feet of ground-floor retail space, four levels of parking for 275 vehicles, outdoor spaces with private terraces and a 3,000-square-foot rooftop deck/lounge. The building offers 27,000-square-foot open floorplates, high ceilings, energy-efficient building systems and HVAC.

TRION ACQUIRES COURTYARD AT ARTISAN SQUARE MULTIFAMILY PROPERTY FOR $23.6 MILLION

SACRAMENTO, CALIF. — Trion Properties has purchased Courtyard at Artisan Square, an apartment community located at 1503 Fulton Ave. in Sacramento. A private seller sold the asset for $23.6 million. Constructed in 1970, the property features 104 one-, two- and three-bedroom apartments averaging 830 square feet with open floorplans. The community comprises 11 two-story residential buildings totaling more than 86,000 square feet. Current amenities include a fitness center, pool deck and high-end upgrades throughout the property. The previous owner fully renovated the property's exterior and all unit interiors to include quartz countertops, in-unit washers/dryers, dual-pane windows, new roofs, full patio replacement, asphalt and concrete walkways.

IPA NEGOTIATES $38.2 MILLION SALE OF SOUTH HILLS APARTMENTS

WEST COVINA, CALIF. — Institutional Property Advisors (IPA), a division of Marcus & Millichap, has arranged the sale of South Hills Apartments in West Covina. NexGen Properties Group sold the asset to HFH Ltd. for $38.2 million. Built in 1966 and remodeled in 2019, the 85-unit community features a swimming pool, spa, fitness center and outdoor kitchen with barbecue grills. Kevin Green, Joseph Grabiec and Greg Harris of IPA, along with Marcus & Millichap's Tyler Leeson, Mathew Kupp and Nick Kazemi, represented the seller and procured the buyer in the deal.

TOURMALINE CAPITAL SELLS CENTER POINTE RETAIL CENTER FOR $24.6 MILLION

MENIFEE, CALIF. — Tourmaline Capital has completed the disposition of Center Pointe, a newly developed shopping center located at 27281 Newport Road in Menifee. A private 1031 exchange buyer acquired the asset for $24.6 million. Sprouts Farmers Market, Wendy's, Olive Garden, Tacos & Tequila and Paris Nails are tenants at the 41,461-square-foot property. At the time of sale, the retail center was 96 percent leased. Gleb Lvovich, Daniel Tyner and Geoff Tranchina of JLL Retail Capital Markets represented the seller in the deal.

DALFEN INDUSTRIAL ACQUIRES 95,922 SF MORENO VALLEY LOGISTICS CENTER

MORENO VALLEY, CALIF. — Dalfen Industrial has purchased Moreno Valley Logistics Center, an industrial property situated less than three miles from Interstate 215 in Moreno Valley. Terms of the transaction were not released. Moreno Valley Logistics Center features 95,922 square feet of industrial space. The asset is in close proximity to State Route 60 and State Route 91, enabling east-west connectivity, including to the ports of Long Beach and Los Angeles.

DWIGHT CAPITAL PROVIDES $45 MILLION HUD REFINANCING FOR VILLA LUCIA APARTMENTS

FRESNO, CALIF. — Dwight Capital has provided a $45 million HUD 223(f) loan for Villa Lucia Apartments, a multifamily community in Fresno. The financing features a 35-year term and fixed interest rate. Dwight previously provided a HUD 223(f) loan for Villa Lucia Apartments in 2016. The subsequent cash-out refinance closed in December 2022. Ari Mandelbaum of Dwight Capital originated both transactions for the borrower, Latco Enterprises. Situated on 20 acres, the 272-unit community consists of 42 one- and two-story residential buildings, 19 garage buildings and a clubhouse. Community amenities include a courtyard, fitness center, playground, pool and spa.

TOVA CAPITAL ACQUIRES SHOPPING CENTER FOR $6.2 MILLION

LONG BEACH, CALIF. — Tova Capital has purchased a fully occupied retail complex in downtown Long Beach for $6.2 million in an off-market transaction. Located at 205-233 E. Anaheim Street, the property features 34,500 square feet of retail space. The asset consists of two 17,000-square-foot, single-story buildings occupied by Trademark Brewing and Long Beach Rising under long-term leases. Tova Capital plans a long-term hold of the retail property, which is its first investment in Long Beach. Jared Swedelson from NAI Capital represented Tova, while Sheva Hosseinzadeh of Coldwell Banker Commercial BLAIR represented the seller in the deal.

NORTHMARQ ARRANGES $55.5 MILLION SALE OF 246-UNIT APARTMENT PORTFOLIO

LOS ANGELES — Northmarq has negotiated the sale of a three-community multifamily portfolio in the Los Angeles neighborhoods of Granada Hills and Northridge. Upside Investments sold the portfolio to LAApartment.biz, a private investor, for $55.5 million.

The portfolio includes:

- Villa Verde Apartments, a 90-unit asset located at 10339 Zelzah Ave. in Northridge. The community features laundry facilities, a fitness center and pool.
- Zelzah Avenue Apartments, an 88-unit property at 10331 Zelzah Ave. in Northridge. Onsite amenities include laundry facilities, a fitness center, pool and grill.
- Northridge Pointe, a three-story, 68-unit community located at 8511 Balboa Blvd. in the Northridge/Granada Hills submarket. Community amenities include laundry facilities, an elevator, a fitness center and picnic areas.

Vince Norris, Jim Fisher, Mike Smith, Mike Hanassab, Elliot Hassan and Steven Goldstein of Northmarq's Los Angeles investment sales team represented the seller and buyer in the transaction.

BETA AGENCY ARRANGES $14 MILLION SALE OF SMART & FINAL-ANCHORED RETAIL CENTER

LAWNDALE, CALIF. — Beta Agency has arranged the sale of Lawndale Plaza, a shopping center in Lawndale. A San Pedro-based private shopping center owner sold the asset to a Los Angeles-based entity for $14 million. Lawndale Plaza features a Smart & Final store and a multi-tenant retail building, occupied by Subway, Wingstop, Panda Express, Daily Nails & Spa and Wells Fargo. At the time of sale, the property was 100 percent occupied. Richard Rizika and Vanessa Zhang of Beta Agency represented the seller, while Adam Friedlander of Beta Agency and Moon Lim of JLL represented the buyer in the deal.

GRIFFIN REALTY TRUST SELLS CREATIVE OFFICE BUILDING TO REXFORD INDUSTRIAL FOR $40 MILLION

IRVINE, CALIF. — Griffin Realty Trust has completed the disposition of a creative office property, located at 16752 Armstrong Ave. in Irvine, to Rexford Industrial Realty for $40 million. Griffin originally acquired the asset in October 2013 for $27.2 million. Fox Head, which Vista Outdoor recently acquired, occupies the entire 82,645-square-foot building. Vista Outdoor is the parent company of more than 40 brands of outdoor apparel and equipment. Situated on 6.5 acres, the property features abundant parking, a BMX track, a skate park, gathering spaces and firepits. The building offers two floors of creative office space, including conference rooms, common areas, abundant natural light, an open floor-to-ceiling lobby area and designated workspaces. Kevin Shannon, Paul Jones, Bret Hardy, Ken White and Brandon White of Newmark represented the seller in the transaction.

MARCUS & MILLICHAP BROKERS $12.2 MILLION SALE OF WILSON GARDENS APARTMENTS

BANNING, CALIF. — Marcus & Millichap has arranged the sale of Wilson Gardens, a multifamily property located at 5001 and 5059 W. Wilson Street in Banning. An individual/personal trust sold the asset to a private investor for $12.2 million, or $180,147 per unit. Douglas McCauley and David Covarrubias of Marcus & Millichap office represented the seller, while Bruce Rajaee of Marcus & Millichap represented the buyer. Built in 1972, the building features 68 one- and two-bedroom apartments. Onsite amenities include a swimming pool, garages, laundry facilities and a secured entrance.

Smart & Final, Subway, Wingstop, Panda Express, Daily Nails & Spa and Wells Fargo are tenants at Lawndale Plaza in Lawndale, Calif.

PHELAN PLANS 284,850 SF ELKHORN INDUSTRIAL PARK

SACRAMENTO, CALIF. — Phelan Development has released plans for Elkhorn Industrial Park, a two-building, 284,850-square-foot speculative industrial project within Metro Air Park in Sacramento. The park will feature a 190,525-square-foot building and a 94,325-square-foot building. Completion is slated for fall 2023. Mark Demetre and Michael Hoo of Colliers' Sacramento office are handling leasing for the project.

ABI MULTIFAMILY BROKERS $49.7 MILLION SALE OF DIMENSION ON 27TH APARTMENT HOMES

PHOENIX — ABI Multifamily has arranged the sale of Dimension on 27th Apartment Homes in Phoenix. An Arizona-based seller sold the asset to a California-based buyer for $49.7 million, or $191,346 per unit. Built in 1982, the property features 23 residential buildings offering a total of 260 units in a mix of studio, one-bed/one-bath and two-bed/one-bath layouts. Common area amenities include a swimming pool, playground, laundry facilities and onsite maintenance. Alon Schnitzer, Rue Bax, Eddie Chang and Doug Lazovick of ABI Multifamily's Phoenix-based Institutional Apartment Group represented the buyer and seller in the deal.

REALCOMM ADVISORS BROKERS SALE OF 12,000 SF INDUSTRIAL BUILDING

LAS VEGAS — RealComm Advisors has arranged the sale of an industrial building located at 3711 Regulus Ave. in Las Vegas. SWE Enterprises sold the 12,000-square-foot asset to FGM Fund for $3.1 million. Greg Pancirov and Paul Hoyt of RealComm Advisors represented the seller in the deal.

HJ RED MOUNTAIN SELLS 69,270 SF RED MOUNTAIN PLAZA SHOPPING CENTER

MESA, ARIZ. — HJ Red Mountain LLC, an entity formed by Jakosky Properties, has completed the disposition of Red Mountain Plaza, a retail center at the northwest corner of Power and McKellips roads in Mesa. Red Mountain Plaza, a Washington LLC, acquired the asset for $16.4 million. Situated on eight acres, Red Mountain Plaza offers 69,270 square feet of retail space. At the time of sale, the property was 100 percent leased to a variety of tenants, including Michaels and PetSmart. Ryan Schubert and Michael Hackett of Cushman & Wakefield in Phoenix represented the seller in the deal.

PetSmart is a tenant at the 69,270-square-foot Red Mountain Plaza in Mesa, Ariz.

SCHNITZER PROPERTIES COMPLETES 560,352 SF QUEEN CREEK COMMERCE CENTER

CHANDLER, ARIZ. — Portland, Ore.-based Schnitzer Properties has completed the construction of Queen Creek Commerce Center, a two-building industrial project at Queen Creek Road and Hamilton Street in Chandler. Situated on 34 acres, Queen Creek Commerce Center features 560,352 square feet of industrial space. Three tenants have pre-leased the development: Intel, NEHP and Horsepower Automotive Group. Rick Collins of JLL brokered the leases on behalf of Schnitzer Properties.

LRE & COS. REVEALS PLANS FOR 13-ACRE MIXED-USE DEVELOPMENT

FERNLEY, NEV. — California-based LRE & Cos. has announced plans to develop Fernley Promenade, a 13-acre mixed-use development along Interstate 80 in Fernley. The project will the first shopping center development in Fernley in over a decade. The first confirmed tenant for Fernley Promenade is a 98-room Home2 Suites by Hilton. The development will also feature three junior retail anchors, as well as various dining and shopping options. Retail space, ranging from 1,200 square feet to 20,000 square feet, is currently available for lease. The property can accommodate freestanding buildings with drive-thru, junior anchor and shop space. Shawn Smith and Sean Retzloff of Kidder Mathews will manage leasing for the property.

LM CONSTRUCTION BREAKS GROUND ON $40 MILLION NANCY J INDUSTRIAL PARK

HENDERSON, NEV. — LM Construction Co. (LMCC) has broken ground on Nancy J Industrial Park, an eight-building industrial project in Henderson. Each of the eight 40,998-square-foot buildings will offer four nine-foot-by-10-foot dock loading doors, two 12-foot-by-14-foot grade level doors, 24-foot clear heights and rear loading access. Additionally, each building is divisible to two occupants. Las Vegas-based LMCC is the design-build general contractor for the project. The first two buildings are slated for completion in January 2024. Larry Monkarsh, owner of LMCC and partner in Brass Cap Development, is also acting as the owner/developer of the project, developing as Red Label LV LLC. Chris Lexis and Joe Leavitt of Avison Young | Las Vegas are marketing the project for lease or sale.

Schnitzer PROPERTIES

SEAPORT INDUSTRIAL PARK • Sacramento, CA • 225,626 SF

TUCSON AIRPORT CENTER II, BLDG A • Tucson, AZ • 229,320 SF

QUEEN CREEK COMMERCE CENTER • Chandler, AZ • 560,352 SF

WESTECH BUSINESS CENTER • Phoenix, AZ • 225,333 SF

CHANDLER PAVILIONS • Chandler, AZ • 163,286 SF

SUNSET AIRPORT CENTER II • Las Vegas, NV • 258,300 SF

HIGHLAND RESERVE • Roseville, CA • 131,415 Sf

TUCSON AIRPORT DISTRIBUTION CENTER - BLDG C • Tucson, AZ • 99,000 SF

TROPICAL SPEEDWAY COMMERCE CENTER II • Las Vegas, NV • 243,741 SF

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MARCUS & MILLICHAP BROKERS SALE OF 22,424 SF CONCORDE PLACE OFFICE BUILDING

CENTENNIAL, COLO. — Marcus & Millichap has arranged the sale of Concorde Place, a Class B office property in Centennial. A limited liability company sold the asset to an undisclosed buyer for $2.4 million. Situated on a 1.38-acre site at 7208 S. Tucson Way, Concorde Place features 22,424 square feet of office space. Brandon Kramer and Chadd Nelson of Marcus & Millichap's Denver office represented the seller in the deal.

