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Investors Are Refinancing Now Before Rates Go Up

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Advanced Real Estate Services closes nearly $252 million in apartment financing deals, and the majority were early refinancings.

Investors are refinancing apartment deals before rates head up. Advanced Real Estate Services has closed nearly $252 million in financing deals, with refinancing transactions representing a majority of the bunch. Of the eight deals—all of which were secured by **NorthMarq Capital**—six were refinanced early and the firm paid the prepayment penalty on two, one of which included a defeasance. The remaining two deals included a acquisition financing for Stadium House in Anaheim and the refinancing of an expiring loan. Advanced pulled significant equity out of the properties as well, and plans to use the proceeds for other acquisitions.

"Advanced likes to do max leverage 10-year, interest only deals, and the time was right to do it, **Michael T. Elmore**, EVP and managing director of NorthMarq Capital, tells GlobeSt.com. "They generated a substantial amount of refinance proceeds, and none of it will go into the Acquisition of Stadium House, but it will be sitting in operating accounts for Advanced to go out and by more assets in the future. This was opportunistic on their part. They took advantage of the market while rates are still relatively low and pull equity out of those assets. This is just good timing. They got a relatively low interest rate, 10-years interest only and they got maximum leverage with a ton of cash-out on the transaction."

The seven refinanced properties include The Parsons, a 60-unit property Costa Mesa; Eastside, a 98-unit property in Costa Mesa; The Courtyards, a 153-unit property in Norwalk; Tierra Palms, a 144-unit property in Norwalk; Somerset, a 256-unit property in Montebello; Northwind, a 102-unit property in Bellflower; and Artists Village Apartments, a 197-unit property in Santa Ana. All of the deals had a 10-year term, interest-only with average interest rate of 4.229%. Artists Village and Tierra Palms deals required a pre-payment penalty and were funded through Fannie Mae. "Because Fannie and Freddie are running slightly behind their production in the previous year, they were both very aggressive in quoting this deal," says Elmore. "We went with Fannie because they had a better deal, but Freddie was right there."

Northwind, Courtyard, Eastside and Parsons did not require a pre-payment penalty, although Advantage chose to refinance these loans early. "Advanced was in the variable rate period, so there was no pre-pay, but they had higher coupons then the fixed-rate financings we put in place," says Elmore. "So, there was no penalty, they got substantial cash-out and their 10-year interest-only was lower than their floating rate. So, they lowered the rate and took out money."

Advanced is not alone. Elmore says that the bulk of his office's transaction volume is refinancing deals. "Last year, nationally, investment sales were down 30%, so there is less purchase money transactions," he explains. "We end up doing our share of them, but I think the bulk of the activity is refinancing. There isn't a lot of new construction or purchase money transaction. The bulk of our work typically tends to be in refinancings, but I would say more so now than normal. Generally, people are pulling forward refinancing. Part of that is interest rates and the other part of that is recapturing equity."

This year, Elmore expects the industry to be 5% to 10% down, but NorthMarq is exceeding their year-over-year volumes. In general, he is expecting a strong second half of the year. "We are ahead of where we were at this time last year," he adds. "I think the industry will be down 5% to 10% this year, so we are off the peak, but we are off a very high peak, so it is still good."