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# Low Interest Rates Increase Senior Debt Demand

**By** **Kelsi Maree Borland** | Los Angeles

LOS ANGELES—Low interest rates are driving competition in the capital markets, according to **Quantum Capital Partners** managing director **Mike Yim**. Illustrating this trend, Quantum Capital Partners' Yim and managing director **Jonathan Hakakha** have closed five senior debt loans totaling $74.4 million. The loans went to **retail** and **multifamily** properties throughout Los Angeles.

The five loans include a $32 million 10-year non-recourse loan with a loan-to-value of 67% for an 89,000-square-foot retail showroom in Downtown Los Angeles valued at $48 million. The loan proceeds will be used to pay off a previous loan and retain $10 million in cash. "The property featured a very high price per square foot rent and valuation," Yim tells GlobeSt.com. "Through diligent market research, we were able to substantiate the high per square foot rent and valuation to the lender. The strength of the market, combined with the track record of the sponsors, help to mitigate the lender's concerns about the valuation." This was the largest loan secured of the five.


Quantum Capital also secured a $16 million 10-year non-recourse loan that carries a coupon of 4.10% for **Plaza Mayor**, a 79,000-square-foot shopping center occupied by a **Big Lots, Payless, Starbucks and Coldstone Creamery**. The loan closed in 30 days, and will be used to settle an existing securitized loan and to take out $5 million in cash. "The sponsor requested a non-recourse loan that would offer them the maximum return of equity," says Yim. "Through a competitive process, we identified a lender that underwrote the transaction to a 7.25%

debt yield. Although grocery-anchored retail is one of the most desired asset types, finding a lender willing to underwrite a deal that aggressively is still a challenge in today's lending environment." The remaining loans went to three multifamily properties.

According to Yim, the demand for lending will only increase over the next two years due to CMBS loans that are maturing. "In 2014, regardless of the asset class, desired loan type, or sponsor profile, there's been a lender out there for everyone, but 2014 was the calm before the **CMBS** refinancing storm, says Yim. "Between 2015 and 2017, there will be over $600 billion of maturing CMBS debt coming to market. By comparison, only $223 billion of CMBS debt was issued between 2012 and 2014. This means CMBS issuance needs to increase by almost three-fold just to keep up with the demand of maturing debt. If the supply of CMBS issuance does not keep pace, lenders will be able to cherry-pick the best assets and sponsors."

To avoid the potential imbalance of supply and demand, some of Yim's clients are choosing to pay off their loans early, despite the additional fees. "This serves two purposes," says Yim. "First, they mitigate future interest rate risk by locking in today's favorable rates, and second, they secure a new term and avoid competing with maturing CMBS debt between 2015 to 2017. There are also a few lenders offering 6-month forward rate locks in order to secure a loan today."

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**About Quantum Capital Partners**

Quantum Capital Partners (www.quantumcp.com) is a leading mortgage banking firm that provides comprehensive real estate finance and advisory services across all major asset classes. We have more than $3 billion of debt and equity financing experience nationwide, working with a wide and diverse network of capital providers. Combined with our comprehensive knowledge of the capital markets that encompass the entire capital stack, Quantum repeatedly delivers expert advice and customized financing solutions on the most complex real estate transactions.