# The Apartment Report ™

CRITTENDEN RESEARCH, INC. · P.O. BOX 1150·NOVATO, CA 94948 · CUSTOMER SERVICE: (800) 421-3483

**Vol. 18, No. 45** **January 5, 2009**

## THE YEAR OF STABILITY

Don't be surprised if aggressive growth takes a backseat with industry leaders painting a gloomy picture for 2009. Pessimistic NOI figures are estimated to average negative 4% this year, primarily due to increasing job losses. Count on overall 2009 REIT ratings to drop from stable to negative, as players are forced to step back to avoid the recession punches. The good news is that the apartment REIT sector is tagged as stable, even as the companies face challenges regarding maintaining adequate liquidity levels. **BRE Properties Inc**. lowers its overall guidance for the year, while **AvalonBay Communities Inc**. elects to walk away from some development opportunities. However, there are no warning bells going off, yet, as the industry is a ways from heading downhill.

Bet on the majority of the REITs trimming 2009 funds from operations (FFO) guidance by 5% to 10%. Additionally, the sector will take dramatic preemptive measures this year to prefund 2009 to 2011 debt maturities, as well as limit acquisition activity and slash development pipelines. Also, expect lower 2010 FFO estimates across the board to accommodate additional NOI loss.

Declining fundamentals prompt players like BRE Properties to clip 2009 FFO guidance expectations by 8% from 2008. For the full year of 2009, earning per share (EPS) is expected to range between \$0.76 and \$0.96, compared to \$1.97 to \$2.02 in December 2008 — nearly a 50% decline. Don't be surprised to see other apartment REITs follow suit in upcoming quarters as multifamily fundamentals weaken and single-family deals pick up slightly. As for BRE, the firm should hold steady because of its conservative approach. Not only is it more focused on the high barrier-to-entry West Coast, BRE has also effectively pruned away assets in weaker markets like and Sacramento in 2008, leading to leaner operations.

Slow economic conditions lead to the abandonment of development parcels or rights for AvalonBay, one of the largest industry developers. This move results in non-cash land impairment charges between \$55M and \$65M for eight parcels, besides \$7M in abandoned pursuit costs related to seven specific development rights and \$3M in severance charges. The 15 projects currently under construction will not be affected. AvalonBay's write-offs don't herald the beginning of the fall of the apartment industry since NOI is rent driven. However, it's possible that more development impairments may be on the way since big REITs like AvalonBay are historically more prone to take on impairment charges. In Q3 2007, **Colonial Properties Trust** had an impairment charge of \$26.8M when the company decided to exit the for-sale residential market as a result of poor timing.

## TOP DEALMAKERS OF 2008

**Laramar Group**, **BPG Properties**, **The Connor Group** and **Redwood Capital Partners** wrap up 2008 with the acquisition of 11,000 units combined. Competitor **DRA Advisors** buys upwards of 35 assets while **American Campus Communities** picks up about 20 properties, including the GMH Communities portfolio. On the sellers' front, REITs like **AIMCO** and **UDR Inc**. dispose of nearly \$2B each. **Lehman Brothers** and **Tishman Speyer** join the ranks of active sellers in 2008, likely dropping close to \$4B in total assets. Pay close attention to **Fairfield Residential** as it expects to sell from 3,000 units to 5,000 units and buy nearly the same amount for this year. For 2008, it sold about 3,000 units and bought 1,500 units.

Apartment prices dropped about 20% in 2008, since its peak and transaction velocity decreased as much as 80% in select markets. However, the squeeze in home mortgage financing as well as buyer insecurity will keep vacancies down during the first few months this year, presenting opportunities to well capitalized buyers. The bid spread between sellers (mainly institutional sellers) and buyers was the biggest challenge in 2008. Interest rate velocity also plagued investors, prompting them to adjust 2009 acquisition/disposition strategies. The end result: transaction volumes get clipped by up to 50%. Looking ahead, count on active buyers and sellers doing their homework before closing a deal this year. Pricing will trend down in 2009 as sellers — including lenders who are likely to make up the bulk of that group — realize the need to get their capital ratios in line and agree to buyers' asking rates.