Located at 7208 S. Tucson Way in Centennial, Colo., Concorde Place features 22,424 square feet of office space.

1031 CROWDFUNDING BUYS 178-UNIT SENIORS HOUSING PORTFOLIO

ST. GEORGE AND LINDON, UTAH — 1031 Crowdfunding has acquired its first two seniors housing communities in Utah. Totaling 178 units of assisted living and memory care, the communities are in the Provo suburb of Lindon and St. George, which is located about 130 miles northeast of Las Vegas. Both properties total 156,473 square feet across 5.85 acres, offer seven-year leases, and are within a four-mile radius of local hospitals. The facilities, Spring Gardens St. George and Spring Gardens Lindon, were built in 2011 and 2016, respectively. Avista Senior Living is the operator.

STELLAR SENIOR LIVING ACQUIRES 103-UNIT ANTHOLOGY OF SOUTH JORDAN

SOUTH JORDAN, UTAH — Stellar Senior Living has acquired Anthology of South Jordan, a 103-unit seniors housing community in South Jordan, a suburb of Salt Lake City. The new owner has changed the name to Copper Creek Senior Living. The property offers independent living, assisted living and memory care services. Copper Creek is located near retail, entertainment, recreational and healthcare destinations. Utah-based Stellar Senior Living is a family owned senior living provider operating 28 senior living communities in nine states in the Western United States.

PSRS ARRANGES $4.2 MILLION REFINANCING FOR CHURCH RANCH SELF-STORAGE

WESTMINSTER, COLO. — PSRS has arranged a $4.2 million refinancing for Church Ranch Self-Storage in Westminster. The property features 663 self-storage units, climate control, high ceilings, electronic gate access and individually alarmed units. Kostas Kavayiotidis and Nicholas Drohan of PSRS secured the long-term, non-recourse loan with a 30-year amortization and flexible prepayment through a correspondent life insurance company. The borrower was not disclosed.

FLYNN PROPERTIES RECEIVES $30 MILLION IN FINANCING FOR THE MADELINE HOTEL

TELLURIDE, COLO. — Flynn Properties has received $30 million in financing for the Madeline Hotel, Auberge Resorts Collection, in Telluride. Jordan Angel, Jeffrey Bucaro and Ethan Habecker of JLL Capital Markets' debt advisory team arranged the five-year, floating-rate loan through Värde Partners. The transaction refinances debt on the resort hotel. Originally built in 2009 and renovated in 2020 and 2021, the Madeline features 83 guest rooms and 56 separately owned condominiums. The hotel offers a spa, 24-hour fitness studio, outdoor retail plaza, and Sky Terrace, which features an outdoor pool, two oversized spas, fire pits and a bar. Onsite food and beverage outlets include Black Iron Kitchen & Bar and Timber Room. The hotel also offers ski-in/ski-out access to the 147 trails of the Telluride Ski Resort. It also offers curated experiences including heli-skiing, dog sledding and ice climbing in the winter, as well as fly fishing, horseback riding and helicopter tours in the summer.

INDUSTRIAL SOLUTIONS

Hobble Creek Business Park
Springville, Utah

Spanish Springs Industrial Park
Spanish Fork, Utah

LakeShore Industrial
Springville, Utah

Call Commercial Center
Orem, Utah

Deer Park
American Fork, Utah

Orem Tech Center
Orem, Utah

Valley Grove Flex
Pleasant Grove, Utah

PowerHouse Industrial
Springville, Utah

Spring Pointe Exchange
Springville, Utah

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HYPERION REALTY CAPITAL BUYS MERIDIAN PLACE SHOPPING CENTER

PUYALLUP, WASH. — Los Angeles-based Hyperion Realty Capital, formerly known as Portal Investment Management, has purchased Meridian Place Shopping Center in Puyallup. Terms of the transaction were not released. Built in 1979, Meridian Place offers 127,429 square feet of retail space. Current tenants include Grocery Outlet and Michaels. Sean Tufts and Kevin Adatto of CPX handled the deal.

Grocery Outlet and Michaels are tenants at the 127,429-square-foot Meridian Place in Puyallup, Wash.

IRONWOOD PARTNERS SELLS 105,406 SF IRONWOOD SQUARE SHOPPING CENTER

COEUR D'ALENE, IDAHO — Ironwood Partners LLC has completed the disposition of Ironwood Square, a retail center in Coeur d'Alene. EMES Ironwood LLC acquired the property for an undisclosed price. Kobe Furqueron of Marcus & Millichap's Salt Lake City office represented the seller, while Allan Friedman of Westlake Associates procured the buyer in the deal. Adam Lewis is Marcus & Millichap's brokers of record in Idaho. At the time of sale, the 105,406-square-foot Ironwood Square was 96.2 percent occupied. Current tenants include Staples, Rite Aid, Wells Fargo, Tesoro Fuel Center, Beyoutiful Hot Yoga and Norco Medical. Staples and Rite Aid recently extended their leases by seven and 10 years, respectively.

HFO BROKERS $38.5 MILLION SALE OF MEADOW BROOK PLACE APARTMENTS

VANCOUVER, WASH. — HFO Investment Real Estate has arranged the sale of Meadow Brook Place Apartments, a multifamily community located at 2231 NE Bridgecreek Ave. in Vancouver. California-based Aukum Group acquired the asset from Meadowbrook Place LLC, an entity associated with an Oregon family investor group, for $38.5 million. Built in 1996, Meadow Brook Place Apartments features 154 one-, two- and three-bedroom residences spread across 17 buildings, ample off-street parking, storage space, a rental office, pool and basketball court. Greg Frick, Tyler Johnson and Rob Marton of HFO facilitated the transaction.

FORMOST FUJI ACQUIRES INDUSTRIAL BUILDING FOR $20 MILLION

EVERETT, WASH. — Woodinville, Wash.-based Formost Fuji, a manufacturer in the packaging industry, has purchased a manufacturing and industrial building located at 905 80th Street SW in Everett. MTorres America sold the asset for $20 million. Situated on 14.9 acres, the property features a 65,344-square-foot building with capacity for warehouse expansion of up to 32,000 square feet. MTorres America, an aerospace manufacturing company, previously occupied the building. Zach Vall-Spinosa and James Leptich of Kidder Mathews represented the buyer in the deal.

NORRIS & STEVENS NEGOTIATES $7.6 MILLION SALE OF MT. SCOTT INDUSTRIAL PARK

PORTLAND, ORE. — Norris & Stevens has arranged the sale of Mt. Scott Industrial Park, an industrial asset located at 7402-7410 SE Johnson Creek Blvd. in Portland. Frith Investments 3 acquired the asset from Mt. Scott Industrial Park LLC for $7.6 million. Nick Chessar and Scott Finney of Portland-based Norris & Stevens represented the seller, while Tyler Dean of Macadam Forbes represented the buyer in the transaction. Constructed in 1971 and 1976 on 3.6 acres, the 35,000-square-foot industrial park features office space in each suite, 48 parking spaces, eight grade-level doors and eight drive-in doors. Mt. Scott Industrial Park was 100 percent occupied at the time of sale.

Kidder Mathews


Wolk

Maggie Wolk has joined Kidder Mathews at its downtown Seattle office as Vice President, specializing in the sale of retail investment properties throughout Washington, ranging from single tenant net leased assets to larger multi-tenant shopping centers. Before joining Kidder Mathews, Wolk was a broker at CPX, a local brokerage firm. Her clients have included Jiffy Lube, Denny's, O'Reilly Auto Parts Center, and Valvoline.

Marcus & Millichap


Wolk

Marcus & Millichap is expanding into Century City, a prominent business hub in Los Angeles, California. The office has approximately 180 commercial real estate brokers and capital markets financing professionals. Tony Solomon, senior vice president and district manager. Solomon and George Azzi, associate regional manager, will oversee Marcus & Millichap's new office.

Marcus & Millichap


Palmer

Marcus & Millichap has hired **Jim Palmer** as senior vice president and national director responsible for overseeing the firm's Commercial Property Auction Services division of its brokerage business. Formed in 2022, the division offers clients an accelerated way to buy and sell commercial property as a complement to the firm's traditional property marketing channels. Palmer brings over 25 years of real estate and technology experience to Marcus & Millichap. Most recently he served eight years on Ten-X Co.'s leadership team where he managed the broker channel, as well as many of the firm's largest institutional clients.

Brennan Investment Group


Torp

John Torp has been promoted from vice president to senior vice president at Brennan Investment Group. In his new capacity, Torp will assume primary deployment and asset management responsibilities for the entire state of Colorado, along with the Boise and Las Vegas metropolitan markets. Since 2020, Mr. Torp has initiated or completed four development projects with an aggregate value exceeding $210 million.

Tower Capital


Wolk

Tower Capital is continuing to expand into the Rocky Mountain Region with the addition of **Matt Hiltner**, who will serve as vice president in the firm's Denver office. Hiltner specializes in debt and equity placement for ground-up and existing multifamily, single-family build-for-rent and residential communities in the Western U.S. and Mountain States. Prior to joining Tower Capital, Hiltner was principal at a Denver-based commercial mortgage brokerage focused on financing developments on behalf of middle market sponsors throughout the country. He began his real estate career as a residential broker and property investor with his company, The Hiltner Real Estate Group, and has transacted over $20 million in residential sales.

For more information on getting into the Western Groundbreakers section, please contact Barbara Sherer at 404.832.8262 or bsherer@francemediainc.com

UPCOMING MARKET HIGHLIGHTS

Reno
Salt Lake City
Los Angeles
New Mexico
Las Vegas

UPCOMING FEATURES

Net Lease Players
Multifamily Update
Seniors Housing Trends

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OC'S MULTIFAMILY SECTOR REMAINS HIGHLY SOUGHT AFTER BY INVESTORS

Shane Shafer
Managing Director,
Northmarq

Orange County remains a highly desirable market for multifamily investors — and for good reason. It's a flight-to-quality market with a strong employment base and continued expectations of future job growth. This drives demand for rental units and pushes rent growth and occupancy.

Add to that a severe shortage of rental housing supply, more would-be homebuyers remaining renter, and Orange County's affordability compared with other Southern California markets, and it points to a robust investor market.

The employment market continues to show signs of growth and resurgence, adding 73,000 jobs in 2022. Unemployment is an extremely low 2.5 percent. Orange County is long known for its tech startups, tourism and hospitality sectors, though healthcare and bioscience are expanding here as well. For example, Washington-based health system Providence is investing $712 million in Orange County to build two new multi-specialty medical centers and a new patient care tower for Providence Mission Hospital. The centers will be in San Clemente and Rancho Mission Viejo.

This strong job market gives multifamily investors confidence in their expected returns as they aggressively pursue assets when they hit the market.

Central OC Leads in Rental Gains

Central Orange County experienced a spike in demand due to limited new construction, in addition to renters seeking affordable rental levels and good-paying jobs. Average rents here are nearly $950 per month lower than the coastal markets and Class A core sector.

This renter migration is creating high demand and driving continued rent growth while maintaining very low vacancy rates in all sectors, but primarily in mid-market vintage properties. Rents in Central Orange County mainly expanded in first-quarter 2022 and eased in the remaining three quarters. Although rent growth slowed, it still remains stronger than most other markets in the county.

Anaheim/Central Orange County led the market with the highest year-over-year rental growth of 6 percent and the lowest vacancy rate of 3.3 percent. Although rent growth is lower than last year's increases, new leases being signed are still in the upper teens to 20 percent — with growth still very positive — and showing continued momentum.

Expensive Cost of Homeownership

Challenges surrounding the affordability of homes in Orange County continue, pushing more would-be homeowners to rent. The median single-family home price in Orange County is $1,036,000. Assuming a 20 percent down payment at current mortgage rates, monthly payments average $5,632. Newer construction multifamily product, which would compete for these residents, averages $2,992 per month, making renting more affordable than owning. This trend is fueling demand in all areas, particularly in the coastal and South Orange County markets, and in Class A core market buildings.

Flight to Quality

Multifamily values in Orange County have maintained one of the highest prices per unit and, in many cases, the lowest cap rates of any Southern California market. The median sales price in 2022 was $366,400 per unit, with several Class A properties trading in excess of $500,000 per unit.

Orange County is typically a lower volume transaction market. When a multifamily asset becomes available, there is no shortage of investors bidding to take advantage of the consistent, stable returns. There is strong investor appetite here for quality locations that produce expected, consistent, good returns, and a lack of inventory could allow for competitive pricing levels in 2023.

OC'S OFFICE MARKET IS ON DIVERGENT PATHS AS IT LOOKS TO FIND BALANCE

Scott Wetzel
Executive Vice President,
JLL

Tenants and debt remain the most important drivers of the Orange County office ecosystem — both having undergone major evolutions in recent history. Maybe unexpectedly, leasing velocity improved year over year, despite the never-ending drumbeat of a pending recession. Conversely, investment markets were much more cautious as debt cost spiked and investors pumped the brakes.

Leasing

From Bob Iger to Howard Schultz, prominent executives are voicing frustration over the state of the office market…and rightfully so. We watched the pendulum swing from end to end as office tenants went from fully "in office" pre-pandemic, to 100 percent remote for the better part of 2020 and 2021. Today, the national office usage rate still hovers around 50 percent, according to the most recent Kastle Systems report. Orange County reflects this national trend, meaning it's stuck in the middle between in-office and in-home.

Tenants are also on divergent paths as some seek quality, while others prioritize value. New Orange County office developments like Flight (Lincoln Property Company), Boardwalk (AEW) and Spectrum Terrace (the Irvine Company) are fully leased and have achieved premium rental rates, typically 70 percent-plus above average market lease rates.

