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KW Continues West Coast Apt. Buying Spree

Multifamily Turnaround Specialist Turns Up The Heat in July, Closing \$125M in West Coast Deals



Adding another exclamation point to the keen demand nationally for value-added multifamily property, Kennedy Wilson Multifamily is closing the acquisition of a Seattle-area asset this week and a San Jose property next week, capping more than \$425 million in West Coast acquisitions for KW and its affiliates in the last 60 days.

In an off-market transaction with its partner RREEF Real Estate, KW Multifamily acquired The Mill at Mill Creek, a 516-unit rental community located in Mill Creek, WA, from seller Nevins, Adams, Lewbel and Schell, KW Multifamily President Bob Hart told CoStar Advisor. Market sources say the deal for the well-located but underperforming asset is valued at \$80 million, not including a planned \$7.2 million renovation of the property.



KW also plans next week to close the acquisition of a 331-unit complex in San Jose, CA from an institutional seller in a deal valued by market watchers at \$46 million.

In March, KW bought The Heights on West Campus (renamed The Reserve) in Federal Way, WA, from Nevins, Adams, Lewbel and Schell. During the past nine months, KW Multifamily has accumulated a portfolio of 1,435 apartments in the Puget Sound area with a total value approaching \$200 million.

Also, a KW fund and RREEF last week acquired a 126-unit condo project with ground-floor retail at Fifth and Madison, along with a 41-story office tower at 901 Fifth Ave. from Broadway Partners in downtown Seattle for a whopping \$300 million combined.

Kennedy Wilson's multifamily unit, however, sticks close to the knitting on acquisitions. Its platform is the acquisition, rehabilitation and repositioning of value-added multifamily properties in supply-constrained West Coast markets. Repositioning troubled or underperforming property is nothing new to Hart, whose background is asset management. Working for trustees in California Insurance Commissioner John Garamendi's office, Hart was involved with the workout and disposition of the Executive Life portfolio seized by the state in the early 1990s. Once the largest life insurance company in California, Executive Life held a multibillion-dollar portfolio of junk bonds and was declared insolvent and seized by the California Department of Insurance.

After that, Hart served as SVP of portfolio management and turnaround for Heitman Capital Management. He joined Kennedy Wilson as an acquisitions manager in 2000 and within a couple of years, spun off the multifamily unit from the parent company. KW Multifamily now controls a \$1 billion portfolio of about 7,500 units in California, Oregon and Washington. The company is 80% owned by KW and 20% by Kenedix, a Japanese corporation.

Within each acquisition, KW is a sponsor and invests in the deal with third-party investors like RREEF. Sometimes Kenedix will invest in the deal itself with KW executives.

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"We leverage our deals with 65%, 75% institutional debt, and the remaining 25-35% with institutional equity provided by several partners," he said.

KW Multifamily is the service provider arm for management, construction management and other operations. The company focuses on urban in-fill markets near the coast with high population growth, job growth and the demand for rental housing as an alternative to high-priced single-family homes.

The environment for West Coast acquisitions in KW's space is "still highly competitive and highly upside down," Hart acknowledged, but with acquisitions still available below replacement costs, the market headwinds haven't affected the velocity of attractive deals.

"Deals don't really make sense until you can really make sure you can get higher rents and add value on a cash flow basis," he added. "There's still an inversion between cap rates and borrowing rates, but that hasn't stopped anyone from buying apartments, including us. With the slowdown in the housing market, unless you're in a condo reversion market, most companies like ours are very bullish on apartments."

Even regions where condos are reverting back to rental housing, like Las Vegas and South Florida, haven't seen a significant slowdown, Hart said, adding KW Multifamily isn't active in either of those markets.

KW Multifamily's focus on the West Coast sets it apart from The Bascom Group, the Irvine-based company that also specializes in value-added acquisitions, which has ranged into such rebounding markets as Atlanta and Phoenix. KW may explore other markets in the future, but for now, "we're sticking close to what we know," Hart said.

"We're very bullish on the Pacific Northwest and Seattle in particular, with all the job growth there," Hart told CoStar Advisor. "Rents, we feel, are still fairly low and there's good opportunity for upside there. People are trying to gobble up deals because they seem like a good value compared with San Francisco or L.A. The price per unit hasn't caught up to L.A."

Two submarkets in the Sound are particularly appealing to Hart: Redmond, where Microsoft Corp. has been expanding, and Everett, home of Boeing Corp.

Same goes for another high-tech bastion, the Silicon Valley. In Northern California, particularly in the South Bay, you have the same appetite for acquisitions, but for a different reason -- because the rents have been depressed for so long. We're starting to see really strong rent growth in the Bay Area, in particular the South Bay and Silicon Valley.

Hart is also high on Southern California -- although it's harder to find large properties that haven't yet been rehabbed. In March, KW Multifamily and its partner Wachovia Development bought the 687-unit City Heights, the largest apartment asset in the Koreatown district of Los Angeles, in a deal north of \$120 million.

"In L.A., there really hasn't been a boom of new construction since the late '80s or early '90s," Hart said. "You have pent-up demand from in-migration and job growth and not a lot of new construction, plus you have condo conversion pulling stock off the market."

Do you have a comment on this article or the CoStar Advisor newsletter? Reach Randyl Drummer, Senior News Editor, at rdrummer@CoStar.com