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Banks Starting to Lend Again on Local Apartment Complexes

REAL ESTATE: Owner-Occupied Commercial Property Sales Also Starting to Thaw

By Mark Larson

Apartment complex sales have begun to show signs of life in San Diego County, as banks are beginning to show more interest in making loans to sell distressed properties. But banks, rattled by a shaken economy, are also being extra picky about who they lend to, giving much more rigorous scrutiny of prospective loan recipients' financial stability than in past years.

Darcy Miramontes, a Grubb & Ellis/BRE Commercial broker specializing in apartment/condominium sales in San Diego, says the market thaw began at the end of the third quarter in September and is continuing in this quarter.

She just closed two apartment/condo complex sales, one in September and the other in October.

"Banks are increasingly motivated to do something with the (apartment) assets they own," says Miramontes, by working out loan deals with borrowers. This comes after months of no action on such properties.

And although banks are open to making loans more than in recent months, she adds, "There's exceptional focus on borrower qualifications. They look at every property in a buyer's portfolio to see how they're doing."

From the first half of 2008 to the first half of this year, apartment sales dropped about 75 percent in San Diego County.

Miramontes attributes the market freeze to a dearth of financing.

No Hurry To Finance

While such deals could be financed through Fannie Mae and Freddie Mac, the financial stability requirements of those federal lenders discouraged the market. And banks, the other alternative for such loans, weren't in any hurry to finance apartment deals either.

But Miramontes' two recent sales show banks are warming to financing apartment complex deals.

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One was a bank-owned complex that a bank financed at a lowered selling price. A small regional bank financed the other sale.

One of the sales was Stoneridge by the Lake in La Mesa, which had an original \$13 million loan, and \$4 million worth of improvements. The loan went into default. The bank then sold the property for \$6.68 million. The buyer provided an undisclosed amount of equity and got a loan from the bank for the balance, says Miramontes.

Buyers of apartment buildings, she says, are typically syndicated funds, family trusts or partnerships. These days they're interested in apartments that generate cash flow as a reliable investment, says Miramontes.

In past years, gaining appreciated value was the main investment attraction. And with loans looking more attainable than in recent months, and an economy showing new signs of life, there's a rekindled interest in buying.

"There is a feeling the market has seen the worst here in San Diego," says Miramontes. "People feel it's turning around about now. We've gotten a lot of calls from owners, sellers and banks. Before it was a 'wait and see mode.' Now there's more activity."

San Diego is a prime market for apartment investment, says Miramontes, because there are barriers to competition from more apartment development such as high land costs and few new complexes.

There is a large pool of renters in San Diego practically filling all available apartments. The local vacancy rate is one of the lowest in the country at 5.7 percent.

More Deals Expected

While sale prices for apartments will be lower than in past years, Miramontes expects more deals through next year.

Meanwhile, there are peak buying conditions for small businesses needing industrial and office space, says Randall La Chance of Voit Real Estate Services' local office.

"If you're a small-business owner today, I have not seen a better time to buy a building in the last 10 to 12 years," said La Chance.

La Chance says there is a lot of choice among available properties, the market is 25 percent to 30 percent off peak pricing and U.S. Small Business Administration loans are easy to get with 10 percent down. Also, says La Chance, the cost to own

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is now equal to cost to lease. Previously, it had been less costly to rent space.

Ruben Garcia, district director of San Diego's SBA office, says the past six months have seen a 61 percent increase on SBA loans over the previous six months. The key, he says, is a return of local banks to SBA lending, which had been all but idle in recent years.

Standard SBA business loans are set to increase from \$2 million to \$5 million, says Garcia. And there's a bill in Congress to extend commercial property and capital equipment SBA loans from the current \$3 million to \$5.5 million during 20 years.

Mark Larson is a freelance writer for the Business Journal.