Large contiguous blocks of space in the market (i.e. greater than 50,000 square feet) are increasingly hard to find in new or recently renovated trophy office buildings that are well-amenitized. That said, a quick survey of high-rise offices would yield nearly 40 options. Tenants in Orange County have been very clear: they are optimizing their footprint and spending more money on high-quality assets, or they are bargain hunting for low-cost, low-rise alternatives as they work to get through whatever turbulence lies ahead.

The national headlines about tech layoffs have certainly hit the Orange Count marketplace, but in a much more muted way. Sublease availability is up nearly 30 percent year over year, but that's spread across the market's prominent business sectors, including tech, healthcare, consumer products and financial services. This is a much more even distribution compared to the outsized impact mortgage companies had on the Orange County office market during the Great Financial Recession.

Investment

The number of investment sales in Orange County held steady year over year, underscoring the 34 percent decrease in total volume dollar that came largely from a decrease in values. As interest rates quickly increased over the course of the year, investors were forced to recalibrate pro-formas. A highlight in Orange County was Intersect, the former Washington Mutual headquarters. Hines revamped this space as a creative office campus, then sold it to a foreign pension fund for more than $500 per square foot. While the number of properties on the CMBS default watchlist increases, investment sales may uptick in 2023, but it will be more out of necessity than desire. Until interest rates stabilize, office investment will remain tepid.

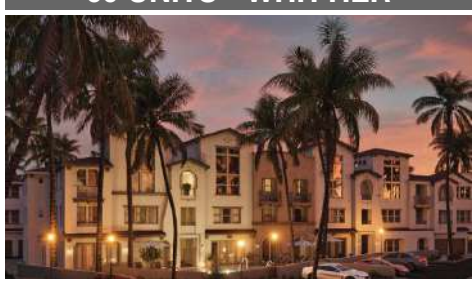
Development

In the wake of cost-prohibitive debt, only those who can live without it are willing to build. Enter the Irvine Company. Spec development projects like Phase II of Flight and the Village at Laguna Hills have been shelved. And without pre-lease commitments, even the Irvine Company will proceed cautiously. That said, it continues to move forward with Innovation Office Park, which has become of a hub of tech and life sciences activity. The firm is also considering a 550,000-square-foot life sciences development near UC Irvine. Almost ironically, the very product tenants are seeking most is the same kind lenders are hesitant to provide to eager developers. Nevertheless, hope springs eternal as interest rates settle, so the second half of 2023 will prove to be a busy one.

Southern California Multifamily Inventory For Sale

COMING SOON

60 UNITS - WHITTIER

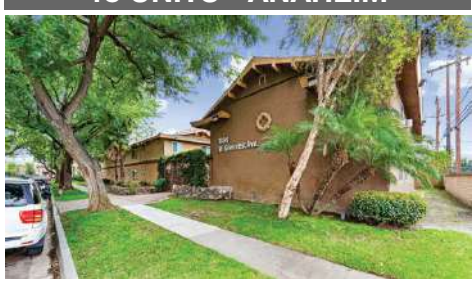


AVAILABLE

30 UNITS - WESTMINSTER

AVAILABLE

18 UNITS - ANAHEIM



AVAILABLE

14 UNITS - COSTA MESA

AVAILABLE

12 UNITS + COMMERCIAL - COSTA MESA

AVAILABLE

12 UNITS - ANAHEIM

AVAILABLE

10 UNITS - FONTANA

AVAILABLE

8 UNITS - WHITTIER

AVAILABLE

7+1 UNITS - LAGUNA BEACH

AVAILABLE

7 UNITS - LAGUNA BEACH

AVAILABLE

5 UNITS - PLACENTIA

AVAILABLE

3+1 UNITS - LAGUNA BEACH

AVAILABLE

TRIPLEX - LAGUNA BEACH

AVAILABLE

DUPLEX - LOS ANGELES

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AGENDA AT A GLANCE

TUESDAY, MARCH 7

7:30 - 9:15 am ---------- Registration and opening remarks

9:15 - 10:00 am --------- Keynote from Benjamin Calleja, CEO of Livit Design: Looking at the Future of F&B Experiences Through a Global Lens

10:00 - 11:00 am ------- How to Create an Entertainment Ecosystem

11:15 am - 12:15 pm --- Planning Environments for Retail Real Estate's New Era of Entertainment

12:45 - 1:30 pm --------- What's Better for Traffic, Food Hall or Restaurants? "World" Building That Sells: Using the Power of Intellectual

1:45 - 2:45 pm ---------- Property to Reshape Retailtainment

2:45 - 3:45 pm ---------- Creating a Tenant Mix with Entertainment that Benefits Landlords, Tenants and Consumers

4:00 - 5:00 pm ---------- Sports-Anchored Retail Entertainment Districts: What Works and What to Avoid

5:00 - 7:00 pm ---------- Networking reception

WEDNESDAY, MARCH 8

7:00 - 9:00 am ---------- Breakfast roundtables

9:00 - 9:05 am ---------- Opening remarks

9:05 - 10:00 am --------- Social Entertainment Concepts with Financial Staying Power

10:00 - 11:00 am -------- Creating Brand Champions in Retail Spaces to Drive Traffic & Revenue

11:15 am - 12:15 pm --- What is the Future of Movie Theaters — Retrenchment, Reinvention or Renaissance?

12:15 pm ---------- Conference concludes

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Mr-ProFun

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CEO
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Sr. Media Analyst
Comscore

Ira Jay Mitchell
President
IJM Enterprises

George Wade
Founder & President
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Robb Wagner
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Mathew Focht
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EMERGING

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Principal
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Steve Zhao
Founder & CEO
Sandbox VR

Richard Brail
Chairman of M&A
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Benjamin Calleja
CEO
Livit Design

Howard Samuels
President
Samuels & Company

TJ Schier
COO
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Michael Morris
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Food Hall Co.

Mitra Esfandiari
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Chief Creative Officer
DJM Capital

Jeff Rubin
Founder & CEO
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Paul Kurzawa
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Greg Lombardo
VP, Live Experiences
Netflix

Whitney Livingston
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Michael Williams
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Glytch, Inc.

Jeffrey Aronoff
SVP, Box Leasing Retail
Brookfield Properties

John Mulleady
Chief Dev. Officer
Dave & Busters

Corey Redmond
Senior Exec. VP
Kingsmen Xperience

Richard Renninger
Chief Development Officer
Darden

Todd Goldstein
Chief Revenue Officer
AEG

Rik Athorne
Executive Creative Director LBE
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Bruce Nussbaum
Managing Partner
Trifecta Management Group

James Gordon
Creative Director & Co-Founder
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Eric Nordness
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Rob Hunden
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Najla Kayyem
EVP, Marketing
Pacific Retail Capital Partners

Michael Belot
SVP, Bucks Ventures & Development
Milwaukee Bucks

Dan Ellis
EVP, Chief Operations & Development Officer
AMC Entertainment

Chris Pine
EVP, Anchors & Big Box Leasing/Dev.
Brookfield Properties

Josh Poag
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Original X Productions

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Braves Development Company

Mitch Roberts
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EVO Entertainment Group

Gerry Cottle
Founder & CEO
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Julie Brinkerhoff-Jacobs
President/Executive Senior Principal/CFO
Lifescapes Int.

Chuck Steelman
VP of Customer Exp., Programming & Partnership
Trademark Property

Ginger Flesher-Sonnier
Owner/CEO
The Ginger Companies

John Moncke
President
Kansas City Power & Light District/The Cordish Companies

Karen Strack
SVP, Customer Experience & Brand
Unibail-Rodamco-Westfield

Shawn McCoy
Senior Vice President
JRA–Part of RWS Entertainment Group

Jeffrey Godsick
EVP, Global Partnerships & Head of Location Based Entertainment
Sony Pictures Ent.

Kirsten Taylor-Hall
VP, Partner Relations, Global Live & Location Based Entertainment
Lionsgate

Sebastian Schoepe
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Matthew Proulx
Vice President, Location Based Entertainment
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Frank Rimkus
Co-Founder & CEO
Galaxy Theatres, LLC

Daniel Yaffe
Co-Founder & COO
AnyRoad

William Dean
CEO
Immersive Gamebox

INDUSTRIAL CONTINUES TO GROW IN THE OC

Jace Gan
Executive Vice President, Colliers

Before 2020, Orange County's industrial base shrank due to developers opting to redevelop multifamily and creative office spaces. Historically tight market conditions limit the number of new leases, and rising interest rates price out many businesses looking to purchase a building. However, we are seeing a significant increase in industrial development across Orange County for the first time in a while. Orange County industrial properties have seen a pullback from institutions that were putting capital out the door. About 2.4 million square feet of new industrial space was constructed in 2022 — a significant increase over the 660,000-square-foot, five-year average.

Setting Pace

Most activity occurs in North County, which makes up 45 percent of OC's industrial base. Irvine has remained the hub for more specialized uses related to aerospace, medical, etc. Key developments across the region are dictating the speed of future activity.

Goodman recently developed a 1.5-million-square-foot, four-building logistics center in Fullerton. The overall size is rare for the OC, and was 89 percent pre-leased before completion. Samsung took two buildings totaling 1 million square feet. Sprouts took 337,000 square feet in another building. Sares Regis Group is redeveloping an old 30-acre Boeing site in Huntington Beach, bringing 1 million square feet of new industrial space to West County. Cambro Manufacturing pre-leased 434,000 square feet. Epson America pre-leased a 234,000-square-foot building, which will be delivered with three additional buildings later this year.

Are we in a tenant or landlord market? It depends who you ask. Landlords think it's a landlord's market. Tenants think it's a tenant's market. Currently, it's somewhat of a stalemate. If vacancy remains thin, landlords could still have the upper hand.

Weathering a Slowdown

OC industrial posted the lowest vacancy rate in its history during fourth-quarter 2022, at 0.9 percent. The industrial asset class will remain the asset class of choice. However, there will likely be a slowdown in sales until pricing and debt settle out. Gross activity — new leasing and owner/user sales — declined in 2022, down 21 percent compared to last year. Inflation is starting to taper off, but companies are still cautious about what the 2023 economy has in store. With limited options and historically high rental rates, Orange County is well positioned to withstand a slowdown.

OC'S RETAIL VACANCY IS TIGHT, BUT CAPITAL MARKETS ACTIVITY WILL BE SLUGGISH THIS YEAR

Terrison Quinn
Managing Principal, SRS Real Estate Partners

The Orange County retail property market was very active last year for both leasing and capital markets. At 4 percent, Orange County's retail vacancy was back down to pre-pandemic levels. There was an annual net positive absorption of 445,000 square feet with 191,000 square feet of new space delivered in 2022, per CoStar.

Average rents increased 5 percent from an average market rent of $34.84 per square foot, per year to $36.58 — the highest rate of rent growth in 10 years. We don't see rents coming down at all this year, especially as there's only 170,000 square feet of new space currently under construction and we continue to experience favorable consumer demand.

From a capital markets perspective, investment activity remains to be seen. In line with national trends, many investors and lenders are putting capital deployment on pause as they analyze economic activity and adjust to a period of higher interest rates, higher inflation and, perhaps surprisingly, strong employment. Despite the angst that comes from uncertainty, there is a lot of positive sentiment toward economic corrections, creating investment opportunities over the coming years. This is certainly the case in a coastal Southern California market like Orange County that benefits from a diverse economy with high incomes, strong employment and elevated barriers to entry.

There are some interesting metrics that demonstrate consumer demand. U.S. retail sales on Black Friday were up 12 percent year over year, according to Mastercard SpendingPulse data. The National Retail Federation also indicated a 17 percent year-over-year increase in foot traffic on Black Friday, which was considerably higher than expected. This is happening at the same time online sales from Black Friday and Cyber Monday are hitting records. This could be indicative of maturity forming between omnichannel retailers and their customers.

On the flip side, strong consumer demand is happening at a time when consumer saving figures are shrinking, and debt levels are the highest they have ever been. According to the New York Fed, total household debt increased $351 billion in the third quarter of 2022, the highest nominal increase since 2007. This would imply that aggressive consumer spending will tighten at some point. However, this may not be until late 2023 or even 2024, especially since personal savings rates jumped considerably due to the pandemic.

While aggressive consumer spending props up leasing activity, the capital markets are already in correction territory. Quarter-one 2023 data is expected to show a decrease in overall deal volume and a mild increase in cap rate. There were some large transactions in Orange County in early 2022, including Brixmor's $85.7 million purchase of Brea Gateway and World Premier Investments' $102.5 million purchase of Fullerton Town Center. Other than those, there have been no significant recent transactions in Orange County.

As the cost of debt has increased in a low cap rate environment of an overall 5 percent, transactions have fallen to the lowest amount since early 2021, Costar notes. This year is expected to realize lower sales volume than last year as lenders and borrowers adjust to changes in interest rates. Opportunistic investors with considerable cash reserves and a willingness to take on some risk will be in an excellent position to capitalize on assets. That's because Orange County retail is an excellent investment and historically more resilient than many other major markets across the country.

DISSECTING ORANGE COUNTY'S DYNAMIC MULTIFAMILY MARKET

By Cameron Irons, Executive Director, SVN Vanguard

The multifamily real estate market in Orange County continues to be one of the most attractive and profitable in the country. The area's strong economy, affluent population and abundance of job opportunities have made it a popular destination for people looking for a place to live. As a result, the demand for housing in Orange County has remained high. Developers are responding by building new multifamily and mixed-use developments.