*Continued on Next Page*

## TOP DEALMAKERS OF 2008 …

*Continued from Page 1*

**BUYERS**

Laramar Group's acquisition activity slows down 25% to 50% from 2007 to 2008. This year is poised for another reduction. Laramar's $350M *Multifamily Value Fund* serves as the company's financial source. The fund targets value-added, opportunistic acquisitions ranging from failed condominiums to repositioning deals. It is currently 75% invested with a typical five-year hold period. Anticipated returns are mid-to high-teens. EVP of Investments **Keith Harris** is bullish about finding deals in 2009. Last year, the company added about 3,000 units, coast-to-coast. About 33%, or 1,100 units, are owned, including the 948-unit **Archstone San Jose** in California that Laramar bought for about $192M and a 5.5% going in cap. The company now owns/manages about 20,000 units.

BPG Properties buys 4,563 units, or 15 properties, for about $440M in 2008. Traditionally a portfolio shopper, eleven of those assets come from the **Boston Capital REIT** transaction that brought about 3,100 units. Eight properties containing 2,169 units were sold last year. **Joseph F. Mullen**, president of BPG's operating arm, **Madison Apartment Group**, expects the company to be more active in multifamily in 2009, which currently makes up about 33% of its business. BPG will continue to use its *BPG Investment Partnership VIII & VIIIA* fund to finance 2009 deals. The fund is about 45% invested and historically uses about 65% LTV. Count on BPG shopping for value-add and Class B assets in primary and secondary markets, targeting mid-teen IRRs. It currently owns 26,123 units in 20 states.

The Connor Group nabs 3,985 units in 2008 for a total of about $381.8M, selling only five properties. More than 14,000 units are now scattered in six markets including Columbus, Dallas and Atlanta. Chances are the company will not expand into new markets until at least 2010. Close to 90% of the current portfolio is Class A and the balance is Class B in A locations. Founder **Larry Connor** expects 2009 acquisition activity to be 50% of 2008, simply because the supply of Class A properties will be severely limited. The Connor Group continues to shop for deals where they can expect to improve NOI by at least 25% within the first two years, a goal it reaches 85% of the time. Over the past few years, the Connor Group improved NOI by 18% for the first year, with the average NOI topping 40% for the entire hold period. Over the last 11 years, the company saw an average of 31% annualized returns and chances are they will probably perform at mid-20% this year. Even then Connor suspects they will continue to outperform competitors.

Redwood Capital Partners completes 2008 with $210M, or six communities, in acquisitions, down from the $300M estimated at the beginning of the year as a result of the slowdown in Q3/Q4. Redwood pays $30.6M and a 6.6% cap rate for **The Lakes at Fountain Square** in the Chicago suburb of Waukegan. Transactions were primarily funded thought institutional JV and TIC syndications. Managing Partner **David J. Carlson** targets a significantly reduced amount of traditional acquisitions of stabilized assets in 2009 — probably 33% of last year or around $100M. The company's 2008 investments focused on capital investments of $15M to $150M, value-add B/C properties in high barrier-to-entry markets in the Midwest and Southeast, 6% to 8% stabilized cash yields and 13% to 15% IRRs. Preparing for 2009, Redwood Capital expects to raise two funds holding upwards to $50M, possibly targeting non-performing assets and broken condo deals.

**SELLERS**

AIMCO plans to sell about $3B over time as market conditions allow. About 126 properties totaling 30,000 units were sold for over $2B as of Q3 2008. The subsequent quarter saw sales valued at nearly $300M, including the 17-property sale to **JRK Property Holdings**. Recently, the REIT sells two communities averaging 95% occupancy in Fort Wayne, Ind. **Mid-America Management Corp**., (MAMC) buys the 296-unit **Stone Pointe Village** while **JRM Associates Real Estate Advisors** picks up the 156-unit **Fountain Lake**, formerly Versailles on the Lake. Market comps trade for about $30K/unit. The cap rates are about 8% based on in place income. Word is MAMC closed on a line of credit and is currently pursuing permanent financing where as JRM took on a new loan. Overall, AIMCO reduces the number of properties in non-target markets by at least 40%, exiting markets like Hartford, Conn., and Las Vegas. On the acquisitions front, 2008 deals were limited to 1031 exchanges. During the next several years, AIMCO expects to limit reliance on the credit markets by balancing cash flows internally. The REIT will also reduce its redevelopment program to conserve cash for other corporate purposes like debt repayment.

