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Fashion District Assets Land Ultra-Low Rates

By **Kelsi Maree Borland** | Los Angeles

LOS ANGELES—Three **investment partners** have secured $22 million in **permanent financing** loans for five separate **retail properties** in the fashion district of Downtown Los Angeles. The individual loans range in value from $1.1 to $8.4 million. The identity of the borrowers and the addresses of the properties are confidential.

The funds from each of the loans will be used to **recapitalize** the assets. One of the loans was a second trust deed mortgage cash-out with a three-year term and a 4.5% interest rate. “The rate is kind of unheard of in this marketplace,” **Jonathan Hakakha**, managing director of **Quantum Capital Partners**, tells GlobeSt.com. “The income of the property has doubled in the last three years. It is a 150,000 square foot building that was used by **storage**, **wholesale** and **shipping facilities**, who would pay $0.30 to $0.50 per foot on 20,000 to 60,000 square feet. As these tenants vacated the building, the landlord broke the space down into smaller spaces to rent them at a lot higher cost per square foot.”

The remaining loans have a seven-year term with a five-year, fixed interest rate at 4%. These low rates allow the borrowers to reduce their capital costs by 210 basis points. “The challenge always in the garment district is the fact that these tenants are on short term leases, and in some cases in month-to-month leases, so we really had to demonstrate that these buildings have been stable historically and will continue to be stable,” says Hakakha. “A lot of lenders shy away from that marketplace because of the short-term lease roll of the buildings.” He notes that not each of the three investors served as a borrower on each of the five loans.

The five loans were secured through three **offshore lenders**. Rates this low are very rare, and Hakakha explains that securing low rates is really a matter of finding the right lender. Still, financing activity in these downtown markets is strong. “In 2008 to 2011, no one would touch this market because it was so badly hurt. As the lenders have opened up to these markets, landlords are taking advantage of the financing that was not readily available before,” says Hakakha, who adds that the uptick is also fueled by landlords taking advantage of low interest rates, where in some cases they are able to reduce their rate by 100 to 200 basis points.”

National chain retailers are also realizing the potential of the area, especially with the increase in **multifamily** and office space. GlobeSt.com recently reported the **uptick in national retailers moving to the downtown market**, including brands like **Urban Outfitters** and **Zara**.