There are several highly active companies developing new multifamily projects in Orange County. Projects such as Metropolis by the Irvine Company and Park and Paseo by Broadstone are nestled among large office/industrial parks and feature thousands of residential units, in addition to retail and commercial space. They are designed to be hubs for work, play and living, offering residents a wide range of amenities. Lennar Homes, KB Homes and Meritage Homes have similar projects in development in every city throughout the county.

Despite the high prices of these properties, the Orange County multifamily market continues to thrive. The area has seen a surge in the number of renters in recent years, which has put pressure on the available housing supply. This has driven up rental prices, making it difficult for many people to afford a place to live. To address this issue, most of these developments will include hundreds of affordable housing options and be in prime Orange County locations.

The impact of these new developments on their surrounding neighborhoods has been significant. East End, the Santora and the Station at Santa Ana are not only providing new housing options, but generating economic activity by creating new jobs and attracting new businesses to the area. For example, the East End development is expected to create more than 1,000 new jobs during its construction phase, as well as hundreds of additional jobs once it's completed. The overarching trend throughout all these projects is to create vibrant, self-contained communities with large, open, safe public spaces that feature an abundance of inclusive facilities for their residents.

The vacancy rates in Orange County have remained relatively low. They currently hover around 3 percent across all sectors, including large and small, old and new. This reflects the strong demand, as well as the high quality of life that Orange County offers. With more new developments on the horizon, it's likely the vacancy rate will stay low. The market is poised for continued growth and success in the years to come despite looming economic challenges. Whether you're an investor or a property owner there has never been a better time to be a part of the multifamily real estate market in Orange County.

Park & Paseo is an 18-acre master-planned community by Broadstone with mixed-use, 1,221 apartments and 74,000 square feet of retail. It is situated off Dyer Road near the 55 Freeway in Santa Ana.

2023 LENDER INSIGHTS

France Media reached out to leading direct lenders and financial intermediaries from across the region to gain their perspective on the challenges and opportunities in the year ahead, factors most affecting the lending environment and the property sectors to watch in 2023.

What follows is a compilation of observations from these industry veterans.

BUCHANAN MORTGAGE HOLDINGS, LLC

Scott Magoffin
SVP, Head of Debt Originations

Chris Cervisi
Vice President

What is the biggest challenge you anticipate in 2023 as a direct lender or financial intermediary in commercial real estate?

The transition away from artificially low interest rates will put pressure on asset valuations, but it's still not apparent where cap rates and values will ultimately settle. Transaction volume has plummeted as the bid-ask spread between buyers and sellers remains too wide, which means the majority of the opportunities to finance existing assets will continue to be refinances. From the lender's perspective, the challenge will be determining which deals to pursue and how to confidently underwrite those deals without the benefit of fresh cash equity from sponsors or a purchase price and/or relevant sale comps to determine a property's value.

In what area(s) of commercial real estate do you see the biggest business opportunity for your company in 2023?

Within the bridge loan space, there will be opportunities in bridge-to-bridge situations where a sponsor requires additional time to stabilize an asset and exit, as well as in situations where maturing loans will not meet the extension tests and sponsors will need to decide between contributing additional equity in order to refinance with the existing lender or obtain a new loan that is cash-neutral but at a materially higher interest rate. Within the construction loan space, there will continue to be limited competition from other lenders for the foreseeable future, so there should be ample opportunities to finance high-quality projects and earn attractive returns, both for new ground-up developments and mid-construction refinance situations where the existing construction lenders have stopped funding draws.

To what extent has the spike in interest rates over the past 12 months affected your firm's expected lending volume and/or strategy for 2023?

We benefited from last year's interest rate environment in several respects. We are a floating-rate lender, so our interest income grew considerably across our existing portfolio as rates increased. Additionally, we made a decision during the second half of the year to be a "liquidity provider" to the market when traditional lenders stopped lending, which led to a record originations year for us. For 2023, we're positioned to match last year's volume if the right type of opportunities arise. However, we do expect our lending volume to drop by 25 to 50 percent in 2023 due to lower overall sale transaction volume and borrowers taking longer to make financing decisions in hopes of rates coming down.

What property sector(s) is your company most bullish on in 2023 and why?

Multifamily, self-storage, industrial and office. Excluding office, these property types continue to exhibit the strongest fundamentals and benefit from higher liquidity. The office sector has been in retrenchment mode for several years now, so in our opinion there is actually more clarity about valuations and where the sector is heading. We also benefit from the expertise and knowledge within the equity side of Buchanan Street, which primarily invests in these same four property types within the same markets that we lend in.

Northmarq

Aaron Beck
Managing Director – Debt/Equity

To what extent has the spike in interest rates over the past 12 months affected your firm's expected lending volume and/or strategy for 2023?

Financing transactions continue to close; albeit transaction volume is less compared to 12 months ago when rates were materially lower. Today's financing solutions require more creativity and are primarily driven by a borrower's view of future interest rates and the prepayment flexibility that aligns with those views. If current long-term interest rates and the resulting loan proceeds are accretive to an investment, then investors are choosing to lock the interest rate now for a longer term. If the view is that interest rates will decrease in the near future, then investors are electing to finance using short-term fixed (five years or less) or floating-rate loans that allow prepayment with little to no penalty.

Are commercial real estate borrowers more interested in fixed- or floating-rate financing today versus a year ago and why?

With the sharp increase in short-term indices, such as SOFR, more borrowers are turning to fixed-rate loan products that have interest rates significantly less than those of floating-rate loans — a difference that is on the order of 100 basis points or more. Furthermore, fixed-rate loans don't require the additional cost of an interest rate cap. Of the fixed-rate loans being executed today, a growing percentage are shorter term — five years or less.

It's worth noting that there are instances where a floating-rate loan coupled with an interest rate cap is the better option since it allows a borrower to manufacture a fixed interest rate and provides ultimate prepayment flexibility. This, in part, depends on the details of the rate cap and associated costs.

What is your company's lending or debt placement strategy for 2023?

Compared to 2021 and the first few months of 2022, the proper capital solution for our customers today is no longer as apparent when starting an assignment as it once was. With the ever-shifting debt markets it's essential to maintain ongoing dialogue with lenders of all types: agency, insurance companies, debt funds, CMBS, banks, mezzanine and preferred equity providers, etc. Doing this provides assurance our customers are getting the best execution the markets have to offer at that time.

TREZ CAPITAL

John Hutchinson
Vice Chairman & Global
Head of Origination

What is the biggest challenge you anticipate in 2023 as a direct lender or financial intermediary in commercial real estate?

While the cornerstone for returns on real estate is an understanding of the current market cycle, this also will be one of the biggest challenges we face in 2023. It is difficult to determine the value of properties when cap rates are moving, interest rates are increasing and the cost of construction is fluid. This has all been exacerbated by continuing supply chain issues causing industry-wide ripple effects.

With higher mortgage rates, the commercial sales market has entered a period of price discovery, characterized by wide bid-ask spreads. Sellers remain reluctant to discount to lower prices from leveraged buyers who face much higher financing costs to meet required returns. As a result, some projects do not make sense economically for these buyers, while sellers' price expectations aren't being met. This cyclical challenge for borrowers and sellers has created a period of relatively conservative underwriting that is driving lender selectivity in early 2023 as rates stabilize.

To what extent has the spike in interest rates over the past 12 months affected your firm's expected lending volume and/or strategy for 2023?

Lenders have become more selective and conservative with the spike in interest rates and have generally lowered loan proceeds due to coverage and leverage constraints. Overall, lender sentiment is more subdued as there are fewer loans closing. This has reduced our expectations as it is difficult for borrowers to make deals work. Along with higher interest rates and higher construction costs, it's harder to find projects that make economic sense for the borrower.

Not only are we seeing less deal volume and higher mortgage rates, but Trez Capital is also seeing shifting lender compositions. With regulatory scrutiny of capital requirements and concerns of their exposure to commercial real estate, banks are likely to restrict construction financing to focus on top customers, creating opportunities for non-bank alternative lenders.

The supply and demand balance in commercial markets remains healthy, particularly in the multifamily sector. Greater opportunities still exist in the Sun Belt region that is characterized by low taxation, population growth and business-friendly environments. Going into 2023, Trez Capital's strategy continues to be defined by our boots-on-the-ground approach. Our experienced team takes time to conduct deep local analysis in the markets we invest in to ensure we fully understand the risks and the rewards of all our projects.

Are commercial real estate borrowers more interested in fixed- or floating-rate financing today versus a year ago and why?

Floating rates have been more in demand for our borrowers, which is a shift from about a year ago. With interest rates nearing their peaks, many believe these rates will soon have nowhere to go but down, so many borrowers and developers are avoiding locking in the high rates of today. This was not always the case considering the lower interest rates of a year ago, when borrowers were seeking to lock in lower, fixed rates. Despite the changing financing trends among borrowers, Trez Capital has seen that floating-rate loans have always performed exceptionally well for investors in the four most recent cycles of increasing interest rates. In the 25 years our firm has been lending, Trez Capital has successfully navigated through various interest rate environments, and investors have benefited through all types of economic cycles with Trez Capital due in part to our conservative and stable approach.

What property sector(s) is your company most bullish on in 2023 and why?

Trez Capital is confident in the continued growth and opportunities in residential real estate, including multifamily apartments and lot development. Job and population growth continue to drive the increasing need for residential real estate. Housing demand and supply imbalance continue to dominate headlines. Last year, John Burns Real Estate Consulting estimated the United States needs 12.5 million housing units over the next decade to meet future demand. However, with the current pace of home production, there will be an estimated shortage of 1.7 million homes.

The Sun Belt region is one of the most sought-after locations, according to migration trends over the last several years. In fact, apartments across this region have the lowest vacancy rates in the last 30 years. ESRI Demographics found that Texas alone makes up 67 percent of the expected U.S. population growth between 2021 and 2026 — these growth rates are significantly higher than the national average. In addition, U-Haul's Growth Index found that last year, Texas, Florida and the Carolinas were the preferred destination of one-way U–Haul truck customers, providing yet another indicator of the growing relocation trend in the Sun Belt, and the increasing need for more homes within this region. Our reputation is based on providing innovative financing for properties in major high-growth centers in the Sun Belt — we will continue to source projects that meet our prudent risk management process to best serve our investors.

UC Funds

Ross Pemmerl
Chief Credit Officer

What is the biggest challenge you anticipate in 2023 as a direct lender or financial intermediary in commercial real estate?

Based on the Fed's guidance, it sounds like we're probably looking at an additional increase of 75 to 100 basis points in 2023 — a far cry from the 425 basis points we saw last year. Some models estimate the Fed will begin cutting rates back after the second quarter, others have this further out. Interest rate volatility will continue to put pressure on agency executions, along with a relatively muted CMBS/CLO market. I do remain optimistic that capital will continue to flow into the debt markets. UC Funds has creative and entrepreneurial capital solutions that are essential for borrowers in this environment. We have a wide range of bridge lending options so that sponsors retain their equity as they ride through this market cycle.

In what area(s) of commercial real estate do you see the biggest business opportunity for your company in 2023?

As a balance sheet and bridge lender for more than 25 years, we continue to provide our borrowers with fast, flexible and reliable execution despite down markets. We see the market coming to us since we can provide viable solutions where others cannot. The next six to 12 months we will focus the business on providing borrowers the time needed to finish a near-completed project and focus on its permanent debt solution. We have expanded our platform to include a competitive 12 to 24 month products that provide the owner with the time they need to capture value and let the capital markets settle. We can also provide preferred equity for cash-flowing or value-add projects. At UC Funds, we have always created a way to "fill the gap," be it debt or equity.

Are there any common questions you are fielding from borrowers today, and if so what are they and what advice are you giving them?

Borrowers are focused on value and cap rates while lenders are looking at exit metrics like debt yield and DSCR coverage metrics. Our advice is simple — all borrowers require a reliable lender that has real depth, experience and solutions to offer. One who, in the tougher times, is a trusted advisor.

ANNUAL

INTERFACE

SEATTLE MULTIFAMILY

MARCH 13 » HYATT AT OLIVE 8

PRODUCED BY INTERFACE CONFERENCE GROUP, A DIVISION OF FRANCE MEDIA

Western Real Estate Business magazine, *Western Multifamily & Affordable Housing Business* magazine and the InterFace Conference Group are pleased to host the annual InterFace Seattle Multifamily Conference on March 13th at the Hyatt at Olive 8.

The conference will explore the latest multifamily trends — from development, design and amenities to leasing, management and operations.

Panelists will discuss the outlook for the multifamily sector as well as economic and demographic trends impacting the apartment market in Seattle. Learn about the opportunities in the market while networking with the people who are buying, selling, developing, redeveloping, or financing multifamily properties in the Seattle area.

If you are active in multifamily real estate in Seattle mark your calendar now to attend!

FEATURED SPEAKERS *(as of February 1, 2023)*

Kyle Williams
Vice President, Account Executive
IPX1031

Eric Shoemaker
Northwest Market Executive
Freedom Financial Funds

Mackinley Robinson
Director, Mortgage Banking
Berkadia

Luke Hagler
VP, Commercial Construction
Charter Construction

Tim McKay
Managing Director
Cushman & Wakefield

Dave Enslow
Principal
Timberlane Partners

John Odegard
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LENDERS EXPECT SHARP DROP IN DEAL VOLUME IN 2023, EXCLUSIVE SURVEY SHOWS

Interest rate volatility, inflation are dampening activity, but opportunities still abound, say experts.

By Matt Valley

The commercial real estate finance community's business outlook has dimmed sharply from a year ago in the wake of a series of interest rate hikes by the Federal Reserve, creating new challenges and opportunities, according to France Media's 2023 Lender Forecast Survey. The 12th annual survey was conducted from mid-November to mid-December via e-mail.