*Continued on Next Page*

## TOP DEALMAKERS OF 2008 …

*Continued from Page 2*

UDR makes only one sale in 2008 but more than makes up for it in terms of the size of the deal — a whopping $1.7B. The March sale to Steven D. Bell & Company encompassed 25,684 units in 86 communities for a net gain of $767M. The assets sold were typically older properties with 60% rent margins in suburban areas, many with capital needs. UDR's portfolio sits at about 70% rent margins. The REIT reinvested $951M of exchange funds to acquire 4,093 units in 12 communities. During the year, the company completed $1.06B in new transactions. The better quality assets are typically newer properties, some with renovation potential, located in markets such as Marina Del Rey, Calif., and Seattle. SVP of Acquisitions & Dispositions **Matthew Akin** expects acquisition activity to slow down dramatically in 2009 since most 2008 sales were 1031 driven. The REIT will look for value creation opportunities near lifestyle centers, transit and high employment areas in its 20 selected markets.

## SECONDARY MARKETS GAIN PRIMARY FOCUS

Look for buyers to deviate from their traditional acquisition criteria of sticking to primary markets in an effort to pencil deals out today. The supply-constrained nature of secondary markets bodes well for long-term buyers seeking greater value because of high return expectations. They don't seem deterred by the fact that the risk associated with that return is also higher. On the other hand, sellers notice dilapidating cap rates in secondary markets and realize the need to get out at market-clearing price. Count on players like **Bostonian Investment Group**, **Home Properties Inc**., **Inland American Real Estate Trust** and **Yellow Rose** to swoop in on opportunistic deals in off-radar markets. **Creative Management & Realty Co. Inc**. slims down in Waterbury, Conn., selling six assets to two regional investors, including **Beacon Communities**. Secondary market assets sell at discounted prices compared to properties in primary markets that have yet to see significant movement.

Cap rates in secondary markets rise at a faster pace than those in primary markets, with sales pricing about 1% lower. Given limited transaction activity nationwide, some execs estimate that the pricing could go lower, closer to 1.5% on the cap rate. In the past few months, cap rates increase by 1% to as much as 2%. Keep an eye on caps possibly nudging closer to 7.5% to 8.5% in the next few years, resulting in value cuts of about 20% in some product types. Also, concessions, vacancies, latest property re-evaluations and real estate tax increases will offset NOI growth, leading to higher caps. For instance, in Waterbury, Conn., sales volume decreased 50% from 2007 to 2008, the number of units traded dipped 55% and real estate taxes went up as much as 50%, negating any positive cash flow that owners were able to generate over the past few years. This trend will prompt buyers looking for a bargain in the short-term and a sound investment for the long-term as most investors bank on economic fundamental improvements in three years and hope for occupancies, rent and NOI to augment by the fifth or seventh year.

Specific areas like Cockeysville, Md., remain strong with limited, if any, concessions being offered. Rents increased about 6% annually over the last two years, compared to Baltimore that averaged a 3.6% increase. Texas secondary markets like Temple and Pearland are a good investment for multifamily because they are underserved. In Temple, the city benefits from the area's large military presence. In 2009, most deals in secondary markets will be below $30M and will consist of Class B/C properties in centrally located secondary commuter areas that will attract value-add buyers. Areas like Waterbury are poised to see caps inch up and settle in the more normal 7% to 8 % range, with IRRs well into the low 20% range.

Bostonian Investment Group acquires the 200-unit **Glen Apartment** complex in Temple, Texas. Local properties trade for about $30K/unit and low 7% caps. Bostonian CEO **Justin Meszaros** uses an 80% LTV Fannie Mae loan. BH Equities is the seller. The 92% occupied property was built in 1985 and includes a mix of ones, twos and threes averaging 900 s.f. Rents top $600/unit at the time of purchase.

Home Properties makes its only acquisition of 2008: the 468-unit **Saddle Brooke Apartment** complex in Cockeysville, Md., for $51.5M and a 6.7% cap. **Berkshire Property Advisors** sells the 1971 community. Home Properties President and CEO **Edward J. Pettinella** finds the acquisition a perfect fit for the company's repositioning strategy. The asset is about 35 years old with dated kitchens and baths that will experience a rent increase of about 10% post rehab.

