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Apartments Hit High Gear, But Will the Engine Overheat?

By Natalie Dulce

LOS ANGELES-The apartment market has hit high gear, fueled by strong demand and cheap debt, but some in the industry question if the sector might be going too fast for conditions. Those were some of the sentiments expressed by brokers, lenders, receivers and other panelists at Thursday's **RealShare Apartments 2011**, which brought out more than 1,400 industry leaders to the all-day conference and networking event in Downtown Los Angeles.

Russ Appel, president of the **Praedium Group LLC**, cited the strong demand and the stable fundamentals of the apartment market, calling it "probably the only real estate sector where you see this stability." Appel joined other speakers including moderator **Marc Renard**, executive managing director of **Cushman & Wakefield**, on a panel titled: "Switching to High Gear: Multifamily Investment Heats Up." The RealShare Conference Series is produced by **ALM's Real Estate Media Group**, which also publishes *Real Estate Forum* and **GlobeSt.com**.

As an asset class, real estate is most appealing and is attracting capital now more than it has historically from overseas, including China, Asia and Korea for example, said **Mark Higgins**, president of **Cornerstone Real Estate Advisers LLC**. "The money is flowing over real estate in particular, and apartments are the rock star," he said. "The moons are perfectly aligned for apartments right now."



Renard

As GlobeSt.com previously reported, Higgins' point was echoed throughout the day by other panelists, who said that apartments were the "place of stability." **Robert Hart**, president and CEO of **KW Multifamily Management Group Kennedy Wilson**, pointed to the abundance of capital and cash on hand to do deals. "There are a lot of people seeking quality B assets; there are sellers out there; Fannie and Freddie are super-active; on the bridge side, there are banks that are very aggressive; and there are a lot of people looking to do debt and equity sponsorships," he said.

Appel noted that interest rates have been "the lifeline to our recovery," adding that, with economic growth uncertain over the next two to four years, "If you can use leverage responsibly and generate cash-on-cash returns, you can bet less on growth."

Hart said that value-add plays are coming back, but he added, "We need to get people working to justify the higher rents." According to Appel, now is the best time in the past 15 years or so to be a value-add investor. "You have demand for units picking up. Now is the time you can start investing in these properties and getting a real return on your assets."



George

Alan George, chief investment officer of **Equity Residential**, cited the wave of debt maturities coming up over the next five years, saying that Equity stands ready to take advantage of opportunities when they arise but is skeptical of a land rush. "We certainly hope there will be some opportunity, and had hoped there would be more this year than there have been," he said.

During a breakout panel titled: "Distress: Turning Misfortune to Fortune," receiver **Taylor Grant**, founding principal of **Real Estate Receiverships**, told the 1,400 conference-goers that a looming problem is whether the flight of capital to the multifamily sector has already overheated the market. "Current cap rates of 4% to 5% readily indicate the intense interest in the multifamily

category," Grant said. However, he added, some of the actors in the multifamily industry today—particularly those involved in the purchase of existing distressed properties—are unfamiliar with risks, such as deferred capital maintenance and lurking legal issues.



Grant

Another factor that will affect the multifamily sector is the emerging shadow market, noted Grant, a former developer. "In the current economic scenario, Grant explained, "no one knows how deep the multifamily market really is."

Many investors, and even Fannie Mae and FHA, Grant explained, are exploring the possibility of renting unoccupied, foreclosed homes. "And just how many children of baby boomers are moving back with their parents due to the unemployment situation? 'Who knows,' " he said.

Notwithstanding the shadow housing situation, Grant believes the multifamily market is going to thrive in the next decade due to a number of demographic and economic considerations. First, there is every reason to believe that the live/work segment will accelerate among the Generation X and Y cohorts, with singles teaming up to share expenses, he says. Moreover, last year, the Census Bureau reported that about 50 % of those who answered a national survey said they were running their businesses out of their home, he added. Secondly, he said, a survey conducted by the National Foundation for Credit Counseling has found that 42 % of those who once purchased a home don't own one now and believe that they will never own one again.

Natalie Dolce, editor of the West Coast region for *GlobeSt.com* and *Real Estate Forum*, is responsible for coverage of news and information pertaining to that vital real estate region. Prior to moving out to the Southern California office, Natalie was Northeast bureau chief, covering New York City for *GlobeSt.com*. Dolce's background includes a stint at *InStyle Magazine*, and as managing editor with *New York Press*, an alternative weekly New York City paper. In her career, she has also covered a variety of beats *Arthur Frommer's Budget Travel* magazine, *FashionLedge.com*, *Co-Ed* magazine, and has also freelanced for a number of publications including *MSNBC.com* and *Museums New York* magazine.