

Crittenden Apartment Report™

Crittenden Publishing, Inc.
P.O. Box 1150
Novato, CA 94949
(800) 421-3483

Vol. 8, No. 21

Private Investors Shift Focus to Boost Returns

Look for more private investors to alter their traditional acquisition strategies to generate higher yields on new purchases. Many buyers will shift their focus to newer, institutional quality complexes. Regional investors such as Alabama-based Equity Resources figure they can get cap rates near 10% on properties in strong suburban markets by taking advantage of REITs' and other big developers' growing willingness to sell newly-completed complexes. Turnaround investors likely will follow the lead set by Southern California specialist The Bascom Group and focus on the acquisition and repositioning of stabilized complexes to attract a younger tenant base.

Apartment investors have long and profited from the purchase and turnaround of underperforming properties. But few have sought to upgrade and/or retenant complexes boasting 95%-plus occupancy rates. The Bascom Group recently paid \$41M to buy the 474-unit Tennis Club Apartments at Warner Center in Woodland Hills, Calif. The buyer plans to spend another \$3.1M on upgrades to the 98% occupied complex.

The 31-year-old Tennis Club property includes eight four-story buildings with a mix of one-, two- and three-bedroom apartments. Amenities included a swimming pool, spa, private patios and balconies. Most of the current tenants are older than 55 years of age. The Bascom Group plans to reposition the complex to attract the young professional types who work in Los Angeles.

The Taiwanese-owned Bascom Group plans to increase monthly rents from the current average of \$850 to about \$1,000 once it completes the renovation project. The firm got a going-in cap rate of 7.3% and projects a 7.4% return at the end of the first year. Company execs count on a return of about 9.25% at the end of the second year. The Bascom Group aims to close on three or four more Southern California complexes by the end of next month.

Equity Resources looks to buy more Class A apartment properties throughout the South after closing a \$26.4M deal on Oct. 18 to buy the year-old, 408-unit Lincoln at Wolfchase complex in the Memphis suburb of Cordova, Tenn., from Lincoln Property Co. Equity Resources typically makes \$10M to \$28M deals for Class A and Class B apartments in Alabama, Florida, Mississippi, Tennessee and Texas. The firm got a 9.6% initial cap rate on its acquisition of the 95% occupied Lincoln at Wolfchase. It projects a 10% yield once it leases up the vacant units. This compares to the 9.25% cap Equity Resources got on its purchase earlier this year of a 12-year-old, Class B property in suburban Birmingham.

The Lincoln at Wolfchase includes 18 three-story buildings with a mix of one-, two- and three-bedroom apartments. Units feature myriad amenities including washers and dryers, vaulted ceilings, spas and Berber carpeting. Common area amenities include a business center. Monthly rents range from \$625-\$1,100. Equity Resources will rename the complex the Parc at Wolfchase.

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