*Continued on Next Page*

## SECONDARY MARKETS GAIN PRIMARY FOCUS …

*Continued from Page 3*

Inland American Real Estate Trust picks up the 308-unit **Villas at Shadow Creek** in Pearland, Texas, likely for about $70K/unit to $80K/unit. Similar properties see caps around 7.5%. However, Inland American Real Estate Acquisitions VP **Matt Tice** does not focus on a cap rate when shopping for deals but instead looks at factors such as price/unit. The Class A property rents for about $1.10/s.f. Inland typically uses Fannie Mae at 70% LTV for transactions. Villas at Shadow Creek is the second phase of Waterford Place at Shadow Ranch Apartments, which Inland previously acquired. A brand new development, Villas at Shadow Creek should not take longer than a year to lease up. Inland's portfolio consists of about 3% multifamily assets with more than 11 properties in areas like Kentucky, Florida, Louisiana, Pennsylvania and Texas. As for Q4 2008, the portfolio's weighted average occupancy is 91%. Rents average $850. Inland also has about five multifamily developments in the pipeline between Q3 2009 and 2010.

Creative Management & Realty sells six assets totaling 723 units in Waterbury, Conn., to two different buyers for $36.4M. The sale is part of a 10-property portfolio. Three are under agreement and one is still on the market. Beacon Communities purchases the **Exchange Place Towers** for about $9M, as well as **Fladers West Apartments** and **Countryside I** and **II**. New York-based **Southwood Gardens** buys **Prospect Towers** and **Southwood Towers**. The portfolio is about 99% occupied and all but Southwood Towers have an affordable component targeting seniors. The deals involve new and assumable debt.

Yellow Rose pockets the 120-unit **Riverside Gardens** in Hackettstown, N.J for $10.15M at around a 6% trailing-12 cap rate. Nedeller Properties LLC was the seller. Locally based **Regal Bank** finances about 60%. Yellow Rose is a local player that owns a handful of properties in Northern New Jersey and is looking to expand its portfolio. Riverside Gardens was about 90% occupied and was bought on a long-term hold, likely to last at least seven to 10 years.

## SEASON BRINGS JOY TO THIRD-PARTY MANAGERS

Multifamily owners faced with weakening demand, crimping occupancy and sliding rents turn to third-party managers like **Campus Advantage Inc.** and **Riverstone Residential** for emancipation. These managers capitalize on investors forced to reassess management and leasing strategies to keep renters in the door, as affordability moves back into the national housing market. **The Lynd Co.** plays its cards on financial institutions and coastal cities where lease-ups are bolstered by high-density locales and affluent populations. **Horizon Bay Retirement Living** takes on a 1,694-unit senior housing portfolio, boosting its status as national operator in the niche.

While the national housing market operated at record low levels less than a year ago, the apartment sector posted attractive double-digit returns. Now that home prices have plunged as much as 50%, multifamily demand is down and vacancies inch up. To add to it, apartment pricing drops by at least about 20% in the past 12 months and chances are it might dip another 20% by Q2 2009. Owners who have too much on their plate right now prefer to pay the typical 3% to 5% in third-party management fees and enlist their expertise to pump in revenues, as opposed to selling the assets at steep discounts. Managers should look at bubble markets like Arizona and California, where bargain shoppers take advantage of discounted home sales, prompting apartment owners to beef up their properties. Another area to tap: lenders stuck with too many multifamily holdings on their hand. This group still attempts to maximize returns from multifamily investment and will look for third-party managers to team up with.

Campus Advantage makes its 2008 target of 14,000 beds in acquisitions and management contracts, including two deals at year-end. The company adds Lowe Enterprises' 4,100-bed student housing portfolio to its 2008 kitty of 10,000. The management contract spans the country, including Minneapolis and Jacksonville, Fla., and likely lasts three years. The portfolio averages high-80% to low-90% occupancy. Campus Advantage President **Mike Peter** shoots for mid-90% by August 2009, increasing revenues by about 5%. Campus Advantage also expands its employee-base, hiring **William F. Barkwell** as COO. Barkwell is the former president of Ambling Management Company. The manager now oversees about 35,000 beds. The company is in negotiations for two projects, one of which should close soon. Student housing managers typically rake in fees ranging from 4.5% to north of 5.5% of revenues.

