MULTIFAMILY EXECUTIVE

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Opportunistic Apartment Investors Realize Returns on the Recession

Multifamily firms that managed to deal, develop in downturn finding solid sell opportunities.

By: Chris Wood

Opened in late summer 2009, The Lynd Company's 249-unit EnV luxury highrise in Chicago could be sold as early as next year.

Credit: The Lynd Company

In late September, 596 people showed up for an All American Rejects concert and fashion show rooftop party at Chicago's EnV, a 29-story, 249-unit apartment building opened this summer by San Antonio-based **The Lynd Co**. Guests sipped specialty cocktails, enjoyed the skyline views, and got a soft sell on renting at EnV, which had already reached 40 percent occupancy in just two months, an absorption rate that should just about cover the floating LIBOR debt The Lynd Co. used in part to develop the high-rise.

"We had a belief in delivering a high-end residential experience and the questio

n was whether or not the market would answer us," says Lynd Co. president and chief operating officer **A. David Lynd**. "Well, we are getting $2.96 per square foot rents, pretty much the highest

in Chicago for a rental building. It has gone really well,

and we couldn't be more pleased."

So pleased, in fact, that Lynd might forgo re-financing the building in 2011 and simply put it on the market for sale. "We haven't decided yet whether we are going to refi," Lynd says. "Either way, it will be a real success story about taking risk, believing in the market, believing in a product, and delivering it."

If Lynd is successful in pulling a great deal out of the recession, the firm won't be alone. Owner/operators who managed to acquire product in 2008 and 2009, as well as developers who had the tenacity to continue construction through the recession, are finding excellent returns in a disposition market that has since seen cap rate compression and supply-demand imbalances.

“Groups who bought in late 2008 or the first part of 2009 bought at cap rates 200 basis points higher than they are today, and those groups are definitely putting those assets back on the market,” says Denny St. Romain, managing director for the capital markets group in the Miami office of Chicago-based Jones Lang LaSalle. “And it’s not so much institutional guys—it is very much private-driven money focused on IRR. If you didn’t buy in '08 and '09, though, you kind of missed that window.”

Quick Turns

Consider Irvine, Calif.-based Sares Regis Group, which in June 2009 acquired the 231-unit Bella Villagio Apartments in San Jose, Calif., and recently resold the property to Essex Property Trust for $54 million. While company officials would not disclose their purchase price, they did say they reached ROI and IRR expectations that they did not expect for several more years. “We certainly expected to meet our horizon expectations on the investment in this asset, but did we expect to meet them in 15 months? No,” explains Sares Regis group senior vice president Kenneth Gladstein.

According to Gladstein, Sares Regis was able to make immediate NOI improvements at Bella Villagio by pursuing a more aggressive rent and occupancy strategy than the previous owner. “It is a great A-quality asset, but we were able to get a little more aggressive on rents and improve fundamentals overall from day one with better operations,” Gladstein says. “We are constantly evaluating all of the assets in our portfolio from a buy-hold-sell standpoint, and this was an asset that we immediately received unsolicited offers on and ultimately decided to broker the deal.”

Still, Sares Regis remains a net buyer in the market, seeking core, core-plus, value-add, and distressed asset and debt opportunities to add to the owner/operator’s portfolio of 14,000 owned and/or managed assets in the Western United States, making the Bella Villagio Apartments the exception rather than the rule. “While fundamentals are improving across our portfolio, we don’t see any sizeable proportion or pipeline of deals headed for disposition,” Gladstein says.

In fact, the window for recession deals cashing in on the market might be closing as more and more product becomes available. “We have seen an abundance of product hit the market in the past 90 days, which is making cap rates stabilize or even increase slightly,” St. Romain says. “So this phenomenon might be really short-lived. If you wait longer and the abundance of product hitting the market continues, you won’t see such a great spread. But as long as cap rates and interest rates on debt stay low, you’ll continue to see short-term players.”