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Apartment scene heats up

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In recent months, investors have taken a liking to the local apartment market, buying small and big rental properties at a steady clip as the sector receives growing interest from people looking to bulk up on their holdings or round out their portfolios.

The velocity of suburban deals has picked up but investors remain interested in Center City, although that area has cooled a tad as developers aren't eying apartments for condominium conversions as much as they did in the past.

In recent months and weeks, some of the transactions that have taken place include:

- Korman Communities, a Plymouth Meeting real estate firm that specializes in extended stay apartments, wrapped up last month a \$49 million acquisition of Cornerstone Terrace, a 244-unit rental complex off Route 30 in Exton. It bought the property from Cornerstone Properties of Villanova in a deal brokered by CB Richard Ellis;
- Out-of-towner Lighthouse Group Real Estate Advisors of Greenwich, Conn., plunked down \$10.6 million for Suburban Court, a 100-unit complex off Cricket Avenue in Ardmore that was nearly fully occupied. The acquisition marks Lighthouse's entry into the market and the firm is on the prowl to buy more, said Ridge MacLaren of Marcus & Millichap who arranged the transaction;
- In March, Madison Apartment Group, the multihousing division of BPG Properties Ltd., bought a 15-building, 264-unit apartment community off Elroy Road in Hatfield for \$18.5 million. That came on the heels of a massive \$314.5 million deal in January in which Madison bought 3,444 apartments from National Properties Inc. of Malvern. Many of the properties are in the region;
- GPX Realty Partners of Haverford paid \$20.35 million for a portfolio of apartments consisting of 20 buildings and 309 rental units. The apartments are in Aston, Hatboro and Ambler; and
- New York investor Cammeby's International paid \$129.5 million for Lynnewood Gardens, a sprawling apartment complex consisting of 130 buildings and 1,789 units on 122 acres off Washington Lane in Elkins Park.

Local apartment owners are scouring the area for deals. Korman Residential Properties Inc., a Trevese company not related to Korman Communities, picked up three apartment properties in northern Delaware, said John Korman, CEO of Korman Residential. The company closed last week on a \$30 million acquisition of Brandywine Hundred, a 301-unit complex in Wilmington. Marcus & Millichap arranged the transaction.

It's been difficult for Korman to find the type of apartment complex in which it likes to invest -- properties with problems. In the case of Brandywine Hundred, the complex is just 50 percent occupied.

"It has been very active," Korman said. "Fundamentals are good, occupancy is higher and I think there's been interest from investors because they believe, like we have always believed, that they are a good investment."

The growing list of deals began to pick up steam last year, with a series of apartment complexes in Royersford, West Chester, Levittown, Bensalem and Philadelphia trading hands, and has continued into the first half of this year. Through the end of June last year, Marcus & Millichap's Philadelphia office had 17 apartment deals, consisting of 681 units totaling \$34.6 million. So far this year, the commercial real estate brokerage closed 13 apartment pacts, with 917 units totaling \$66.9 million, and has 17 other apartment complexes, with 1,949 units under contract, totaling \$113 million. Those properties are regionwide, including Philadelphia, Havertown and Upper Darby, said Spencer Yablon, regional manager at Marcus & Millichap.

"We have more deals under contract than we had even listed at the same time last year," Yablon said, adding that apartment owners who had been on the fence about selling have decided to go ahead and sell, sensing the market conditions are ripe, he said.

Interest in the multifamily developments has affected pricing, said Joe Mullen, president of Madison Apartment Group. "Pricing, in general, whether it's Phoenix or Philadelphia, is aggressive right now," Mullen said. "It's been a very competitive investment market."

Several factors are at work.

From 2001 to the middle of 2005, when interest rates were really low, some renters shifted out of apartments into buying a home. As rates ticked up and home prices got too expensive for some to buy, renting came back in fashion, helping to fill vacancies. The overall vacancy rate of the Philadelphia metropolitan area is down to 2.2 percent from 2.6 percent at this time last year, according to Delta Associates, an Alexandria, Va., commercial real estate research firm.

In the suburbs, the vacancy rate stands at 2.4 percent and in Center City it inched up a bit to 1.9 percent from 0.6 percent at the end of the second quarter of last year. South Jersey is also tight at 2.2 percent, though it's up from 1.9 percent.

Low vacancy rates have translated into higher rents. In Center City, rents grew the most at 6.4 percent, averaging \$1,879 a month, according to Delta's data. In the suburbs, monthly rents stand at \$1,316.

The bottom line: Lower vacancies and better rents have meant landlords looking to sell can up the ante when it comes to prices.

Interest has also been heightened because typically so few apartment complexes come on the market. Many are owned by families who are inclined to keep the developments through generations. In addition, few new apartments are constructed because of zoning issues and prohibitive construction costs. Just 5,100 to 5,200 new apartment units are expected to be built in the next three years across the region, according to Delta, the research firm.

"I think interest in multifamily will continue because it's a supply-constrained market," said Jonathan Stavin, an investment broker with CB Richard Ellis. "When they do come available, they get a lot of interest."