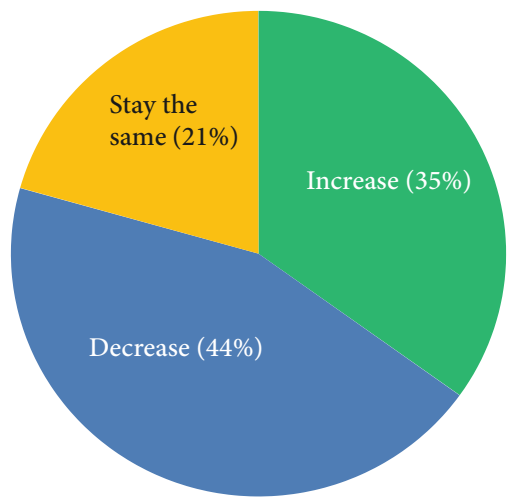
Forty-four percent of respondents expect the total dollar amount of commercial and multifamily loans closed by their firm in 2023 to decrease, while 35 percent anticipate an increase and 21 percent indicate volume will stay the same (*see chart*).

The findings are a dramatic reversal from last year's survey results. A year ago, 77 percent of respondents expected annual deal volume to increase compared with 7 percent who projected a decrease and 17 percent who anticipated deal volume to remain the same.

Among respondents who expect a decrease in lending activity in 2023, 40 percent anticipate a drop of more than 20 percent; 27 percent expect deal volume to fall 11 to 15 percent; 23 percent project a 16 to 20 percent drop in the dollar volume of loans closed; and 10 percent expect deal volume to drop 10 percent or less.

On the question of which factor will affect the commercial real estate industry the most over the next 12 months, 80 percent of respondents cited interest rates, followed by inflationary pressures (13 percent), the remote/hybrid work model (3 percent), GDP/job growth (2 percent) and geopolitical unrest (2 percent).

Do you expect the total dollar amount of commercial and multifamily loans closed by your firm in 2023 to increase, decrease or remain the same compared with the level of activity in 2022?



Source: France Media 2023 Lender Forecast Survey

Ground Shifts on Economy

The attitude of survey respondents is clearly being shaped by what's taking place in the debt market and the broader economy. The 10-year Treasury yield, a benchmark for permanent, fixed-rate financing, rose approximately 225 basis points over the course of 2022. The year began with the 10-year yield at 1.63 percent and ended at 3.88 percent.

The Consumer Price Index, which measures price growth for the same basket of goods and services over time, increased 6.5 percent in December on a year-over-year basis, down slightly from 7.1 percent in November and 7.7 percent in October, according to the U.S. Bureau of Labor Statistics.

The latest data from the Mortgage Bankers Association (MBA) helps to further explain why respondents to France Media's 2023 Lender Forecast Survey anticipate deal volume to wane over the next 12 months.

Commercial and multifamily mortgage loan originations decreased 13 percent in the third quarter of 2022 compared with the same period last year, according to MBA's Quarterly Survey of Commercial/Multifamily Mortgage Bankers Originations.

"After a strong first half of the year, rising interest and capitalization rates began to affect deal volume during the third quarter," said Jamie Woodwell, MBA's head of commercial real estate research.

"Increasing yields across investment alternatives — including the 10-Year Treasury yield more than doubling during the first nine months of the year — have shifted property financing and values, and it will take time for the market to fully absorb these changes," explained Woodwell. "Volatility has been equally impactful, making the sizing of transactions extremely difficult. The result has been the first of what may be many quarters of depressed borrowing and lending activity."

Different capital sources have felt the slowdown in different ways, according to Woodwell. Third-quarter originations in the commercial mortgage-backed securities (CMBS) market were down almost 75 percent from a year earlier, while originations by banks and other depositories were 25 percent higher.

"A broad decline in transaction activity is likely to impact all capital sources, although perhaps not equally," added Woodwell.

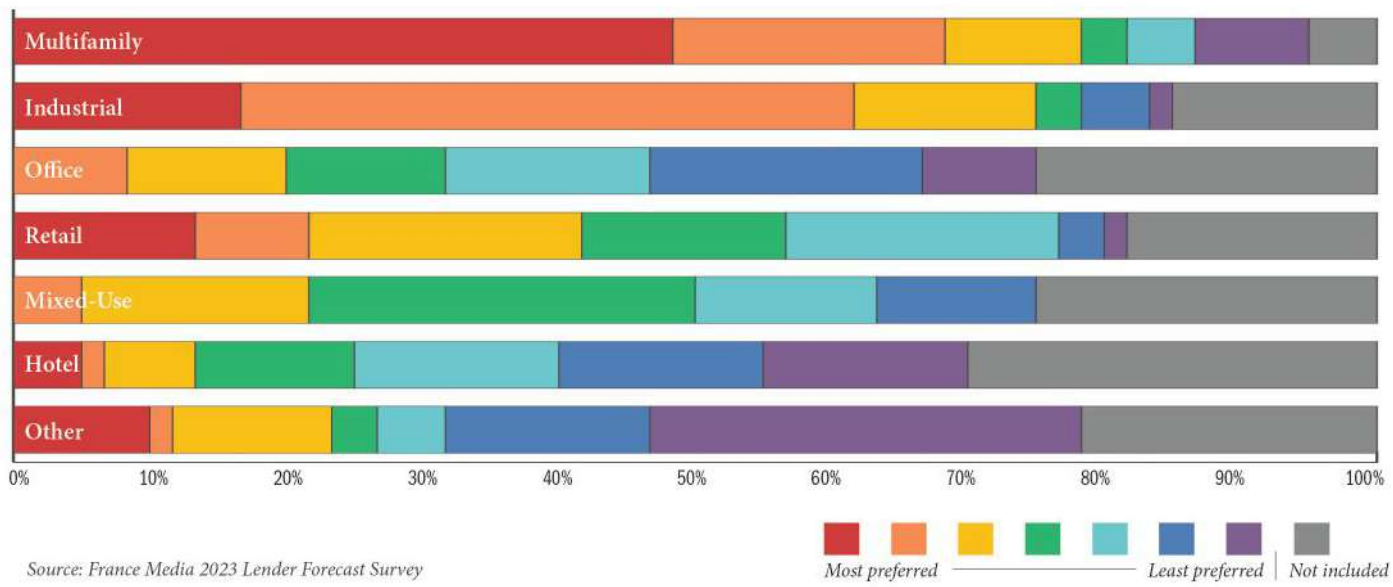
Participants in France Media's lender survey were asked to predict the concentration of lending activity at their firm in 2023. Refinancing is expected to account for 41 percent of lending activity over the next 12 months, acquisition financing is projected to account for 36 percent, construction financing (21 percent) and other (2 percent). The results were quite similar to last year's survey finding.

Respondents were asked which property sectors their company is most interested in financing in 2023. Multifamily topped the list, followed by industrial, retail, mixed-use, office, hotel and other (*see chart below*). Multifamily and industrial properties were the most highly coveted assets among lenders in last year's survey as well.

Bracing For More Rate Hikes

Interest rates have dominated the conversation in the lending community because of their sharp rise in 2022. For example, the Secured Overnight Financing Rate (SOFR), a benchmark used to price debt on construction loans, began 2022 at 0.05 percent. At the close of business on Dec. 30, the SOFR rate was 4.30 percent. Banks typically price construction loans at

What property sectors will your company be most interested in financing in 2023?



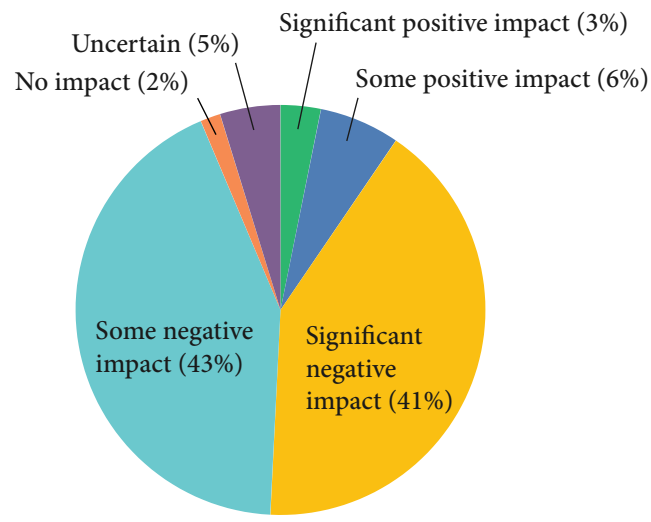
Source: France Media 2023 Lender Forecast Survey

300 to 350 basis points over SOFR, so the all-in interest rate on a construction loan today is about 7.5 to 8 percent.

Nearly 59 percent of lender respondents expect interest rates to increase over the next 12 months, 22 percent indicate rates will remain relatively unchanged, 16 percent anticipate rates will decrease and 3 percent are uncertain. That's not a surprise given that the Federal Reserve is aggressively trying to tamp down inflation to achieve a target rate of 2 percent. The Federal Reserve raised the federal funds rate seven times in 2022 alone and raised it by another quarter-percentage point in February.

Respondents were asked to what extent today's high inflationary environment will have on the commercial real estate industry over the next 12 to 18 months. Forty-three percent indicate that high inflation will have some negative impact on the industry, followed by 41 percent who predict it will have a significant negative impact, 6 percent who anticipate it will have some positive effect and 3 percent who believe it will have a significant positive effect. Five percent of respondents express uncertainty on the effect of inflation on the industry, and 2 percent don't anticipate any impact (*see chart*).

To what degree will high inflation, which is what we're currently experiencing, have an impact on the commercial real estate industry over the next 12 to 18 months?



Source: France Media 2023 Lender Forecast Survey

Survey participants were asked to weigh in on the likelihood of the U.S. economy falling into recession in 2023. Nearly two-thirds of respondents (65 percent) indicate the U.S. economy will more than likely tip into recession over the next year, while 21 percent believe the economy could possibly tip into recession. Another 8 percent predict the economy will more than likely avert a recession, 3 percent say the economy could possibly avert a recession, and 3 percent are uncertain (*see chart on page 30*).

Challenges, Opportunities

The write-in portion of the survey focused on the biggest opportunities and/or challenges facing the commercial real estate industry in 2023. "The greatest opportunity for commercial real estate is to seek out those asset classes that are countercyclical to some degree or have built-in demand drivers in strong performing submarkets that will benefit them if a mild recession occurs and consumers and businesses tighten their belts," wrote Paul Letourneau, commercial originations senior manager with Chicago-based Alliant Credit Union.

Some real estate asset classes that Alliant continues to focus on — and expects to perform well during periods of economic turbulence — include self-storage, multifamily, student housing and manufactured housing communities.

"Housing is a core need in all markets and during any cycle," emphasized Letourneau in a follow-up email. The economic strengths and supply-demand fundamentals within individual submarkets play a big factor in Alliant's pursuits on the housing front, he explained.

"As for self-storage, a historically strong performing asset class in both up and down economic cycles, the

focus should be on underserved and strong population growth areas that have a high residential focus," added Letourneau.

Fred Gibbs, president of Gibbs Financial Group/Banc Capital, based in Spartanburg, South Carolina, wrote that "interest rates will have the greatest impact on the fluidity of commercial real estate transactions. That, coupled with the need to be creative in adopting new and alternative use of space, will drive getting properties vibrant again."

Upon request, Gibbs provided some examples of alternative uses of space. "There are some interesting entertainment-related concepts that fit contiguously within the big box concept. In addition, adapting smaller commercial/retail spaces into open-air food halls is another example."

Daniel Matz, senior managing director with Newmark's Debt, Equity & Structured Finance Group, cited high interest rates and "very high" construction costs, specifically labor, as the main challenges in the near term. In addition, he wrote that "the bid-ask spread between buyers and sellers needs to shrink, and joint venture equity needs to have confidence to do development deals."

Because transaction volume is so thin, it's difficult to determine where cap rates are at in today's market, according to Matz, who is based in Newmark's Miami office.

"If you don't know where cap rates are, and you're underwriting a multifamily development project that is projected to yield an untrended 6 percent return on cost, is that good when the 10-year Treasury yield is 4 percent?

"In the past, one wanted to have a 150 to 200 basis point spread between the untrended return on cost and cap rates," continued Matz. "That [spread] has definitely shrunk, but to what level? Are there better buying opportunities in the public markets? AvalonBay Communities, Equity Residential and other top apartment REITs are trading at 6 percent cap rates, and they own institutional multifamily in core markets. Is that a better use of capital?"

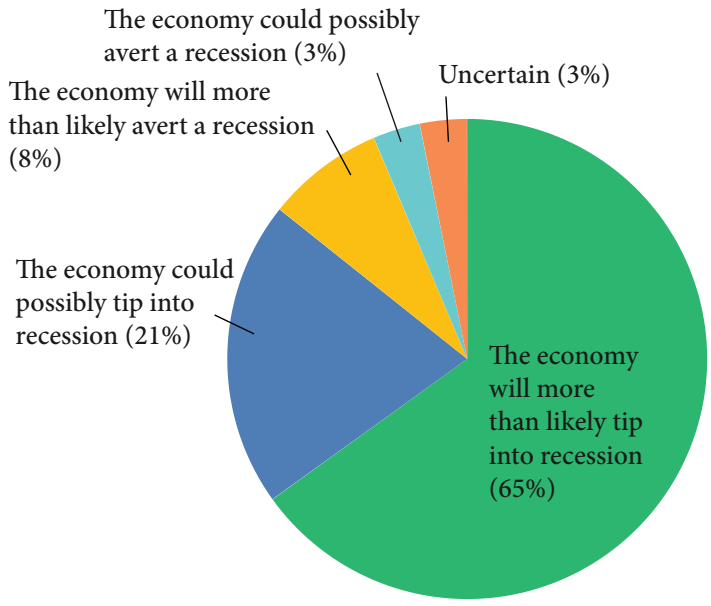
Ashley Wilkens, director and deputy chief underwriter for Hudson Realty Capital, headquartered in New York City, wrote that the entire commercial real estate industry will be challenged by labor shortages, rising interest rates and inflationary pressures in the near term.