*Continued on Next Page*

## SEASON BRINGS JOY TO THIRD-PARTY MANAGERS …

*Continued from Page 4*

Riverstone Residential is brought on board to manage **BlackRock Realty Advisors**' 62-property portfolio. BlackRock Realty Advisor is the equity arm of BlackRock Inc. Metric Property Management Inc., a wholly owned subsidiary of BlackRock Realty Advisors, previously managed the 15,000-plus units. Since 2005, Riverstone's portfolio swells by 276%. Riverstone sought to bring $200M worth of management contracts in 2008. Recently, the manager adds 2,372 units in 14 communities in California, Connecticut, Idaho, North Carolina, Oregon, Tennessee, Texas and Washington. Most assets are Class A/B, averaging 91% occupancy and are typically located in 5% rent increase markets.

The Lynd Co. opens offices in South Florida as part of a larger business plan that involves expanding to the coastal regions. Regional VP **Andrew Ginsburg** intends to grow in the Tri-County market and eventually expand in Orlando and Tampa. The company looks to add several thousand units in South Florida to the books in the next six months. Management target is likely around 15,000 to 20,000 units. The Lynd Co. manages about 30,000 units, primarily in Texas and the Southeast and plans to capitalize on management opportunities from lenders and underserved condos. Ginsburg expects lenders to step up management needs in the next six to 12 months as banks become more pinched. About 60% of Lynd's portfolio comprises third-party deals and the balance is ownership. The Lynd Co. also looks to expand into the commercial and industrial sector and hopes to hold several million s.f. of commercial space by early 2009.

AEW Capital Management, on behalf of an institutional client, taps Horizon Bay Retirement Living to manage three Florida continuing care retirement communities (CCRC). The manager now oversees more than 14,000 units. **Regency Oaks** in Clearwater, **Lake Port Square** in Leesburg and **South Port Square** in Port Charlotte total 1,694 units and employ 1,300 members that will now be employees of Horizon. About 70% of the portfolio is independent living. The deal is Horizon's first CCRC deal and will likely not be its last. Investors capitalize on aging baby-boomers flocking to CCRCs. In the Southeast, states like Florida expect stable occupancies and revenues to spill over from operational improvements. The decline in state reimbursements makes it possible for fewer residents to qualify for state funding, keeping them in senior housing facilities for a longer time. Horizon Bay is currently assessing its communities and market positions and will tweak the portfolio as required once it gets a better grasp of the residents and the markets. In 2008, Horizon Bay added 1,900 units to its management portfolio, slightly down from 2007's collection of 2,200 units.

## AMENITIES & DIGS

🗝 **Real Estate Inverlad Development LLC** reworks plans for its **Orlando Heights Apartment** development in Orlando. VP **Chance Gordy** proposes 450 units and requests rezoning part of the former Orlando Naval Training Center from public use to planned development. Orlando Heights will be constructed in two phases within 7.5 years of approval. Phase I will see about 270 units and Phase II about 180 units. Currently zoned for offices, the parcel will be revamped to hold apartments but will still cater to the existing low to medium density requirements. Low density allows for a maximum of 21 units/acre or 236 total units while medium density allows for a maximum of 40 units/acre. Gordy proposes low-density, two-story apartment buildings on the north and south ends of the property. Three-story buildings will sit on the east side and two four-story buildings on the west. The center of the project is zoned for medium density. The Land Development Code requires 1.75-spaces/twos. Real Estate Inverlad will also be required to contribute about $44K to construct two LYNX transit stops, if the project takes off.

🗝 **Tomanek Group LLC**, based in California's Bay Area, makes its first acquisition in Reno, Nev. The **Montebello at Summit Ridge** sells for $56M at a cap south of 5.5% based on existing income. The new owner uses about 30% equity to fund the deal. Built in 1997, the property features 92 ones, 348 twos and 30 threes. Rents range from $950 to $1,739. Area occupancies are in the high-80%s. Look for a rehab plan to boost occupancy levels and rents. I & G LLC was the seller. **Riverstone Residential** replaces Alliance Residential Company as the manager. Tomanek Group owns a handful of properties in the Bay area and typically is a long-term holder.

**CONTACTS**

AIMCO: 4582 S. Ulster St., Suite 1100, Denver, CO 80237. Terry Considine, Chairman/CEO/President, (303) 757-8101, fax (303) 797-8735. terry.considine@aimco.com

AvalonBay Communities, Inc.: 2900 Eisenhower Ave., Suite 300, Alexandria, VA 22314. Bryce Blair, Chairman/CEO, (703) 329-6300, fax (703) 329-1459. bryce_blair@avalonbay.com.

