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Demand Rises for Quality apartments

By Lisa R. Schoolcraft

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Capital is picking up a chase for multifamily properties in Atlanta as demand returns for quality sites. Across the market, apartment brokers say even lesser properties are getting a second look. And not all the properties in demand are bank-owned, they say.



Byron E. Small

Norman Radow: CEO of Atlanta-based RADCO Cos., which is buying the Somerpoint apartments in Marietta.

The RADCO Cos. is closing on three apartment properties in metro Atlanta. For **Norman Radow**, CEO of Atlanta-based RADCO, the recent purchases are a return to the company's acquisition platform.

Radow got back in the buying game back in May, after clients began asking for properties "and we were seeing more and more bank-owned assets flowing into the stream of commerce." Radow put together a private equity raise in August for \$2.5 million and, with financing from **Bank of North Georgia** as well, is buying the 144-unit Somerpoint in Marietta for about \$3.5 million, the 77-unit Flynt Ridge in Griffin for about \$1.9 million, and a third one in Smyrna.

"We started to test the capital markets," Radow said. "Plenty of banks were willing to loan on multifamily, but we were unsure if equity markets were there if it wasn't class A property."

Radow's recent deals are class B and class C properties, older properties that will need some renovations, which RADCO has done in the past, including River West apartments in the Cumberland area.

"We went out to raise our own fund and in 10 days were oversubscribed," he said. "I was pleasantly surprised by the response. We raised almost double that. I have to send checks back."

The multifamily sector is seeing "plenty of capital," said **Kevin Geiger**, vice chairman of **CB Richard Ellis Inc.**'s investment proprieties multi-housing group in Atlanta. "It's not unusual for experienced operators with a good track record to be oversubscribed [in an equity raise] today."

Atlanta's apartment sales volume this year should match 2010's sales volume, which was just under \$1 billion, Geiger said. "We expect it to pick up in 2012 as values pick up. Most investors see Atlanta slowly coming out of the recession." Job creation, a driver in the apartment markets, is still an issue in Atlanta, where the unemployment rate is 10.4 percent. "But we are seeing plenty of interest from buyers across the country," Geiger said.

Rents in metro Atlanta are improving, increasing the demand for apartment investment, he said.

"We've seen some good rent growth in the core locations [inside the Perimeter] and along the Beltway," Geiger said. "Rents have bounced back from 2009 levels." It's still not where people want them to be, he said, but better quality assets and locations, like those near hospitals or universities, are faring better. The Central Perimeter area has seen rents rise 7 percent to 10 percent in the past 12 months, while the Town Center area near **Kennesaw State University** has seen rents rise 4 percent to 5 percent, he added.

Return to normalcy

"We are starting to return to some degree of normalcy," said **Joshua Goldfarb**, managing director of Southeast Apartment Partners LLC.

Class A apartments, a newer property heavy with amenities, draw "25 investors deep that want to buy it," he said. Apartment occupancy drops farther down the property category scale, he said, and there the market "isn't quite as healthy from an operations standpoint, but there is still a bunch of capital chasing it."

And not all sales today are bank-owned, or REO, properties, Goldfarb said. Many early REO properties are returning to the market at retail prices, he said. Just 18 months ago, there was limited capital for apartment investment "and you were

having to beg people to make an offer [on a sale]," Goldfarb said. "That is not a great position to negotiate a deal. Today we are more balanced."

That kind of balance means developers are planning new class A apartments. **Novare Group Holdings LLC**, Gables Residential, **Daniel Corp.** and Fairfield Residential are all working on new apartment deals in metro Atlanta.

Alan Dean, formerly of **Trammell Crow Residential**, was recently hired by Charlotte, N.C.-based multifamily developer **Pappas Properties LLC** to open an Atlanta office and begin looking for deals in the metro area.

"We're looking primarily at ground-up development," Dean said. "We're seeing a lot more activity in the past six months. Atlanta has probably lagged somewhat behind some of its brethren. Capital has been more in the Carolinas."

Developers are taking an interest in new construction because "everyone can read the tea leaves," Dean said. "The rental business is positioned for a four- or five- year run that could be the best operating fundamentals we've seen in 30 years."

Young professionals, who are often prime renters, coupled with many forced out of homeownership during the Great Recession have boosted apartment rentals, he said.

All good reasons for Radow, who said he will seek another private equity raise. His Somerpoint deal closed Aug. 31, and Flynt Ridge is expected to close Sept. 27. Both were bank-owned deals, he said. The Smyrna deal is expected to close Sept. 30 and is on a note held by Synovus that is secured by the apartments, he added.

"We hope to have another tranche of deals in the next few weeks [with the equity funds]," Radow said. Eventually RADCO will have a general fund, "but we wanted to develop this track record first," he said. "It's a new market, a new time, and we have a new business plan, so we wanted to wow the markets as we grow this platform."

Top apartment sales 2011

Windsor at Mount Vernon, \$60.2 million

Overlook at Berkeley Lake, \$43 million

660, \$42.8 million

The Paces, \$39.4 million

Merritt at Satellite Place, \$38.5 million

Source: CB Richard Ellis Inc.

Lisa R. Schoolcraft covers Restaurants and Retail