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ORANGE COUNTY

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# Three Things to Know About Capital Markets

**Butler Burgher Group (BBG)** is hard to miss these days. With **21 offices nationwide**, BBG still offers **personalized attention** through a single point of contact, and a **sole focus on valuation, advisory and assessment services**. [Learn more here.](#)

Remember the **interest rate uptick** early this summer? Just a **hiccup**. Lenders held their breath and then got back to commercial real estate deals as **eagerly** as before--if not **more**, experts tell us.



The debt markets have maintained a **positive tone** since Labor Day, and that's going to continue into the next year, Mission Capital Advisors director **Gregg Applefield** tells us. **Banks**, flush with **cash**, are eager to deploy it. (So get friendly with a bank before the holidays so you get on its gift list.) **Insurance** companies are telling the market they're likely to **increase their allocations** next year. **CMBS** has rallied since the summer and continues to experience significant demand in a yield-starved environment.

2) Competition for deals has heated up.



"The number of banks, life companies, and CMBS lenders actively **competing** to win **permanent financing** requests has consistently increased month-by-month since the beginning of the year," Talonvest Capital principal **Eric Snyder** tells us. "I expect that this will **continue** well into 2014." The deals aren't necessarily vanilla, either. Recently Irvine-based Talonvest oversaw **\$116M** in 10-year loans in the low 5% area secured by **self-storage properties** in Illinois, Florida, and Georgia. (That's more of a rum raisin deal.) The financing was provided by a New York-based commercial real estate finance company.

3) New players are jumping into the game.



"There's also been an **influx of new entrants** to the transitional lending market, including credit companies, debt funds, and mortgage REITs, which has driven down **spreads** materially for transitional properties," Gregg says. Similar to the debt markets, he expects **equity markets** to continue to remain strong. That's because an abundance of global capital is eyeing US real estate for some **sweet yields**, especially when compared to most other investments. Recently Gregg relocated to the company's Newport Beach office, as part of the company's West Coast expansion.



**Multifamily loan auctions** are all the rage for both **GSEs** and the **private sector**, Auction.com EVP and managing director of global commercial real estate **Ken Rivkin** tells us. The high-quality, seasoned loan portfolios typically come from portfolio lenders **rebalancing their portfolios**, including depositories, REITs, insurance companies, money managers, and select funds, he says. Irvine-based Auction.com was just tapped to sell **447 performing multifamily loans** with an unpaid principal balance of **\$601.3M**. (So the stakes are a little bit higher than bidding on an Iggy Pop bootleg CD on eBay.) The portfolio: 7.5% fixed-, 92.5% floating-rate; and an average current balance of \$1.3M. The loans are secured by 465 properties (18,456 units) in 23 states, with 60% in California and 11% in Texas.



Attractive due to the loans' seasoning, amortizations, and coupons, Ken says, this pool comes online on the heels of **Freddie Mac's first multifamily bulk loan sale**. The GSE sold **27 performing mortgages** (tied to multifamily, student housing, and assisted-living facilities) with an unpaid principal balance of **\$195M** to an affiliate of **Colony Capital**. Multifamily loans are viewed positively because of the asset class's **low volatility**, he tells us. Other income-producing properties like office and retail typically have **fewer tenants**, thus a higher concentration of **credit risk** from tenant defaults. And for that reason, vacancy spikes are usually less pronounced in apartments due to lack of tenant concentration, Ken explains.



## OC Office Market Loses a Little Steam



Orange County office **leasing decreased** the past several quarters and net **absorption was down**--but not negative--in Q3, with average asking rents remaining stable and actually increasing in certain areas, Transwestern managing SVP **Liz Hurley** tells us. According to Transwestern's Q3 OC office report, total **net absorption** for the third quarter was just over **100k SF**, the lowest amount since Q1 '12. There are signs of downsizing in the mortgage industry, which, coupled with major move-outs, will contribute to continued decline in net absorption during Q4.



"In the third quarter, Class-A product experienced an **increase in asking rents** due to the continued **flight to quality**, which we anticipate should continue through the end of the year," Liz says. (Everybody likes nice things.) Even so, overall **market fundamentals** will probably **improve** over the next few years, as the underlying economy improves, especially through employment growth. Also, the decreasing number of distressed transactions point to an **improving sales market**. With money cheap, growing companies are looking hard at buying rather than renting, such as the recent purchase of **1761 E Garry Ave** in Santa Ana (pictured) by Partner Engineering and Science. CBRE SVP **Michael Kenndall** repped the buyer in the deal.



Go ahead, take a walk on the wild side. RIP, Lou Reed. Send ideas and suggestions to [dees.stribling@bisnow.com](mailto:dees.stribling@bisnow.com).

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