

May 28, 2008

## **Regional Apartment Players Hunt Deals**

Sector Holds Up  
As Housing Crunch  
Yields More Renters  
By NICK TIMIRAOS  
May 28, 2008; Page C12

While most commercial-real-estate owners and developers are singing the blues these days, investors like Bruce Hellman are whistling a brighter tune.

Mr. Hellman is president of Cincinnati-based Berkshire Realty Group LLC, an owner and operator of rental-apartment buildings. With 5,500 units in Ohio and Kentucky and a healthy appetite to buy more, Berkshire and regional operators like it have found one of the few sweet spots in the market right now.

While credit is scarce in many sectors, financing is still available for buying apartment buildings thanks to government-sponsored enterprises **Fannie Mae** and **Freddie Mac**. At the same time, competition facing investors like Berkshire has greatly diminished as the giants that used to rule the multifamily sector, gobbling up all the best deals, have moved to the sidelines.

"We think the timing is good for us," says Mr. Hellman, whose company recently paid an estimated \$7 million to \$8 million for a 146-unit apartment building in suburban Cincinnati from Apartment Investment & Management Co. "There's not as many players who will purchase right now."

While multifamily-property sales are down from last year because of the credit squeeze, the sector has held up favorably when compared with the broader real-estate landscape. Office and retail sales fell by 80% and 70%, respectively, in the first quarter from a year earlier, compared with a 40% slump in multifamily sales, according to Real Capital Analytics, a New York real-estate research firm.

Buoying apartment sales have been Fannie and Freddie, which have a mandate to provide market liquidity for affordable housing and also see multifamily deals as a source of profit in an otherwise bleak market. The demand for rental apartments also remains healthy from people forced out in foreclosures and would-be home buyers unable to get mortgages. Rents posted a solid 1% gain during the first quarter, according to Reis Inc., a New York real-estate research firm.

Before the credit crunch, most of the buying of multifamily property was done by major real-estate investment trusts, or REITs, such as **Equity Residential** and **Camden Property Trust**, which could pay the highest prices. But many of those companies today are looking to sell assets, partly as a source of cash and partly because they are shifting out of certain

markets as they refresh their long-term strategies.

"The market is bifurcated between smaller purchases -- \$20 million-\$50 million assets, which are right-size pieces for a lot of regional players -- and larger portfolios geared toward the big, institutional investors, who aren't buying," says Richard Campo, Camden's chief executive.

That has opened up the playing field for buyers such as **Mosaic Residential**, a Houston-based start-up that closed last quarter on a 167-unit building in Austin, Texas, from Camden Property Trust. "We're typically not that competitive. But for core products right now, there isn't a lot of competition," says Mosaic President Bob Weber.

The biggest deal of the year so far involved the purchase of 25,000 units by Steven D. Bell & Co., a regional player based in Greensboro, N.C. A venture of that company and DRA Advisors LLC bought the portfolio from UDR Inc. for \$1.7 billion.

The post-credit-crunch market has enabled "the re-emergence of the regional player," says David Neithercut, president and chief executive of Equity Residential. Those smaller buyers still "have decent-size footprints in their own markets but have been boxed out of buying over the past several years because large institutional players very aggressively competed," he says. "Now this group has this market to themselves."

Equity Residential sold 15 properties for \$272 million last quarter, including four in Portland, Maine, to Resource Real Estate, a Philadelphia-based, multifamily-property investor. The Chicago-based REIT also unloaded four North Carolina properties and two each in Atlanta and Dallas, and it is working with a potential buyer for its Austin, Texas, portfolio of some 3,000 units as it seeks to focus on higher-value coastal markets.

Equity Residential executives said the average price on the assets it sold last quarter was 4% higher than how the company had valued them in March 2007, and the average age on those properties was 23 years old. Equity aims to sell \$1 billion of assets this year, down from \$1.9 billion last year, as it shifts its portfolio focus.

Also improving the market for the midsize players: The number of new sale offerings in the first quarter increased 41% over the previous year's period. The majority of those offerings are for regional assets or for stand-alone properties.

Peter Donovan, who oversees multifamily-property transactions for CB Richard Ellis, predicts \$35 billion to \$40 billion in total sales this year, down from more than \$90 billion in the past two years but still double the \$20 billion in deals from earlier this decade.

Buyers are "pickier," he says, but they are still bidding aggressively when they find what they want. Still, the brokerage is advising clients against bringing big portfolios to the market. "If they're going to execute, they're better off with a regional portfolio or a one-off or two-off deal," says Mr. Donovan.