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Investors drive up demand for apartment properties

By By Burl Gilyard, F&C Real Estate Writer
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Edina-based Bigos Management closed on the purchase of a 192-unit apartment complex, The Preserve in Rogers, in October for $19 million.

But the firm's owner, Ted Bigos, said it has been tough to find properties to buy, given the intense competition for real estate investment assets.

"The market's coming back slowly, and it's just been extremely difficult to buy in Minnesota because there are a lot of people looking to invest here and the returns are so low. It's the worst I've ever seen," Bigos said. "I've never found it this hard to buy them."

Bigos Management owns 5,200 apartment units, primarily in the Twin Cities but including 150 apartments in Duluth.

The price for The Preserve in Rogers works out to nearly $99,000 per unit.

"It's a newer building. I just think Rogers is a growing area. I think it's a good play for the future," Bigos said. "I think it all makes sense."

"Prices are just so high; people are just accepting lower returns," Bigos said. "I think it's a great time to be a seller."

But Bigos is not among those selling. "No, because we're stupid," he deadpanned. "I'm just a long-term holder. Real estate goes through its cycles. The rents really haven't jumped back. People are just buying and hoping the future's going to be rosy."

While office deals often get more attention, there have been several big apartment sales in the Twin Cities this year.

Hartford, Conn.-based Cornerstone Real Estate Advisers, a division of the MassMutual Financial Group, acquired the 282-unit Windsor at Promenade Oaks in Eagan for about $43.4 million in August. The purchase price was nearly $154,000 per unit.

In another large deal, Miami-based Crescent Heights acquired the Falls and Pinnacle apartment buildings in Minneapolis for $41.6 million for a condo conversion project. But everyone in the industry agrees that the conversion market is cooling.

"That's going to slow down — it already has. There's just too many condos on the market right now," said apartment broker Abe Appert, vice president of Bloomington-based Fransen Appert Real Estate Group. "People are going to stop buying condos to convert them. That's been a huge portion of the apartment market."

Other large deals are looming. The local portfolio of Chicago-based Equity Residential is on the block. The REIT owns nearly 4,000 units in the Twin Cities area. A spokesperson for Equity Residential could not be reached for comment.

The buildings in the portfolio are being listed in blocks by different brokerage firms.

"In today's market, there's not a lot of correlation between property performance and pricing," Appert said, noting that, in general, property prices did not fall as vacancies climbed in recent years.

"The issue really has been that demand for apartment property continues to be high from buyers of all types. The driving force, in my opinion, has been lack of an alternative investment. The Twin Cities is perceived to be a fairly stable, solid apartment community with high barriers to entry on construction."

"It's always been sellers' market in the 12 years that I've been in business, because the demand has almost always exceeded supply," Appert said.

Looking ahead, as interest rates climb and condo mania cools, market observers see improving fortunes in general for the apartment market. Apartment owners have already begun to see declining vacancies.

Through the market close on Dec. 23, apartment REITs posted year-to-date gains of 16.1 percent, contrasted with overall performance of 9.7 percent for all REITs, per statistics tracked by the National Association of Real Estate Trusts (NAREIT). In 2004, the apartment REIT index was up 34.7 percent.

Just last week, Baltimore-based Town & County Trust was acquired for $1.3 billion by Morgan Stanley Real Estate and the Canadian Onex Real Estate. The publicly traded REIT owns 13,330 apartment units on the East Coast.

"It has been a good year for the sector," said Jay Hyde, vice president of communications for NAREIT. "If there is a benefit of rising interest rates, it is beneficial to apartment REITS and apartment owners generally."

Keith Collins, vice president with the local office of CB Richard Ellis, said there were more institutional deals this year.

"I think that trend will continue in '06," he said. "We're definitely seeing a slowdown in the condo conversion sales. I really think there's still a strong capital supply out there for apartments. I think it's going to keep pricing high."

"The condo market in general, it's challenging," he added. "The people that are looking to sell to a condo conversion buyer, that market is just not as strong as it once was, three to six months ago."