The Apartment Report™

CRITTENDEN RESEARCH, INC. • P.O. BOX 635107, SAN DIEGO, CA 92163 • CUSTOMER SERVICE: (800) 421-3483

Vol. 27, No. 16 **April 9, 2018**

INVESTORS REMODEL MULTIFAMILY APPROACH

Count on investors to revaluate their acquisition approach for the year to adapt to this late market cycle. Competition for true value-add deals will continue to be intense and pricing hasn't adjusted to rising interest rates. Expect investors to compensate by viewing both lighter and heavier value-add plays more favorably. Newer communities or those that have been recently renovated can benefit from very light renovations costing under $5K per door such as a new coat of paint or tech package added to units. Heavier renovations exceeding $20K per unit will be rarer going forward, but available for those willing to take on the risk. Investors will also look for more core and core-plus opportunities.

With Q1 sales volume down, many companies will need to reset their expectations on returns and lengthen holds. It will take a little time for sellers to adjust in price because of the fierce demand. High prices and rising interest rates mean lenders won't go as high on the capital stack, so bridge lending, pref equity and mezz debt will be hot. Debt service has also risen, but the overall economy is strong enough to override the increase. If rates keep climbing, some interesting opportunities for deals might surface from those who went with floating-rate debt a couple years ago.

Watch for **Wharton Equity Partners**, **Resource**, **CenterSquare Investment Management**, **The Bascom Group**, **Western Wealth Capital**, **Pensam Residential**, **Eastham Capital**, **The ValCap Group**, **The RADCO Companies**, **Continental Realty Advisors**, **FCP**, **Waterton**, **McCann Realty Partners**, **LEM Capital**, **Hamilton Zanze**, **American Landmark**, **Sequoia Equities**, **Continental Realty Corporation**, **A&M Equity Group**, **Metis Legacy Partners**, **Goldelm**, **Trillium Investments** and **180 Multifamily Capital** to all be active and hungry for acquisitions.

Wharton Equity Partners will place a larger emphasis on finding portfolio transactions as it's easier to spread the risk around because there tends to be a blend of value-add, core-plus and new properties in term lease-up. The firm will still pursue individual property deals as well. Wharton Equity will invest $250M in assets this year. The company will search in the Northeastern markets that are still growing with stable economies. It will see slightly higher cap rates compared to the Southeastern markets that are currently hotter than a pistol. Five to seven-year holds will become the norm, and Wharton Equity will even consider 10-year-plus holds. Returns for core-plus will be in the 13% to 15% range and value-add will place somewhere around 15% to 17%.

Continental Realty Advisors will buy close to $1B in assets over the next two years. It will be in every state except California, New York and Illinois. The firm will be especially active urban and suburban areas in Las Vegas, Denver, Phoenix, Dallas, Houston, Kansas City, Memphis, Tenn., Louisville, Ky., Orlando, Tampa, Fla., and Indianapolis. CRA looks at Class A to C and core-plus to value-add deals, although it doesn't see as much of an opportunity for core deals. The company tracks employment expansions in well-paying industries such as medical, finance, tech and logistics. It has multiple funds for holds ranging from four to five years all the way to 20-plus year holds.

Resource plans to buy $300M to $400M of multifamily assets in 2018. The firm will be focusing on workforce housing in suburban-infill areas located in the top 25 MSAs. Resource will renovate the majority of units but perhaps leave a little meat on the bone for the next owner. The company will take out between 65% to 70% leverage and will be allocating more floating-rate debt this year to preserve flexibility. It looks for IRR of 14% to 16% with a three- to five-year hold.

Pensam Residential primarily targets suburban Class A and B properties in the Southeast. It has two different value-add approaches: Adding a tech package to units on the lighter side and taking on a much heavier lift for the more distressed properties. Renovations can easily range from $1K to $25K per unit. Pensam will continue its development and bridge lending platforms in addition to moving into the senior living space.

Continued on Page 3

New Contacts Added to Directory

See Online Directory http://multi.crittendenonline.com/ for Complete Contact Information with Email Addresses