"It will be key for companies to be able to think outside the box on solutions to these challenges in order to prosper in 2023," stated Wilkens, who works remotely from her home in New Berlin, Wisconsin, near Milwaukee.

The higher interest rate environment will create opportunities for well-capitalized buyers, said Adam Finkel, principal of Scottsdale, Arizona-based Tower Capital. "There is a healthy amount of money sitting on the sidelines waiting for opportunities, so I do not expect a panacea of deep discounts."

Buyers will need to act quickly to take advantage of opportunities before they are snatched up, added Finkel. "Relationships with local, active brokers will be key. As interest rates level off, more capital will enter back into the market as underwriting assumptions become more certain. When rates [recede], the market will heat up again quickly as more investors become active again." ■

Which statement about the U.S. economy in 2023 do you believe to be most accurate?



Source: France Media 2023 Lender Forecast Survey

About the survey

In November, *Western Real Estate Business* sent e-mail invitations to participate in the annual online survey to three separate groups: brokers; developers, owners and managers; and lenders and financial intermediaries. The survey was held open through mid-December.

Invitations to participate were also included in the *Western Real Estate Business* e-newsletter, as well as through REBusinessOnline.

The broker and developer portions of this coverage are exclusive to the Western region, but the lender portion is national in scope. Nearly two-thirds of respondents to the lender survey identify themselves as a financial intermediary such as a mortgage broker, while the remaining one-third identify as a direct lender.

For questions pertaining to the regional results, please contact *Western Real Estate Business* Editor Nellie Day at nday@francemediainc.com.

SUSTAINABILITY CAN DELIVER VALUE TO OWNERS, INVESTORS & COMMUNITIES

A holistic focus on ESG creates value in affordable housing properties and in the community.

By John R. Williams

In 2008, the Federal Reserve Bank of St. Louis released a paper discussing sustainability in affordable housing, asking if it's "a contradiction in terms." At the time, the Fed noted that issues of perceived risks, lack of documented success, developer capacity and experience created roadblocks to the expansion of green building in affordable housing.

Over the past 14 years, the climate for incorporating sustainable technologies and programs into affordable housing projects has changed dramatically. The reality is that green efforts — in conjunction with effective, holistic environmental, social, and governance (ESG) initiatives — can improve not just the property's performance, but the residents' lives and greater community. This, in turn, strengthens the investment through high occupancy, resident retention and enhanced value.

A 'Green' and Social Focus Equals Better Communities

For the affordable multifamily housing segment, sustainability requires a holistic approach that focuses on the full-life cycle of these assets, as well as the project's role in the community. The owner must consider the environmental and social impacts of the development, starting from due diligence through implementation of improvements and then during the operation of the asset.

For instance, strategic affordable housing owners and operators are increasingly calling upon feedback from investors, residents and employees to help refine the plans for the property. The significant planning and thinking that goes into every project allows for the creation of housing that energizes and supports tenants' well-being.

Based on a people-first approach to buildings, investors should also implement a variety of best practices and protocols to improve indoor air quality management, ongoing cleaning and sanitation procedures, emergency preparedness plans and health services. This enhances the long-term health and safety for residents and team members.

The residents in affordable housing developments are the backbone of many working-class neighborhoods. Improving the health and efficiency of the buildings where they live creates a positive impact in the community.

Data Drives Success

Today's technology and data have made it less expensive (more widely available) to implement and manage green development and operations. Having quality utility data and a data management process are critical to understanding and evaluating building performance. As green investments are made to update building envelopes, appliances and HVAC systems, gains are also made in efficiencies that translate to lower overall energy costs.

> Green efforts — in conjunction with effective, holistic environmental, social, and governance (ESG) initiatives — can improve not just the property's performance, but the residents' lives and greater community.

It is also critical to identify property-specific needs based on the status of a community when it is acquired, as well as its geographic location. For instance, based on data collected, we've implemented various features, such as drip-smart irrigation, drought-resistant vegetation and high-efficiency heating at some of our properties.

Ongoing education of both the staff and residents about the use and maintenance of the property's energy-efficient attributes adds redundancy to ensure the best results. Success in sustainability is not a "set it and forget it" endeavor.

One area where we see room for improvement is that certifications for ESG performance. They currently favor newly built properties over upgraded systems and features at older properties. It is our hope that ESG ratings can be more accurately reflective of the specific property and age. Otherwise, ESG has the potential to "redline" older properties, particularly in underserved communities.

The impact of social programming is also more difficult to quantify. There are many existing data sets and benchmarks to determine cost savings from energy-efficient building systems and other 'green' features, but not so much on the social aspects. ESG benchmark and rating programs give the environmental component more weight than the social within its current scoring format. As a result, many affordable housing communities — which tend to be an older vintage and not of the highest level of construction quality like brand new, Class A — can rank lower, even with exceptional, impactful social programming.

In response, Avanath launched Amplify, an ESG platform that aims to provide measurable benchmarks to set an industry standard for operators and owners within the affordable housing sector. This is vitally important as it allows us to empirically demonstrate to investors which social programs and services are most beneficial.

Sustainability is Profitable

A study by the Atlanta-based Southface Institute and the Virginia Center for Housing Research indicated that green-building-certified affordable housing doesn't cost more to construct and provides benefits in both the short- and long-term.

Our experience supports this. Throughout our nearly $3 billion in affordable housing investments, Avanath has been able to build durable, current income and cash flow for our investors while creating long-term value. This financial success has been achieved alongside investment and practices that deliver environmental sustainability, as well as lifestyle-enhancing amenities and services, while remaining affordable.

Williams

Focusing on a holistic view of sustainability — not just on the building but the entire community — is delivering value for owners and investors, in addition to the cities and neighborhoods where the investments are made.

John R. Williams, President and CIO, Avanath Capital Management in Irvine, Calif.

WILL 2023 BE THE YEAR INVESTORS HAVE TO CHANGE THEIR EXPECTATIONS?

Many commercial real estate investors have been riding high since the Great Recession, but some say current market fundamentals may upend all that.

By Nellie Day

High cap rates and low debt are the things investors dream of. They've also been the reality, in many cases, over the past 10 or so years as the economy, optimism and values continued to climb. Well, they don't call them real estate cycles for nothing. What goes up tends to go down — and that also applies to the economy, optimism and values.

Suddenly, the spread between buyers and sellers widened. Buyers wanted to take advantage of price reductions brought on by inflation, high interest rates and other factors, while sellers were citing comps that were three-plus months old.

This has left us with a delta, along with a few questions. Are sellers in the wrong? Are buyers? Does the industry need a hard reset? Lastly, are there still opportunities for solid returns?

WREB turned to some of the West's most prominent investors to find out.

Dan Blackwell
Executive Vice President,
CBRE

John Drachman
Co-founder,
Waterford Property Co.

John Pollock
Chief Executive Officer,
Meridian

Edward Ring
Founder and CEO,
New Standard Equities

On navigating lingering fear in the current market…

Don't let either fear or greed guide your decisions, but be prudent and smart in how you acquire projects. Sometimes the best deals you do are the ones you don't do. Don't force anything in a market like this.

— John Drachman, Co-founder, Waterford Property Company in Newport Beach, Calif.

On making smart long-term decisions…

Investors can make smart long-term decisions by acquiring well-located assets below replacement costs with positive leverage. This takes patience and diligence. For the most part, we are not seeing positive leverage in the market as in-place cap rates are in the 4 percent to 5 percent range for most assets, while the cost of debt is between 5 percent and 6 percent. This has caused investors to be sidelined until buying opportunities present themselves.

— Dan Blackwell, Executive Vice President, CBRE in Newport Beach, Calif.

On technology's impact on commercial real estate investing…

In the past 20 years, technology assisting in the operations of real estate — and professionally managed alternatives — has improved dramatically such that prior risks stemming from poor transparency, unpredictability or unprofessional operators have largely been mitigated. That said, with lower perceived risks comes lower expected returns. If you look back 20 to 30 years, before the technology boom that's sort of leveled the playing field, expected yields on these investments were significantly higher. But institutional investors have repeatedly traded yield for reduced risk.

— Edward Ring, Founder and CEO, New Standard Equities in Encino, Calif.

On investor expectations…

Sellers are coming to the realization that prices today are not the same as early 2022 and those with pressure from the D's — debt, divorce or death — are meeting the market. Those investors that want outsized returns will have to move up the risk spectrum, acquiring value-add or opportunistic buys. Investors with strong balance sheets and access to debt should find ample opportunities that will prove smart in the long-term.

— John Pollock, Chief Executive Officer, Meridian in Walnut Creek, Calif.

On real estate fundamentals…

Investors navigating the market should dig into the true fundamentals across each submarket that piques their interest. I'm a true believer in making investment decisions based on fundamentals, rather than "technicals." For instance, a fundamental is a thorough assessment of supply and demand for the specific product, while a technical is perhaps that the interest rate on the loan is 100 basis points below the cap rate, and therefore a positive arbitrage exists between the cash flow and the cost of debt. If one is simply looking at technicals, grave errors could easily be made, resulting in a loss of principal. *— Ring*

On alternative investments…

Investors are embracing alternative real estate assets due to the impact of technology on real estate. Traditional large investments in Class A urban office projects or malls have been impacted by technology. Asset classes like lab space, self-storage or data centers appear more attractive as technology has not had as much of a negative impact. In fact, it's probably had a positive impact. As data on alternative asset classes has become more available, institutional investors recognize they have to broaden their investment horizons to get the yields they need.

— Drachman

On healthcare real estate investing…

The resilience of healthcare became evident during the Great Financial Recession and is proving true today. The fundamentals of healthcare remain strong, with an aging U.S. population and their utilization of healthcare as demand continues to outstrip the availability of providers and the real estate where they deliver care. The good news for healthcare real estate owners is that most of these healthcare services are done in an outpatient setting, and hospital systems continue to push more services out of their high-acuity hospitals where procedures are expensive.

— Pollock

On lessons to take from the Great Recession…

Many investors learned the negative side to leverage during the global financial crisis. We also saw shorter hold periods become more common during that time. However, during the global financial crisis, there was not much distress in the multifamily sector in Southern California as there was not much over-leveraging. At that time, we experienced rental rates flatten to drop slightly while cap rates increased. This caused transaction volume to drop substantially. Currently, the market is experiencing similar low levels of transaction volume. The majority of recent transactions in Southern California had moderate loan to values, so I don't expect distress in the market. I believe the best lesson learned from the global financial crisis and in today's market is don't get over-leveraged.

— Blackwell

If you are interested in being a part of our next finance or investment column, please contact
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SAN DIEGO'S OFFICE MARKET WATCHES YOUNG TALENT AT WORK

How the younger generation is impacting office market dynamics in San Diego.

By Tim Helgeson

With San Diego's median age sitting at just 34.9 and only 12 percent of the population over 64, much of the area's workforce comprises younger Millennials and Gen Z professionals. This new generation of workers has a fresh approach to employment, not to mention a unique shared history that's shaped by COVID.

As this younger cohort enters and establishes itself in the workforce, employers expect their office space to help them attract and retain young talent. This expectation is influencing investors' decisions and, in many ways, reshaping the office market in the new normal.

These younger workers will be impacting office market dynamics now and for the next several years in a few different ways:

Accelerated Repopulation of Offices

Many employees got used to working remotely during the pandemic, but there is ample evidence that companies recognize the importance of having their teams in the office. Younger workers are partially driving this trend. In fact, research shows that Gen Z values the office more now than they did before the pandemic.

The truth is, no remote work situation can compare to face-to-face, on-site interactions for onboarding, teaching, mentoring and advancing less experienced team members. Being together with their co-workers at all levels of the organization enables faster learning and career growth. It also promotes company culture in a way that working from home simply cannot.

In certain sectors, such as life sciences, the need to gather is critical. This industry tends to form real estate clusters, particularly in San Diego, with submarkets like Torrey Pines, University Town Center (UTC) and Sorrento Mesa.

Because in-person collaboration is so important, some firms are prioritizing in-office time. This is accelerating the repopulation of office buildings. It also keeps leasing — particularly in the well-amenitized, Class A office spaces — robust now and in the future. This trend is reflected locally in market statistics. A recent Cushman & Wakefield market report found that Class A space has accounted for more than half of the total occupancy gains in the San Diego office market in 2022 to date. Direct net absorption for Class A office was positive in the third quarter. Owners of Class B and C office properties, which did not perform as well, may seek to upgrade their spaces and incorporate amenities that are particularly appealing to this younger workforce.

Rising Demand for State-of-the-Art Technology Amenities

Employees in their 20s and early 30s were raised in a technology-based society. That makes this cohort extraordinarily digitally savvy, learning new software and devices quickly and utilizing them in their everyday lives.

Due to this background, younger workers expect their workplace to have exceptional internet connectivity and the latest technology available to them. It is incumbent upon office owners to provide this for their tenants. From high-speed internet and Wi-Fi throughout the property to smooth hybrid conferencing capabilities, office users are looking for properties that deliver these amenities.

Helgeson

Recognizing this trend led our company to achieve WiredScore certification for numerous office assets in our portfolio, including properties in California. Technology will continue to be a top consideration for forward-thinking office owners eager to meet the needs of companies that want to recruit and retain Gen Z workers.

Increased Focus on ESG

Gen Z is one of the most socially conscious generations in today's workforce. As such, environmental, social and governance (ESG) issues are top of mind in every aspect of their lives, from the products they buy to where they work. This is especially true of the younger people living and working in San Diego, who may have been drawn to the area because it is considered a top green city in the United States.

