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$66.5MM in Financing Arranged for Mixed-Use Portfolio in San Francisco Bay Area and Puget Sound, Signaling Continued Lender Interest in Major Gateway Markets

By Meghan Hall

Speculation about the future health of the economy and the nation's wider commercial real estate market have done little to hinder lenders' optimism for Class A properties in the San Francisco Bay Area and greater Puget Sound. Institutional lenders from the traditional agencies to life insurance companies and smaller lenders like credit unions continue to invest in both markets, as seen in a recent $66.5 million transaction negotiated by NorthMarq Capital on behalf of JB Matteson, Inc. The deal, which closed in November, closed three separate loans for the Rafael Town Center and Theater Square Apartments, based in California, and the Langara Apartments, based in the Seattle suburbs, on an accelerated time frame. The lender was a correspondent life insurance company.

"The NorthMarq team overcame three-fold due diligence, tight timelines and power outages to accomplish this concurrent portfolio execution," said John Bellack, partner at JB Matteson, Inc. in a statement. JB Matteson, based in San Mateo, Calif., has been around for more than 50 years. The firm targets high quality newer assets (built after 2000) that have more than100 units in major West Coast cities.

The loans were a straight refinance of the properties' existing debt, as all three assets were stable core, Class A apartment complexes without capital improvements. According to NorthMarq, the Langara and Theater Square complexes received just under $20 million apiece in financing, while the Rafael Town Center received financing north of $25 million.

The Rafael Town Center, located in downtown San Rafael, Calif., includes 113 residential units, 42,000 square feet of office and 20,000 square feet of retail. The residences can either be studio, one- or two-bedrooms and come equipped with granite countertops, espresso wood flooring, gourmet kitchens and dual-pane windows. Community amenities include free underground parking, a conference room, community room, 24-hour fitness center, and an open-air courtyard with fire pit lounge and barbecue grill.

The Theater Square Apartments are slightly smaller. Located in Petaluma, Calif., the property has 99 residential units and 22,000 square feet of commercial. Units feature loft-style interiors with custom cherry cabinets, hard surface floors and modern color schemes. The complex has a walk score of 91, meaning most errands can be done on foot and is located directly above local boutiques, shops and restaurants.

Unlike the other two properties, the Langara Apartments in Issaquah, Wash., has 134-residential units. Its amenities include two private community parks with play areas, balconies and patios, and attached tandem garages.

"We were fortunate that in this case, we had three properties that were all stabilized, all in strong demographic markets, and the loan to value on all three was fairly low, sub-50 percent leverage," explained Tom Wight, vice president of debt and equity at NorthMarq. "A life insurance company would love to do that all day."

The financing also included a 10-year fixed interest rate and full-term interest-only payment schedule on each loan. NorthMarq will remain as the loan servicer on behalf of the life insurance company through loan maturity.

Wight believes that even as economy continues to mature, lending will remain at healthy levels, and 2020 is poised to be a strong year in the San Francisco Bay Area and Puget Sound.

"They're gateway markets," said Wight. "I think those markets are probably testing the upper limits, the high water mark, in terms of basis for multifamily, but that is not to say that lenders are any less willing to lend in those markets. In general, our lenders, which are usually life insurance companies or the agencies, are very interested."

While certain lenders such as life insurance companies can be constrained by other metrics, such as debt yield, interest rates or deb service coverage ratios, allocations for 2020 have been found to be greater than allocations for 2019—a positive sign.

"That is good news for the industry, because that means there is going to be a lot of capital available, and it is good for borrowers because more capital and more competition will result in better terms for them," said Wight. "There is an overwhelming amount of capital for debt, and for equity too. From the amount of capital that is available, I think we will have another really strong year in 2020."