BRE Properties Inc.: 525 Market St., Fourth Floor, San Francisco, CA 94105. Constance Moore, CEO/President, (415) 445-6530, fax (415) 445-6505. cmoore@breproperties.com

Colonial Properties Trust: 2101 Sixth Ave. N., Suite 750, Birmingham, AL 35203. Reynolds Thompson, CEO; Paul Earle, COO, (205) 250-8700, fax (205) 250-8890. pearle@colonialprop.com

Beacon Communities: 150 Federal St., Fifth Floor, Boston, MA 02110. Matt Epker, SVP, Acquisitions, (617) 574-1100, fax (617) 422-0576. mepker@beaconcommunitiesllc.com

Berkshire Property Advisors/Berkshire Income Realty: One Beacon St., Suite 1500, Boston, MA 02108. David Quade, Director/President/COO, (617) 646-2300, fax (617) 646-2370. david.quade@berkshire-group.com

BlackRock Realty Advisors: 40 E. 52nd St., New York, NY 10022. Ron Zuzack, Managing Director, (415) 678-2090. ron.zuzack@blackrock.com

Bostonian Investment Group: 100 Weymouth St., Rockland, MA 02370. Justin Meszaros, CEO, (781) 878-7114. bostonianceo@gmail.com

BPG Properties Ltd./Madison Apartment Group: 1500 Market St., Philadelphia, PA 19102. Joseph F. Mullen, President of Madison Apartment Group, (215) 575-2429, fax (215) 575-2323. jmullen@maglp.com

Campus Advantage Inc.: One Wild Basin, 110 Wild Basin Road, Suite 365, Austin, TX 78746. Mike Peter, President/CEO, (512) 472-6222, fax (512) 472-0982. mpeter@campusadv.com

Capitol Station 65 LLC: 4242 N. Seventh St., Suite 200, Sacramento, CA 95811. Scott Syphax, CEO, (916) 231-1703. ssyphax@project65.com

Connor Group, The: 6485 Centerville Business Parkway, Centerville, OH 45459. Larry Connor, Founder/Managing Partner; Patrick Rini, Partner, (937) 434-3095, fax (937) 434-6215. lconnor@theconnorgrp.com prini@theconnorgrp.com

Creative Management and Realty Co. Inc./Bridgestone Realty Corporation: 34 Prospect St., Waterbury, CT 06701. Scott Zeigler, President, (203) 753-3000. szeigler@creativemanager.com

Fairfield Residential LLC (Southern California Division): 5510 Morehouse Drive, Suite 200, San Diego, CA 92121. Gino Barra, Property Sales (858) 457-2123, fax (858) 457-3982. gbarra@ffres.com

Grand Valley State University: One Campus Drive, Allendale, MI, 49401. Matthew E. McLogan, VP, University Relations, (616) 331-2190, fax (616) 331-3503. mcloganm@gvsu.edu

Home Properties Inc.: 850 Clinton Square, Rochester, NY 14604. Edward J. Pettinella, President/CEO, (585) 546-4900, fax (585) 546-5433. edwardp@homeproperties.com

Horizon Bay Retirement Living: 5426 Bay Center Drive, Suite 600, Tampa, FL 33609. John Sattelmayer, SVP of Facilities Management, (813) 287-3900, fax (813) 287-3912. jsattelmayer@horizonbay.com

Inland American Real Estate Trust/ Inland Real Estate Acquisitions Inc.: 2901 Butterfield Road, Oak Brook, IL 60523. Mark Cosenza, Acquisitions Coordinator, (630) 218-4946. mcosenza@inlandgroup.com

JRM Associates Real Estate Advisors: 111 West Washington St., Suite 1421, Chicago, IL 60602. Peter Ulrich, President, (312) 332-4187, fax (312) 332-4188. peterulrich@chicagocelticcapital.com

Kamehameha Schools Bishop Estate: 567 S. King St., Suite 200, Honolulu, HI 96813. Sydney Keliipuleole, Director of Residential Assets, (808) 523-6200, fax (808) 541-5305. sykeliip@ksbe.edu

Laramar Group: 30 S. Wacker Drive, Suite 2750, Chicago, IL 60606. Keith Harris, EVP of Investments, (312) 669-1200, fax (312) 669-1300. kharris@laramargroup.com

Lynd Co., The: 8000 IH-10 West Side, Suite 1200, San Antonio, TX 78230. Andrew Ginsburg, Regional VP, (210) 733-6125, fax (210) 798-8924. aginsburg@thelyndco.com

