THE REAL DEAL

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Apartment sector picks up in recession

By Jennifer LeClaire

Most commercial real estate, such as shopping centers and industrial properties, will suffer through the recession until next year, but the apartment sector is poised to buck the negative trend. The rising foreclosure rate is turning homeowners into renters, and that's been good news for landlords.

According to the first quarter 2009 PricewaterhouseCoopers Korpacz Real Estate Investor Survey, as the demand for multi-family housing catches up with supply, the apartment sector will emerge from the recession phase before its commercial property counterparts.

In South Florida, some foreclosed homeowners and other tenants who can't or don't want to purchase homes are moving into "hybrid apartment houses." That's what Michael Cannon, executive director of Integra Realty Resources-South Florida, a national real estate counseling and valuation firm in Miami, calls apartment houses that were converted into condos during the boom, and sold off to investors and flippers.

"But many of those condos never closed, the properties are now in distress and the developers are reverting to renting the unsold units as apartments," he said.

The rental market fundamentals are strong in South Florida now, but if banks are forced to foreclose on condos and flood the market with high-quality apartments, it will dilute the economic picture for multifamily, said David Lynd, chief operating officer of the Lynd Group, a property management firm and investment group headquartered in San Antonio.

The other factor is inflationary concerns. "At some point, inflation is going to take hold and apartments are a fairly good hedge against inflation," Lynd said. "So I expect more dollars to begin migrating toward multifamily investments."

Investors continued pouring into the multifamily sector in 2008, according to the Mortgage Bankers Association. Fourth quarter multifamily debt grew to $900 billion, an increase of $5.4 billion from the third quarter. That's counter to what many expected, but that trend might not continue through 2009.

"Hand in hand with a hot apartment market is the desire of investors to buy these properties," confirmed **Matthew Zifrony**, an attorney at **Tripp Scott, P.A.** in Fort Lauderdale. "However, the current credit crisis makes it more difficult for investors to obtain the financing that would allow them to close on these properties."

Lynd plans to be among the active buyers in the multifamily sector through a private equity fund. Despite his expectation of deflated rents in the face of unemployment concerns, he's betting the demand will catch up with the supply and the lack of credit to build will eventually lead to a shortage.

"Generation Y is three times bigger than Generation X and they are renters by choice," Lynd said. "Class B and C apartments tend to do well in downturns because they are the cheapest form of housing. We are positioning our chess pieces for the big game coming up. We like South Florida long-term."

Even though the nation's housing starts unexpectedly rose 22 percent in February propelled by a surge in condominiums, Cannon said South Florida will not see any new apartment construction for 12 to 18 months. That could bode well for investor plans.

"This is the greatest payback period we've seen and we have to fix the problem with regulation, maybe appraisal reform and maybe market reform on Wall Street," Cannon said. "We're learning a big lesson from this one."