MULTIFAMILY FIRM	ADDRESS	CONTACT
BREC Development	2101 Highland Ave. Suite 110 Birmingham, AL 35205	Steven Hydinger, Managing Partner
Bridge Partners	1850 Mt. Diablo Blvd. Suite 410 Walnut Creek, CA 94596	Brad Harrington, VP of Acquisitions
Bristol Development	381 Mallory Station Road Suite 204 Franklin, TN 37067	Bryan Jacobs, CFO Lisa Gunderson, VP of Asset Management
BSR Trust	1400 W. Markham Suite 202 Little Rock, AR 72201	Randy Jackson, VP of Investment
Buckingham Companies	941 N. Meridian St. Indianapolis, IN 46204	Bradley Chambers, President CEO
CA Ventures	130 E. Randolph St. Suite 2100 Chicago, IL 60601	Bob Flannery, COO Joe Duffy, VP of Asset Management John Diedrich, SVP of Investments Matt Katsaros, SVP of Acquisitions
Camden	11 Greenway Plaza Suite 2400 Houston, TX 77046	Ben Brosseau, VP of Real Estate Investments Chad Weaver, VP of Real Estate Investments Mark Teather, Director of Acquisitions Stanley Jones, VP of Real Estate Investments Todd Triggs, VP of Real Estate Investments Bill Sengelmann, EVP of Real Estate Investments
Carmel Partners	1000 Sansome St. First Floor San Francisco, CA 94111	Aaron Stevens, SVP Capital Finance Erin Beitz, Director of Acquisitions Jim Howard, Head of Asset Management Michael Pence, VP of Acquisitions Trey Hilberg, SVP Acquisitions
Castle Lanterra Properties	1 Executive Blvd. Suite 204 Suffern, NY 10901	Elie Rieder, CEO
CenterSquare	630 Germantown Pike Suite 300 Plymouth Meeting, PA 19462	David Kimble, Senior Asset Manager Mark Greco, Managing Director
CF Real Estate Services	710 Peachtree St. N.E. Suite 100 Atlanta, GA 30308	Christopher Feeley, President, Campus First Ian Bingham, SVP of Client Services
CFH Investment Partners	901 S. Mopac Expressway Building Three, Suite 320 Austin, TX 78746	Kyle Goldman, VP of Private Equity Benoit Rochard, VP

INVESTORS REMODEL MULTIFAMILY APPROACH

Continued from Page 1

The Bascom Group focuses on everything from core-plus to value-add properties in both infill and suburban areas. The company hopes to invest $1B in total for 2018. The firm will be active in the West Coast, Nevada, Texas, Georgia, Florida, Phoenix, Chicago and small key metros across the Midwest. Returns for core-plus will be in the low double digits and value-add around the mid-teens. Bascom has historically taken out floating-rate loans and will begin selectively doing some fixed rate. Additionally, the company will also look at longer holds from five to seven-plus years, which is driven by investors looking for yield.

CenterSquare will invest around $100M to $150M in equity in 2018. The firm will keep its eye open for value-add properties with nine-foot ceilings, and believes an opportunity also exists in acquiring more recently built product that is still in process of leasing up. CenterSquare will target traditional garden-style suburban properties in growth markets, including Atlanta, Dallas, San Antonio and Houston.

The RADCO Companies will look for heavy value-add deals and those that can't cap such as price per pound. The firm will focus on more niche deals such as adding more units on existing properties. It plans to invest $200M in equity. Costs can range from $15K to $60K per door depending on the scope of the renovations.

The ValCap Group will be looking to expand into Houston metro and widen its footprint in the Texas markets. It will look to buy both value-add and newer product in both urban and suburban locations. Renovations will cost anywhere from $5K to $10K per door. The company looks for returns around 20% IRR and high teens for newer product. ValCap also owns properties in Tennessee and the Midwest.

Eastham Capital will not be lowering its return expectations as the firm remains focused on yield and cash flow. The company will be active in Houston and San Antonio and has already acquired seven properties this year and plans for another five. It has a value-add approach spending from $1K to $10K per door, however, the post-renovation project should provide at least 10% cash-on-cash yield.

OWNERS, DEVELOPERS & MANAGEMENT FIRMS

Bascom Group, The: 26 Corporate Park Drive, Suite 200, Irvine, CA 92606. Scott McClave, Senior Principal of Transaction & Finance, (949) 955-0888, Ext. 12. smcclave@bascomgroup.com

CenterSquare Investment Management: 630 Germantown Pike, Suite 300, Plymouth Meeting, PA 1946. Chad Burkhardt, SVP of Private Real Estate, (610) 818-4681. cburkhardt@centersquare.com

Continental Realty Advisors: 10579 W. Bradford Road, Suite 100, Littleton, CO 80127. David Snyder, Chairman, (303) 730-0549, Ext. 202. dsnyder@crapartners.com

Eastham Capital: 6001 Broken Sound Parkway N.W., Suite 510, Boca Raton, FL 33487. Eric Silverman, Managing Partner, (561) 571-7100, Ext. 102. eric@easthamcapital.com

Pensam Residential: 777 Brickell Ave., Suite 1200, Miami, FL 33131. Noah Miller, VP of Acquisitions & Finance, (786) 871-4960. nmiller@pensamresidential.com

RADCO Companies, The: 400 Galleria Parkway, Suite 1200, Atlanta, GA 30339. Norman Radow, CEO, (770) 272-9330. norman@radco.us

Resource: 1845 Walnut St., 18th Floor, Philadelphia, PA 19103. Marshall Hayes, Director of Acquisitions, (215) 546-5005. mhayes@resourceamerica.com

ValCap Group, The: 3203 McKinney Ave., Dallas, TX 75204. Richard Fishman, President/Founder, (210) 504-3339. rfishman@valcapgroup.com

Wharton Equity Partners: 505 Park Ave., 18th Floor, New York, NY 10022. Peter Lewis, President, (212) 570-5959, Ext. 150. plewis@whartonequity.com

New Multifamily Lenders in Directory
See Online Directory http://multi.crittendenonline.com/ for Complete Contact Information with Email Addresses

