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Three Apartment Properties Trade for Over \$200M

By John McCloud

ORANGE COUNTY, CA-In a set of transactions its brokers believe will finally provide the market definition investors are seeking, Northwestern Mutual Insurance has sold three class A apartment complexes in Aliso Viejo and Rancho Santa Margarita for more than \$200 million. The properties, which closed over the last 10 days, sold at a sub 7% cap rate to private buyers.

The properties include the 386-unit Aventine at Aliso Viejo, which sold to Pacific Coast Management of Newport Beach, CA for \$56.25 million; 484-unit Alize at Aliso Viejo, which sold to Sequoia Equities of Walnut Creek, CA for \$75 million; and 498-unit Avila at Rancho Santa Margarita, which sold to Stoneridge Capital Partners of Newport Beach for \$70 million.

The seller was represented in all three deals by Joe Leon and Dean Zander, partners at Hendricks & Partners, and Raymond Eldridge and Kevin Mulhern, senior vice presidents at CB Richard Ellis. According to Leon, Northwestern Mutual decided to sell the properties, which it had owned since they were completed in the late 1990s, to shore up their cash reserves. "It was a balance sheet play," he says.

The properties went on the market in early December, and Leon says response was extremely positive because of their location and quality. "We probably conducted 130 tours," he reports, adding there were prospects from "entirely across the spectrum," including high-net-worth individuals, sponsored equity funds, family trusts, public trusts and pension fund advisors.

But Leon says the seller made a strategic decision not to pursue institutional investors. "They felt private capital was the not only the most aggressive but also the most likely to close," he explains. "There are no investment committees they have to go through, where on the institutional side, there are quite a few levels of approvals, any one of which can keep it from going forward."

A significant factor in the transactions, Dean notes, is that today's low interest rates make it possible for the buyers to enjoy cash flow from day one. "Underwriting has changed from trailing a 12-month look to trailing a 90-day look," he says. "Lenders don't want to wait to see how something performs."

In Leon's opinion, the deals should break the investment impasse that's kept investors on the sideline since the beginning of the economic crisis. "Everyone is looking to these deals to find out where the market is," he tells GlobeSt.com. "There were so many folks on the sidelines, but now you have data points to say there's where deals are getting done. Now it's a little more comfortable, and they can say, 'Maybe I'll get back. It will definitely stimulate investment activity.'"

According to Dean, there's a lot of private capital available looking for the right moment to jump back into the market. "A lot of these private groups have been refinancing and building their war chests over the past few years," he says. "They haven't been active in the market, but now they have a large cash reserve to be redeployed. The money that didn't want to compete with the institutions at 4.5 to 5 caps now has the upper hand."

Moreover, he adds, they're buying for the long-term with no immediate exit strategy, which is why Class A properties in prime locations are particularly attractive to them. He mentions he and Leon have a similar property Hollywood in escrow and expected to close in the next 45 days. It also attracted a lot of investor interest.

The two brokers, however, caution not to expect a flood of similar transactions in Southern California, primarily because there aren't that many to be had. "Orange County averages one to two class A trades per year," Leon points out. "It's very different from Phoenix and Dallas. Those are more merchant-builder markets, but there are only an average of 2,300 apartments built per year in Orange County. The Irvine Co. is responsible for 65% of those, and they never sell. So it's rare to find class A product like this. It's similar in Los Angeles. In general, Southern California is a barrier-to-entry market to build and barrier-to-entry market to buy."

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