Mid-America Management Corp.: 1111 Superior Ave., Suite 1100, Cleveland, OH 44114. Mark Misencik, President, (216) 771-4440, fax (216) 771-1185. mmisencik@midamco.com

Penfield Development/Alatus Partners LLC: U.S. Bancorp Center, 800 Nicollet Mall, Suite 2850, Minneapolis, MN 55402. Robert Lux, Partner at Penfield Development, (612) 455-0700, fax (612) 455-0740. rclux@alatusllc.com

**CONTACTS**

Real Estate Inverlad Development LLC: 225 S. Eola Drive, Orlando, FL 32801. Chance Gordy, VP (407) 650-0282, fax (407) 423-0722. chance@reinverlad.com

Redwood Capital Partners: 55 W. Monroe St., Chicago, IL 60603. David J. Carlson, Managing Partner; (312) 263-9440, fax (312) 263-9441. dcarlson@redwoodcapitalpartners.net

Riverstone Residential/CAS: 6110 Executive Blvd., Suite 315, Rockville, MD 20852. Christy Freeland, CEO, (301) 255-6010, fax (301) 881-8844. cfreeland@riverstoneres.com

Tomanek Group LLC: 26601 Durham Way, Hayward, CA 94542. Thomas Tomanek, Owner, (510) 537-7405.

Trammell Crow Residential (Northeast): 15 Old Danbury Road, Suite 100, Wilton, CT 06897. Maria Rigopoulos, VP of Development, (203) 762-2828, fax (203) 762-2854. mrigopoulos@tcresidential.com

UDR, Inc.: 1745 Shea Center Drive, Suite 200, Highlands Ranch, CO 80129. Matthew Akin, SVP of Acquisitions & Dispositions (720) 283-6120, fax (720) 283-2451. makin@udr.com

Yellow Rose (Broker Kislak Company Inc., The): 1000 Route 9 North, Woodbridge, NJ 07095. Joseph Keenan, Sales Associate, (732) 750-3000, fax (732) 750-3040. jkeenan@kislakrealty.com

## NICHE DEVELOPMENTS: THE PICK OF THE TRADE

Many apartment developers will find themselves on the fringe of economic solvency and retrench on conventional developments. However, bet on these five multifamily sectors to jump their way to the top in 2009 even as they compete neck-and-neck with the single-family and condo shadow market: mixed-use, affordable housing, transit-oriented development (TOD), luxury and student housing. **Kamehameha Schools Bishop Estate** (KSBE) sets its sights on a mixed-use redevelopment in Hawaii, while **Capitol Station 65 LLC** draws up plans for a TOD with affordable housing in California. **Trammell Crow Residential** also inks a TOD deal in New York and **Penfield Development** taps St. Paul for luxury housing. **Grand Valley State University** expands its on-campus student housing.

While niche development velocity is down from years before because of slithered yield margins, when done right, these products typically tabulate returns of at least 20% after stabilization, compared to its mid-teen conventional counterpart. On the financial front, funding will be scarce as lenders favor pre-leased developments with tangible construction costs. Alternative niche products should help solidify funding options. However, financial doldrums may also present savings opportunities. Grand Valley State University's project clips about $1.5M from the total cost due to the faltering economy and competitive building environment. From a macro perspective, multifamily is poised for significant slowdown in 2009, indicative of the commercial real estate typically trailing one to two years behind the overall economy. Long-term developers and owners employing reasonable niche investment and financing strategies should stay buoyant.

***Mixed-Use:*** Such developments push cities into urbanization mode to stimulate renter retention and accommodate anticipated population booms. KSBE plans a multi-million dollar, 29-acre mixed-use redevelopment in the Kaka'ako area in Honolulu. Dubbed **Kaiaulu Kaka'ak**, the project is a catalyst for a new science-technology industry along with other state development. Director of Residential Assets for KSBE **Sydney Keliipuleole** maintains Kaiaulu will also provide housing for downtown workers. KSBE currently awaits master plan approval, set to come by Q1. The development proposes about 4.4 million s.f. of maximum building area, minimum 10% of open space and about 140,000 s.f. of public facilities. Expect 2,750 residential units, of which 20% will be reserve-housing units. Residential breakdown will be based on market. Possibly starting in Q4 2010, Phase I is pegged around $80M-plus and is zoned for mixed-use.