Understanding this connection is leading many firms to adopt ESG initiatives that impact where they lease space. Consequently, they are seeking space in office properties run by owners that are committed to reducing their carbon footprint and conserving natural resources; have policies that promote diversity, equity, and inclusion; and clearly demonstrate fairness and the highest level of integrity in their business operations.

With the younger generations comprising an increasingly larger share of the workforce, landlords who establish and follow ESG principles will benefit from the rising demand for office space that reflects those principles. This is one of the reasons KBS recently established a dedicated Green Team run by an ESG manager, as a proactive strategy to drive our firm toward a sustainable future.

As the business world makes room for its youngest workers, office dynamics are shifting in San Diego, as well as throughout the country. Trends like accelerated repopulation of office space, a desire for state-of-the-art technology and an increased focus on ESG will inform the office sector in markets with younger populations like San Diego for years to come.

KBS's Sorrento Towers is a two-building, Class A office asset in one of San Diego's top life sciences hubs, Sorrento Mesa. The property offers easy access to Torrey Pines, University Town Center and the University of California San Diego, Del Mar Heights.

Tim Helgeson, Senior Vice President and Asset Manager at KBS in Newport Beach, Calif.

PROPERTY TAX IMPLICATIONS FOR MALL REDEVELOPMENTS

Legal covenants often cause excessive property taxation for mall owners that are looking to redevelop.

By Morris Ellison, Esq.

Ellison

The repurposing of malls and anchor stores is a popular topic in community development circles, but legal restrictions make redevelopment extremely difficult. Often locked into their original use by covenants, malls and anchor stores are often grossly over-valued for property tax purposes.

In pursuing a redevelopment, taxpayers should ensure the properties are fairly assessed and taxed.

Debilitating Obsolescence

It is difficult to overstate the plight of malls and department store anchors. Gone are the halcyon days when the mall was everyone's shopping destination. There is even a website, www.deadmalls.com, devoted to failed malls. Credit ratings of most anchor store operators have fallen below investment grade. Commentators usually blame the retail apocalypse on e-commerce and shifting consumer spending habits.

COVID-19 exacerbated these trends and mall foot traffic has been slow to recover. Some chains, including Neiman Marcus and JCPenney, have filed bankruptcy. E-commerce volume surged in 2020 and 2021 before tapering in 2022. To date, e-commerce and brick-and-mortar sales have not yet reached an equilibrium.

One in five American malls have fully closed and remain "zombies" without a redevelopment plan, estimates Green Street Advisors, a commercial real estate analytics firm. A December 2022 article from *The Wall Street Journal* that detailed the "long death" of the White Plains Mall noted there is no shortage of dying malls. The article observed that converting enclosed shopping centers to other uses remains a "difficult feat." Repurposing, while much-discussed, has not really happened.

The question is why. The answer relates, at least in part, to legal challenges inherent in changing the property's use.

Tied Hands

Any property valuation begins with a "highest and best use" analysis. A basic assumption about real estate directs that the price a buyer will pay reflects that buyer's conclusions about the property's most profitable use. Competitive forces within the local market shape a property's highest and best use, but that use must reflect practical and legal restrictions.

Many people incorrectly assume that governmental requirements pose the only legal restrictions on use. Zoning ordinances may impose barriers, owners of neighboring properties may object to redevelopment proposals, or there may be other hinderances to changing the property's use.

Zoning limitations pale in comparison to restrictions in recorded easements and unrecorded operating agreements between mall owners and anchor department stores. While zoning may permit non-retail uses, private agreements generally do not.

Malls would be economically unfeasible without department stores and inline stores that symbiotically drive traffic to each other. Generally, anchors own their pads and inline tenants lease space from the mall owner. A typical mall is subject to two levels of private restrictions designed in an earlier time period to promote the efficient functioning of the mall for retail stores.

Recorded operating restrictions or restrictive easement agreements (REAs) impact the entire mall and its anchors and are generally binding for 40 years or longer. Typically, substantive amendments to the REA require the consent of all parties, and their economic interests are not always aligned.

Unrecorded operating agreements govern the relationship between individual anchors and the mall owner. Terms typically address tenancy, hours of operation, required years of operation under a specified tradename and the size of each anchor and the mall. Operating agreements also generally restrict the size and construction of improvements on the anchor pad and regulate usage.

A simple example involves anchors using stores as a delivery point for e-commerce, a concept known as buy online, pick up in store (BOPIS). Many REAs and operating agreements severely limit implementation of this concept.

But what if the mall's highest and best use is no longer retail? E-commerce and changed consumer practices undermine the REAs' and operating agreements' ability to ensure the property's success, but those private agreements are understandably focused on preserving retail usage.

The common party to these agreements is the mall owner, making it the logical purchaser when an anchor looks to sell. The potential economic return on any proposed redevelopment must be sufficient to encourage an entrepreneur to take the redevelopment risk for the mall and/or anchors.

Legal risk escalates the economic risk. For example, owners of some anchor properties seek conversions to multifamily or industrial use as salvation from the "retail apocalypse." Even if they overcome zoning objections, attempts to change REAs and unrecorded operating agreement restrictions may require unanimous consent among owners with competing economic interests.

The anchor pad may not even be worth its unimproved land value since its use is restricted to retail under the REAs and operating agreements.

Property Tax Implications

While mall owners and anchors struggle to remain viable in the changed retail environment, ad valorem property taxes pose an immediate challenge. Most states value property as what a willing buyer would pay to a willing seller, but the glory of malls and anchors before e-commerce generally encourage high property tax valuations.

Assessors performing an income-based assessment seldom recognize how anchor chains' plunging credit ratings affect value. The sales-comparison approach is equally challenging, as anchor property transaction volume has plummeted since 2006.

Most sales involve a change to non-retail use and thereby require unanimous consent. Consent is easier to obtain when the new use increases foot traffic to the remaining inline tenants and anchors, but it is easy to envision anchors holding the process hostage in an attempt to force the purchase of their failing stores.

REAs and unrecorded operating covenants make calculation of an anchor's value extremely difficult. They also call into question the comparability of previous transactions to repurpose anchors in the same mall, since those anchors may have agreed to one specific new use but may object to another.

REAs and operating agreements often hamstring mall and anchor redevelopment. Most were signed before e-commerce and did not envision retail losing its vitality. The parties to these covenants often have divergent economic interests and perspectives, and the natural party to lead redevelopment — the mall owner — must overcome these hurdles.

In the short term, however, owners should address highest and best use with assessors to reduce property tax burdens until their zombies can be brought back to life.

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BORROWERS SEEK FLEXIBILITY AMID VOLATILE LENDING LANDSCAPE

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capital stacks, such that the impacts of numerous interest rate hikes can be minimized. For those that can afford to do so, the simplest solution is also the most effective: just sit tight.

"The 'hurry-up-and-wait' strategy is still relatively rampant, especially with borrowers that are institutional companies," says Igor Zhizhin, president at American Street Capital, a Chicago-based mortgage banking firm.

"For clients that are in floating-rate products and feel comfortable with a potential addition of 75 basis points and are pursuing a sale or refinancing in the next 12 months, we advise avoiding the urge to refinance for the next six to nine months," he continues. "For those with loans that are set to mature in the next six months and aren't willing to take on floating-rate interest risk, we suggest refinancing into two- or three-year fixed terms."

Zhizhin points out that for highly liquid borrowers, simply doing nothing for the next 12 months is better than attempting to refinance into long-term fixed solutions in anticipation of more rate hikes in the future. That's because the majority of fixed-rate loans carry exorbitant prepayment penalties.

By enduring some pain in the short run, borrowers hope to put themselves in positions to secure long-term, fixed-rate debt in 18 months or so, when rates have presumably come back to earth. Zhizhin refers to this solution as "mini-permanent debt," which is designed to give most — not all — borrowers opportunities to simply remain on the sidelines.

"Over the long run, especially for borrowers whose business plans have timelines of seven years or more, the benefits of eliminating interest rate risk by refinancing now are really going to come home to roost when rates come back down," explains Zhizhin. "Getting a 10-year, fixed-rate loan today would likely be in the mid- to high-6s. You have to weigh that against starting in the mid-5s in one to two years and not being able to get out of it without a hefty and prohibitive prepayment penalty."

"Everyone is pushing for fixed-rate debt with bank balance sheet or fixed-rate life insurance products versus conduit financing with defeasance or yield maintenance and structured prepayment," concurs Charles Penan, executive vice president at Aztec Group, a Miami-based intermediary. "There's always some debt maturing and some transactions happening. But unless an owner has an acute need to transact today, we're advising them to wait. The question is for how long?"

"Based on our conversations with lenders, we do expect rate hikes to plateau or even decline by the end of 2023 — though that doesn't mean spreads will go down," Penan continues. "So, if a borrower is comfortable at a 6 percent interest rate, we advise the borrower to roll with it, because nobody knows what the future holds."

When Waiting Isn't Feasible

To hedge against market volatility, borrowers that are not able to simply "wait it out" must be willing to accept equity infusions or shifts to short-term debt structures. That means giving up a percentage of ownership of an asset or paying higher interest rates over the next 12 to 36 months.

But that willingness to be flexible in the short term could save millions in interest payments later down the line. Further, outside of those basic avenues of relief, borrowers have little recourse but to sell their properties, presumably at discounted prices in some cases. Otherwise, they risk defaulting on their loans and possibly going into foreclosure.

"We are seeing and hearing about recapitalizations and restructurings. We expect to see more of that in the coming months as a lot of borrowers can now foresee a need to address those scenarios," says Ross Pemmerl, chief credit officer at UC Funds, a Boston-based lender that primarily plays in the value-add multifamily space.

"Across the board, leverage on permanent takeout loans will be less due to higher interest rates, which creates gaps in the marketplace," continues Pemmerl. "Borrowers facing maturities will need to explore some different capital solutions from that permanent execution they had originally envisioned. An infusion of mezzanine debt or preferred equity will likely be two popular avenues to fill that gap, but we should also see a sharp increase in shorter-term, bridge loan executions utilized to ride out the current market."

Ben Kadish, president and founder of Chicago-based Maverick Commercial Mortgage, agrees that demand for short-term financing is currently driving deal volume across the commercial real estate lending arena.

"There's a lot of money being raised to provide that type of gap financing between the first mortgage and the new loan," says Kadish. "But you still have to pay debt service, and cash flows are tight right now for a lot of owners."

"At the same time, these owners aren't going to try to refinance until they're at risk of default or foreclosure," Kadish continues. "So, they have to bring new equity to the table, even if they're able to keep the property. This could come from their own pocket, a capital call with investors or by bringing in a new source of preferred or mezzanine equity."

In essence, many borrowers are seeking short-term, fixed-rate debt vehicles so they can live to fight another day. Fixed-rate debt is not as abundant as it has been in the past. So, to replace that, 2023 could be the year for bridge lending, sources say.

Sonnenblick-Eichner Co., on behalf of Woodside Hotel Group, has arranged $11.75 million of non-cross collateralized, fixed-rate, first mortgage financing for The Lodge at Bodega Bay in Bodega Bay, Calif. Proceeds from the loan paid off an existing bridge loan facility and provided for a return of partnership equity. The boutique resort offers 83 guestrooms, 6,285 square feet of indoor and outdoor meeting space, as well as the Sonoma Coast Spa and Fitness Center.

"The bridge lending community has a great opportunity right now in terms of helping borrowers with cash problems with assets that are not heavily levered — even if they are more conservative in their under-

writing than they have been in their past," says Kevin O'Grady, managing director at Concord Summit Capital, a Miami-based intermediary.

O'Grady cautions, however, that the opportunities behind this trend could fluctuate significantly from market to market.

"Bridge lending is built around the soundness of the exit strategy, and exit cap rates are still very strong in certain markets and asset classes," he explains. "You have to have some courage to go this route because you're basing your model on exit-strategy values. You must believe that cap rate expansion will be minimal in markets that are still demonstrating strong demand, such as Sun Belt states and the Southeast."

However, while bridge lenders tend to provide the term length — one to three years — that borrowers currently want, these debt providers charge significantly higher interest rates that also frequently have floating-rate structures. As such, there are some solvency concerns surrounding bridge loans that were originated prior to the onset of severe inflation and that are maturing this year.

"On the multifamily side, there's a lot of chatter about what will happen to deals that were purchased in the last 24 months with high-octane bridge financing," says Jeff Erxleben, president of debt and equity in Northmarq's Dallas office. "Today, the interest rate on a bridge loan for a multifamily acquisition is probably 300 to 400 basis points above SOFR (Secured Overnight Financing Rate), contingent on leverage, and that's a significantly more expensive cost of capital."

ACRES Capital Corp. originated a $10.5 million loan to fund the acquisition and predevelopment of proposed student housing development 2538 Durant Ave. in Berkeley, Calif. The new development will replace the existing 12-unit apartment building with an eight-story student housing complex with a total of 270 beds across 83 units, along with 5,000 square feet of commercial space at the ground level.

Negative Leverage Prevails

About a year ago, SOFR became the new index by which loans with short repayment periods, including bridge and construction financing, were priced. At that time, the base rate was close to zero; at the time of this writing, it stood at roughly 4.3 percent. As a result of this movement, some borrowers now find themselves negatively leveraged on properties they bought or developed 12 to 24 months ago.

"A lot of buyers [12 to 18 months ago] got floating-rate bridge loans with 80 percent loan-to-value ratios for one or two years that they planned to take out with Fannie Mae/Freddie Mac loans or CMBS debt," explains Kadish. "But the interest rates on those bridge loans doubled from 4 to 8 percent. Borrowers only targeted returns on these deals of 4.5 to 6 percent, so current owners today are now into negative leverage."