COMPANY	ADDRESS	CONTACT
First National Bank	11404 W. Dodge Road Third Floor Omaha, NE 68154	Mike Kuester, SVP
First of Long Island Corp.	10 Glen Head Road Glen Head, NY 11545	John Fitzpatrick, VP
First Republic Bank	1888 Century Park E. Los Angeles, CA 90067	Rafael Rosenkranz, Senior Managing Director
First Tech Federal Credit Union	P.O. Box 2100 Beaverton, OR 97075	Christopher Lewis, Commercial Lending
First United Bank	P.O. Box 130 Durant, OK 74702	David Koehn, SVP
Fortress	1345 Avenue of the Americas 46th Floor New York, NY 10105	Gordon Runte, Managing Director
Freedom Financial Funds, LLC	23632 Calabasas Road Suite 204 Calabasas, CA 91302	Michael Klein, CEO Stanley Kafka, Principal
Freedom Mortgage	623 Fifth Ave. 24th Floor New York, NY 10022	Mary Davenport, EVP Brett Parker, CRE Loan Originations Roger Brown, CRE Loan Originations Tent Brown, CRE Loan Originations Patrick Nizich, CRE Loan Organization
Frost Bank	100 W. Houston St. San Antonio, TX 78205	David Palans, EVP
Fulton Bank	1 Penn Square Lancaster, PA 17602	James Wagner, SVP Bill Kepler, EVP of Commercial Specialized Carolyn Beam, EVP of Retail Banking
Garrison Realty Finance	1290 Avenue of the Americas Suite 914 New York, NY 10104	Jeremy Burton, VP
German American Bancorp	711 Main St. Jasper, IN 47546	Jeremy Foster, Market President
Glacier Bancorp	49 Commons Loop Kalispell, MT 59901	Dennis Beams, EVP/Chief Credit Officer Dave McNutt, VP Jennifer Wheeler, VP
Goldman Sachs	200 West St. New York, NY 10282	Ted Borter, Head of Real Estate Rene Theriault, Managing Director Miriam Wheeler, Managing Director Will Waters, Regional Director Roddy O'Neal, Director of National Production James Abbee, Regional Director Rod Reppe, Regional Director
Great Lakes Financial	1020 Huron Road Suite 100 Cleveland, OH 44115	Joseph Bobeck, Jr., Principal
Great-West Financial	8515 E. Orchard Road Greenwood Village, CO 80111	Brian Schwartz, SVP of U.S. Mortgage Investment

MANAGERS UNDER THE MICROSCOPE

Owners will inspect management companies very thoroughly to make sure their portfolios are up to their potential this late in the cycle. With returns moderating, management will be even more crucial. The customer experience has become even more important and will separate the managers who succeed from those who fail. Communities that connect with their residents will see improved resident retention and reap the rewards of a higher NOI. Some companies such as **Rivergate KW Residential** have its employees undergo Ritz Carlton training classes for memorable customer experiences.

Managers such as RKW, **The Donaldson Group**, **MEB Management**, **Sunrise Management**, **Pinnacle**, **ZRS Management**, **Village Green**, **FPI Management**, **Burlington Capital**, **Lincoln Property Company**, **Greystar** and **Alliance Residential Company** will do all they can to prioritize the customer experience.

Offering various perks such as a grab-and-go breakfast or social events can go a long way and make residents feel appreciated. Closely paying attention to the residents' life and going the extra mile will also set managers apart. Remembering pet names and recent events like doctor appointments or vacations will leave a positive impact on tenants. Adapting to the digital age and having an online curb appeal above 3.5 stars will also allow management teams to keep up with the competition. In addition to secret shopping their own properties, many owners will keep an eye on online reviews to discover issues they previously wouldn't be aware of. Properties that focus on online reputation will enjoy higher resident retention and consistent rent growth, which is why more companies than ever are devoting budgets and teams to strategize ways to increase their communities' positive reviews.

Managers will also be focused on employee retention almost as much resident retention, as valuable people are the foundation for strong customer service. Recruiting from universities and trade schools has picked up to fill the gap in the expanding multifamily industry, but keeping the best people remains one of the biggest management challenges. While tactics that work across industries such as competitive salaries, opportunities for career advancement, benefits, open communication, etc. remain effective, one of the more interesting programs is *Shelters To Shutters*. The program provides employment and housing at a discounted rate for individuals facing homelessness. It boasts an 87% annual employee retention rate and S2S screens and trains the individuals for property management.

The Apartment Report Team
Email: editor@crittendenapartmentreport.com

Customer Service
(800) 421-3483
membership@crittendenresearch.com

Newsroom Fax: (619) 923-3294

The Apartment Report™ is published by Crittenden Research, Inc., 201 Alameda del Prado, Suite 220, Novato, CA 94949. Send address changes to *The Apartment Report™*, P.O. Box 635107, San Diego, CA 92163. Contents copyright © 2018 Crittenden Research, Inc. Sample reports may be requested online at http://www.crittendenonline.com.

Crittenden publishes *The Apartment Report™*, *The Crittenden Report on Real Estate Financing™* and *Crittenden Retail Tenants™*, and associated directories. For more information about our publications, go to http://www.crittendenonline.com.