

Activity Rebounds on Pre-Recession Debt

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...Judging recent deals, Phoenix apartments will loom even larger on private investors' wish lists. Opportunistic out-of-state investors BH Properties and First Market Properties reach milestones in recent deals that are clearly motivated by bank sales in the metro area with an average vacancy of 8%. Opportunistic investor BH Properties refines its investment strategy and could use \$60M to \$70M for acquisitions this year, after acquiring its first performing notes in Phoenix, which are collateralized by a pair of apartment complexes. The company could further deepen its apartment foothold in Arizona, while looking for properties throughout western states, including California and Nevada. Expect the company to downshift emphasis on vacant retail boxes since it hasn't yet found significant retailer buzz to justify leasing risk. It will, however, consider retail boxes leased at or above 50%.

BH Properties will split remaining capital equally between note purchases and fee-simple purchases of apartments, industrial and retail after returning to the acquisitions fold 10 months ago. Deal sizes can range from \$2M to \$15M, and 10%-plus returns are sought during five year-plus hold periods.

Following an initial Arizona entry motivated by the transaction rather than the market, look for private investor First Market Properties to continue pounding pavement for apartment complexes nationwide, as well as community centers throughout Florida. Don't be surprised to see further interest in note purchases as the company scans the U.S. to diversify a portfolio mostly comprising Florida and New York properties. Interest in Class B and Class C apartment complexes acquired through nonperforming note purchases, short sales, real estate-owned and other distressed real estate scenarios are on the company's radar. Company dealmakers eye 9% to 11% cap rates on apartment deals and will consider transactions in the \$2M to \$10M range. Action may happen in Texas and, potentially, more Arizona properties could be acquired after a recent deed-in-lieu purchase of a 39-year-old apartment complex in northwest Phoenix that's about 50% leased.