Even for Class A multifamily properties in high-growth markets with healthy in-place cash flows, it's simply not realistic in this environment to underwrite exit cap rates above 6 or 7 percent — the effective interest rate on many of those loans. As such, the borrower's all-in interest rate exceeds its exit cap rate, which is the definition of negative leverage.

"Part of why the investment sales market has slowed down is that a lot of deals got done at negative leverage," notes Rich Martinez, head of agency lending production at New York City-based Greystone. "If you're a buyer, you know what your costs of debt and equity are, but sellers are still holding out for lower cap rates from a year ago. Now we're in a period of waiting and discovering where the market is and if it's settled."

Sources say that negative leverage is a more workable scenario when a deal has a clear value-add angle. At this point in the cycle of rate hikes, lenders simply do not believe that the kind of rampant, double-digit rent growth that prevailed in 2021 and early 2022 for stabilized properties can be achieved without a value-add component.

"While you can look at some modest level of rent growth on a bridge loan, whether it's a project in lease-up or a value-add deal, the days of underwriting to 10 to 15 percent annual rent growth and expecting interest rates to be the same for the life of the loan have passed," says Martinez. "In the past, people were ecstatic to be able to underwrite 4 percent annual rent growth. The recent years where we saw owners get 15 to 20 percent rent growth on renewals — that's not normal, and it eventually reverts back to the mean, as we're seeing now."

"As far as how underwriting has changed from a debt perspective, there's less reliance on pro forma rents that trend too aggressively," adds Erxleben. "If you're making physical improvements that result in direct monetary changes to underwriting, that's one thing. But if you're just saying that the market will lift 10 percent [on rental rates], which was real in the past — you're not getting away with that today."

For borrowers, these shifts in assumptions brought on by interest rate escalation make it very difficult to accurately underwrite exit cap rates at positive leverage.

"If you're borrowing today, your

Parkview Financial has provided a $35 million senior construction loan to a venture between The Ratkovich Co. and Jerico Development for the development of West Harbor, a 42-acre multi-tenant festival retail center located along the Los Angeles waterfront in San Pedro. Completion is anticipated for 2024. (Rendering courtesy of Studio One Eleven)

JLL Capital Markets has arranged $51.8 million in construction financing for the development of Ativo of Albuquerque. The three-story building will feature 144 independent living, assisted living and memory care residences for seniors. JLL represented the borrower, Link Senior Development LLC, in securing the financing through an undisclosed lender.

best-case scenario in terms of exit cap rates is 5.5 to 6 percent because that metric has to at least equal your cost of capital today," explains Penan. "Investors might be able to buy a multifamily property at a 4.5 percent cap rate, but no lender is underwriting at that cap rate, which is a big issue in terms of exit strategies.

Compare that to just two years ago, when there were no debt-service coverage requirements because every loan made sense at 4 percent with 1.35X debt coverage."

Dying on the Vine

Unsurprisingly, the ability of owners to be flexible and adapt to market conditions depends on how much time and liquidity they have. Those metrics can vary greatly among the various profiles of commercial borrowers.

REITs and private equity firms, for example, tend to have the luxury of immediate access to capital to materially pay down or pay off most obligations. But the majority of noninstitutional investors have to aggressively manage cash flows, particularly in an inflationary environment.

Volatility further exacerbates the construction and closing of these deals. There's no guarantee that the initial loan terms a borrower receives will resemble the final commitment offer that a lender puts forth.

"During the past six months, we've seen borrowers go under application at a certain rate and level of proceeds. Then, barely 30 days later — which is a historically nominal period of time in which rates are sticky — you have 50 to 60 basis points of movement," says Zhizhin. "That completely kills deals."

The equity side of the market also contributes to deals collapsing.

"Equity sources have thresholds for returns. Whatever the specific fund is looking to achieve is harder to do today — period," says Penan. "To make investors more comfortable, you have to change your assumptions and hope that they're correct. Otherwise, you have to be realistic and recognize that yields are not as easily manipulated as they once were."

The challenges of securing equity-based recapitalizations and solutions stem from the seismic shifts on the debt side of the market, sources say. Because interest rates were so low for so long by historical standards, deals simply worked more seamlessly. The range of assumptions — or the flexibility of the underwriting standards — made it easier for the numbers to pencil out when all-in interest rates hovered around 3 percent.

Now that the bottom line of all parties is stretched by inflation and skyrocketing costs of capital, underwriting these same deals such that lenders and borrowers both feel comfortable with the execution is a much more daunting task. This trend reflects the broader uncertainty in the market that appears set to suppress deal velocity and volume this year.

"The interest rates are one thing, but when you've got this scenario in which the [lending] community can't understand where values are going until they know that inflation is under control, you don't know what your asset is worth and whether it can service the debt in a rising interest rate environment," says O'Grady of Concord Summit Capital.

At the same time, sources say that some equity sources view the current landscape through an opportunistic lens.

"In the first six to eight months of this year, we should see more equity-infused refinancings in which borrowers aren't achieving the permanent takeouts that they wanted and maybe had gotten in previous times," says Pemmerl of UC Funds. "Now, many of these borrowers will actually be forced to find new equity to bridge the gap on that refinancing, whether it's self-injected or from an outside source."

"The equity capital is still out there looking to invest — it's just waiting for more stability," concurs Erxleben of Northmarq. "We don't see a huge wave of defaults building in 2023, though there will be opportunities to recapitalize by bringing in senior debt or preferred equity to solve refinancing scenarios. That sort of restructured financing solution could be a theme in 2023." ■

DIV INDUSTRIAL TAKES A NEW APPROACH TO INDUSTRIAL INVESTMENT

INDUSTRIAL from page 1

WREB: How did the idea for DIV Industrial come about?

Nicholas Ilagan: DIV Industrial is a minority- and woman-owned industrial real estate development and investment firm focused on prioritizing DEI and implementing responsible ESG practices within its industry.

The impetus for the firm's founding came together in 2022 when DIV co-founder, Jessica Quesada, and I recognized an opportunity bring a fresh methodology to industrial real estate and enact change within the sector. The basis of the firm derives from our combined personal commitment to social responsibility and environmental stewardship.

WREB: What are you looking to achieve with this new company?

Ilagan: We created DIV Industrial with the intention of shaking things up within the industrial real estate industry while operating in line with our guiding principles. These focus on sustainability, creating and fostering deeper partnerships, driving decision-making from data and research, and doing everything with excellence. While DIV aims to turn heads, we are building for the betterment of the environment, our industry and its people. This begins internally as a firm and extends outward in working with our partners, peers and industry stakeholders.

DIV is building a portfolio of institutional investment-level industrial assets, all of which will achieve LEED certification and meet national sustainability requirements within select Western and Southwestern U.S. markets.

We are proud to be underway on our first project, El Dorado Valley Logistics Center. At completion, this will be a new, best-in-class, LEED-certified, 1.7-million-square-foot logistics development in southeast Las Vegas. The state-of-the-art facility will serve a new generation of distribution and logistics tenants with the highest efficiency building specifications. It will also provide an alternative, efficient connection point between major regional logistics hubs, including Southern California's port markets. Project groundbreaking is planned for the second quarter of 2023, with completion anticipated in the third quarter of 2024.

WREB: What made you focus so heavily on DEI, ESG and sustainability? Why are these elements important to you?

Ilagan: Embracing an ESG policy as a company is the basis for our culture. One that revolves around diversity, corporate governance (as a fund manager), and each of our developments and business practices focusing on sustainability.

Commercial real estate is historically known as a slow adapter to modern social and business practices. As co-founders, Jessica and I believe wholeheartedly in DIV's mission, which is to reframe and redefine how people interact in our industry, one handshake at a time. We are both minorities who have experienced success working for leading corporations in a predominantly homogeneous industry. As we progress into the next chapter of our careers in industrial real estate, it's important for us to support other women and people of all backgrounds in the advancement of their careers and business endeavors.

In terms of sustainability, we care about our planet and are passionate about leaving as small of an environmental impact as possible. Through our commitment to achieving LEED certification in all our developments, DIV is incorporating modern building designs, methods and materials that streamline the building process and create a healthy workplace for our tenants over the long term.

We are at a pivotal point in industrial real estate. The sector as a whole is experiencing an increased demand for sustainability-focused assets. Institutional and largescale investors are seeking more investment opportunities with integrated ESG programs, and Fortune 1000 tenants are in need of state-of-the-art, high-efficiency warehouse/distribution facilities that enhance their operations and also meet global/national sustainability requirements. However, large big box industrial developments that are LEED-certified are rare or nonexistent in certain markets. With DIV Industrial, we are leveraging our combined honed skillsets to create assets that meet the heightened demand and stand apart from others in the marketplace.

WREB: How do you view the industrial market out West right now?

Ilagan: Undoubtedly, we are at an interesting point in the economic cycle. While the debt and capital markets are slowing, tenant demand for big box industrial warehouse space, particularly in and around the port markets, is thriving.

National reports indicate a balancing of market fundamentals. However, vacancy rates in the West remain at historic lows. The need for additional modern logistics facilities in many Western markets is supported by population growth, as well as consumers' continued reliance on ecommerce and the critical role West Coast ports play in the national logistics supply chain.

Ilagan

There are several Western markets, such as Las Vegas, Salt Lake City and Phoenix, that continue to experience population growth and offer a strong labor pool. These factors, combined with other regional characteristics, present opportunities for investment and growth.

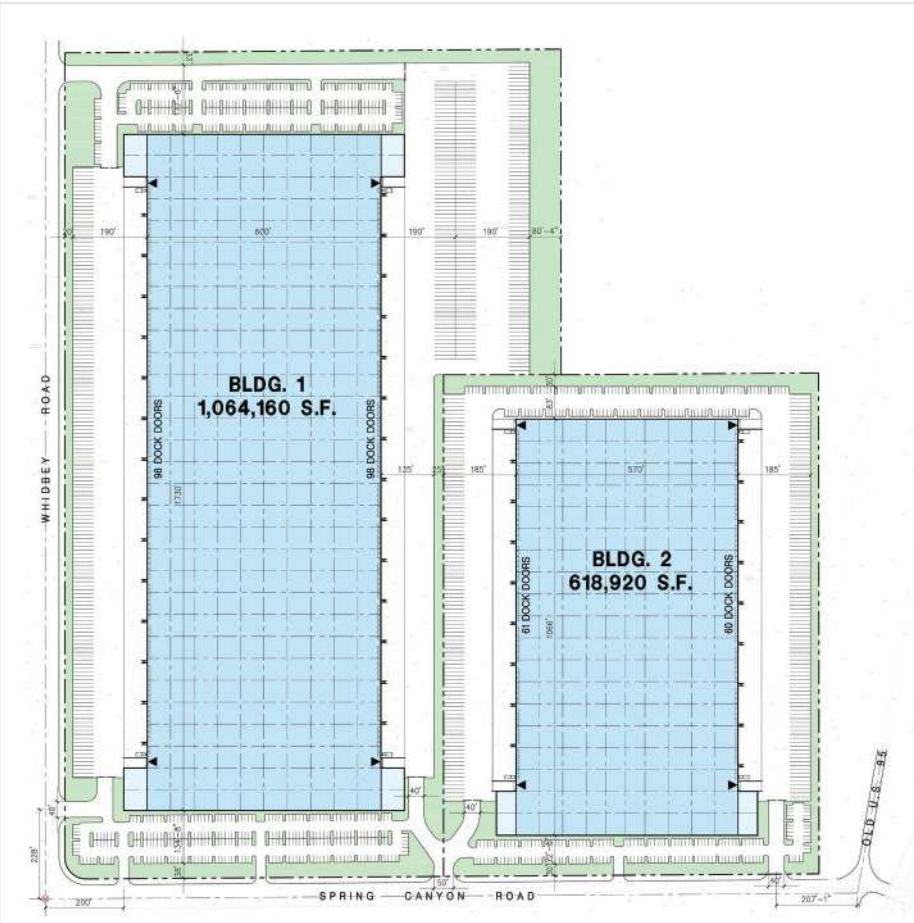
WREB: Where do you see opportunities out West for industrial?

Ilagan: DIV Industrial is seeking large parcels of developable raw land for entitlement and ground-up development. Our criteria include sites that are proximate to a strong labor force and accessible to the Western port markets. We are also looking at areas that are land constrained and may feature some development challenges. Our team has a wealth of experience developing complicated sites, and we take a creative approach to solving building issues. We don't shy away from a challenge, as long as the site fits within our investment criteria.

We are finding these types of opportunities primarily in the Las Vegas, Salt Lake City, Southern California and Phoenix markets, centrally and in fringe locations. However, we are currently making offers on land in seven other markets.

Through our existing broker relationships, we secured the site for DIV's first development in a recently annexed part of Henderson, Nev. El Dorado Valley Logistics Center is located in an unestablished part of the Las Vegas MSA that is accessible to a largely untapped labor pool in the southeast region. Once complete, the development will provide a new, alternative and efficient connection point between major regional logistics hubs, including Southern California's port markets. The project fits squarely into our strategy and exemplifies what we a looking to achieve as a firm.

As we add more assets to our portfolio in the next 12 to 18 months, we are bullish on Las Vegas and other Western regional markets that show strong fundamentals with consistent population growth, significant land constraints for big box development and historically low vacancies. ■



DIV Industrial's El Dorado Valley Logistics Center in Las Vegas will serve a new generation of distribution and logistics tenants, while providing an alternative, efficient connection point between major regional logistics hubs. It is located in an unestablished part of the Las Vegas MSA that is accessible to a largely untapped labor pool in the southeast region. Project groundbreaking is planned for the second quarter of 2023, with completion anticipated in the third quarter of 2024.
(Site plan courtesy of HPA Architects and DIV Industrial)

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