***Affordable:*** Capitol Station 65 pencils out plans for a $1.7B TOD redevelopment/affordable project in Sacramento. Dirt will move by Q1 2009. The 65-acre **Township 9** will house 3,000-plus mixed-income residential units, along with retail and office. Residential mix has yet to be determined. Buildout occurs in four phases over seven to 10 years. Initial plans submitted for Proposition 1C funding for Phase I include 752 housing units, of which 387 will be rental. Nearly 140 of those rentals will have some affordable component at 30%, 50% and 60% of AMI. That number may change depending on funding. CEO **Scott Syphax** originally applied for $30M state funding for Phase I and receives $19.1M so far. The developer hopes to secure the balance in a second round of state funding. Township 9 gets $2.2M for transportation improvement from the Sacramento City Council and $550K under the California Recycle Underutilized Sites Remediation program. The firm talks with a number of potential partners, as well as the insurance and pension fund community to help with the remaining additional costs. *Continued on Next Page*

## NICHE DEVELOPMENTS: THE PICK OF THE TRADE …

*Continued from Page 7*

***TOD:*** 2009 gives way to more investors and developers targeting core urban markets with mass transit options as echo-boomers venture on their own. Add retirees and empty nesters looking to downsize to that mix. Trammell Crow Residential plans to invest $52M to replace the **Courtesy Hotel** in West Hempstead near Long Island, N.Y., with an apartment community inked for 150 units, down from 220 due to density requirements. Still, **Alexan @ West Hempstead Station** will be the highest approved density yet in the town. The land is currently approved for 20 units/acre and should bump up to about 55 units/acre. Trammell Crow currently awaits site approval and should get the green light by summer. The 2.72-acre TOD is stamped for 35% ones, 50% twos and 15% threes in a four-story structure. Rents will start at $1,900. Units will range between 730 s.f and 1,400 s.f. The parcel is located near the LIRR station and awaits zoning changes. Assuming everything goes according to plan, construction could start this year and last about 18 months. Trammell Crow believes the development will help jump start revitalization efforts at the blighted area. The developer and JV partner Prudential work on securing construction financing.

***Luxury:*** While luxury development slows down significantly, the sector continues to attract young professionals. Penfield Development gets preliminary approval for its $88M revised luxury mixed-use development in St. Paul. Blueprints call for 208 luxury apartments, a 170-room hotel and a 30,000 s.f. Lund Food Holdings grocery store. The developer still looks to secure financing and hopes to use HUD and TIF. It looks like the city was going to provide nearly $9.6M in TIF for the developer's original $131M, 313-unit condo plan, which was subsequently axed in Q3 2008 as a result of the weak condo market. Partner **Robert Lux** aims to break ground fall 2009. The apartment tower will feature a modern design, using glass, stone and steel. Unit mix includes ones and twos topping 1,148 s.f. The project will be built according to LEED standards.

***Student Housing:*** The growing student population opens up opportunities for student housing players. Grand Valley State University in Allendale, Mich., ramps up its on-campus housing and outlines a $45M student housing and $7M dining hall project. Count on 608 beds in three-story buildings for the 290,000 s.f. dorm development. Construction starts this April and will last until August 2010. **Integrated Architecture** is the architect/engineer for both housing and dining buildings and **Pioneer Construction** the construction manager/contractor for the housing portion. The University will issue bonds for all construction costs, to be 100% repaid by room and board revenues. The only exception — four classrooms and four faculty offices on the second floor of the dining hall costing $3M — which will be paid by the University's academic budget. The development will help curb the University's housing demand. This year only 5,454 beds were available to the 6,500 students that applied for housing. Over the past two decades, the University has initiated additional housing approximately every third year and will probably review things again in 2011 for potential completion in 2013.

**The Apartment Report Team**
Email: editor@crittendenapartmentreport.com

*Customer Service*
Tel: **(800) 421-3483** Fax: (415) 475-1516
E-mail: market@crittendenonline.com

*Newsroom Tel: (949) 900-3729*
*Newsroom Fax: (949) 900-3760*

*The Apartment Report™* is published by Crittenden Research, Inc., 45 Leveroni Court, Suite 204, Novato, CA 94949. Send address changes to *The Apartment Report™*, P.O. Box 1150, Novato, CA 94948-1150.  Sample newsletters may be viewed online at http://www.crittendenonline.com.