

# The Apartment Report™

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## PLAYERS OUTLINE BLUEPRINTS

Companies such as **StarPoint Properties**, **S-J Management** and **Kislak Company** couldn't wait for that Times Square ball to drop. That's because if the REITs opt for dispositions, the private real estate investment firms are underscoring acquisitions in 2008. Acquisition budgets can range from \$400M to \$700M. And unlike 2007, investors count on hitting their acquisition targets this year.

Look for abatement in apartment pricing. Cap rates should inch up by 25 bps to 50 bps. Expect private investors and institutional firms to scout for value-added ops, especially those with a going in cap rate around 5% to 6.5%. Those with fat wallets should take a peek at San Diego, Denver and Phoenix, where the condo conversion collapse creates attractive value-added deals. The properties are out there and the companies itch to invest in them. It's just a matter of blending the perfect time and rate. Some even look to take advantage of distressed properties.

Don't expect StarPoint to enter new markets anytime soon this year. CEO **Paul Daneshrad** prefers to focus on his 2007 market entries of Atlanta, Dallas and San Diego, intending to achieve IRR in mid-to-high 20s. Daneshrad hopes to touch his 2008 acquisition goal of \$500M to \$600M. The firm acquired about \$400M worth of assets in 2007 — quite short of its target of \$700M.

StarPoint budgets about \$100M in acquisitions for its latest market entry of San Diego. Daneshrad likes the apartment pricing today and anticipates a further decline during the year. Expect the firm to chase attractive Class C and B properties for repositioning. Its first acquisition, the 58-unit **Casa Grande** in the Hillcrest area, fetches a purchase price of about \$6.2M. Daneshrad believes the same property would have cost him at least 10% more last year. Going in cap rate today stands at 5.5%. Daneshrad plans to increase NOI from its existing \$342K to \$597K after stabilization — a 75% increase. Look for \$18K/unit in upgrades and rent hikes of 38%. Average rent today figures around \$842. Count on rents to come in north of \$1,100.

S-J Management likes to acquire Class-A properties in core areas. CEO **Michael Sauter** usually targets 200 units or more. The firm invests on behalf of high net-worth individuals — many from Microsoft — and some professional athletes. Count on more institutional investors to team up with the firm: Wachovia Securities and Lehman Brothers take an interest and provide debt and equity in a JV-like arrangement. S-J's strategy involves opportunistic investments of 12 to 24 months that are not as yield sensitive as long-term holds. Investors received an average return of about 70% from recent sales in the Phoenix region.

Sauter reserves approximately \$100M in equity for 2008 acquisitions that translates to \$500M-worth of projects. S-J usually sinks in less than 20% and always looks to buy at least 20% to 30% below market. It picks up the 205-unit **Aretē Apartment Homes** in Central Phoenix for close to \$138K/unit — far less than its asking price of \$175K/unit. Gray Development developed and sold the property, stabilized at 90%. The going in cap rate stands at 5.28% and Sauter intends to move it to around 6.75% in six months. The target action plan involves moving rents by 5% to 10% to range from \$1.50/s.f. to \$1.75/s.f. compared to current rents of \$1.20/s.f.

Kislak CEO **Tom Bartelmo** banks on making some solid purchases during the second half of 2008. He aims to acquire two to four deals worth \$75M total. Kislak didn't touch its acquisition target of \$140M in 2007. Bartelmo uses this slowdown to make inroads with lenders as he aims to pick up some distressed properties in Las Vegas and Florida. Kislak has the capital to take on deals that face foreclosure. The plan: take fees from the banks in exchange for its services, and possibly buy the projects at a later date and get a portion of the revenue. He will look at projects that anticipate a cap rate of 6% to 6.5% in year-one NOI. Tampa, Dallas, Austin, Tucson, Phoenix and Las Vegas figure on its radar. On the other hand, Kislak's brokerage service aims to grow at least 10% and anticipates doing \$500M worth of deals this year. This division benefits from the rental and occupancy growth in the New Jersey-Philadelphia area.