Green Street

Real Estate Alert

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Buyer Interest in Downtown Rentals Reviving


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MAY 26, 2021

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THE GRAPEVINE

CBRE last week hired **Roland Merchant** as a senior managing director in its investment-banking group. He leads CBRE Capital Advisors' institutional advisory practice, with an emphasis on multi-family properties. He reports to managing principal **James Scott.** Merchant joined from **JLL,** where he had the same title. He was hired by **HFF** in 2017, and JLL bought the brokerage two years later. Merchant also has worked at **Eastdil Secured, Cushman & Wakefield** and **Merrill Lynch.**

Michael Kane joined **Broadshore Capital** last week to lead West Coast acquisitions. He's a vice president in the investment manager's Los Angeles headquarters and reports to co-chief executive **Brad Howe.** Kane is focusing on multi-family properties, but is expected to expand into office,

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JC Penney Logistics Facilities on the Block

Six **JC Penney** distribution centers are for up grabs and expected to fetch about $600 million as the retailer's real estate assets are sold off in conjunction with its bankruptcy reorganization.

The portfolio consists of 10.7 million sf across six markets: Atlanta; Charlotte; Columbus, Ohio; Dallas/Fort Worth; Kansas City, Mo.; and Reno, Nev. **Eastdil Secured** is marketing the portfolio for **Copper Property CTL Pass Through Trust,** the liquidation trust tasked with selling many of the retailer's properties on behalf of creditors. The broker is pitching the warehouses as a package, but the trust will accept bids on individual properties or sub-portfolios.

Under the plan, JC Penney's operating company, which was purchased by **Brookfield** and **Simon Property** late last year to rescue the chain from bankruptcy, would sign 20-year agreements to lease back the big-box warehouses, which average 1.8 million sf with 34-foot ceilings. The absolute, triple-net deals would include

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Buyer Interest in Downtown Rentals Reviving

Renters are returning to downtown apartments, and investors are following their lead.

After plunging last year at the outset of the pandemic, occupancy rates and rents in some of the worst-hit cities have begun to recover. As Covid-19 vaccinations become increasingly widespread, and as restaurants, bars and entertainment venues reopen, tenants once again are gravitating toward city living.

As a result, buyers are warming to urban apartment listings, bid-ask gaps are narrowing, and capitalization rates are tightening — to historic lows in some markets, particularly in the Sun Belt.

Brokers report tenant tours and lease signings have rebounded in recent weeks from their year-ago depths, and rents have stabilized in most — although not all — major urban markets.

For example, "some assets in Midtown Miami are signing 50 to 80 leases a month, three times what you would expect in a normal lease-up," said **Matthew Lawton,**

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Luxury Apartments Near Dallas Up for Grabs

Investors are getting a crack at a luxury mid-rise apartment complex in suburban Dallas valued at roughly $330 million.

The 1,675-unit property is part of the Legacy Town Center master-planned, mixed-use development along the Dallas North Tollway in Plano. The estimated value comes out to roughly $197,000/unit. Dallas investment manager **Invesco Real Estate** has given the listing to **Walker & Dunlop.**

Legacy North, at 5765 Bozeman Drive, encompasses 17 four-story buildings on nearly 26 acres, according to **Yardi Matrix** data. The property is 95% occupied and 99% leased. It was developed in five phases between 2007 and 2011.

The studio to two-bedroom units average 835 sf and have open-concept layouts, balconies or patios, granite counters and stainless-steel or black appliances. Some apartments have wood-style flooring, oversized soaking tubs, double-sink vanities

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For example, "some assets in Midtown Miami are signing 50 to 80 leases a month, three times what you would expect in a normal lease-up," said **Matthew Lawton,** executive managing director of capital markets at **JLL.** "It's dramatic. The economy is opening back up. People are moving back downtown to the urban cores, and workers are re-engaging at the office."

Atlanta's in-town submarkets "started turning a corner" last month, said **Paul Berry,** a vice chairman in **CBRE's** multi-family institutional properties group. "We started seeing leasing velocity really ramp up."

Berry said that while most complexes in Atlanta's suburbs "didn't miss a beat" at the height of the public health crisis, it was a different story in the city. As late as this year's first quarter, urban apartments were averaging a net increase of just three to four leases per week, he said.

"Today, properties with similar characteristics are doing around eight net leases a week or more, and some are up in the neighborhood of 20 leases a week," he said. "This strong rebound in leasing velocity is gaining the attention of investors

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who are saying, 'Wow, these urban markets are coming back' — and subsequently, they're bidding aggressively for the assets." Where an urban listing six months ago might have drawn 80 signed confidentiality agreements, "in May that number is closer to 150," Berry said.

And while suburban properties accounted for 70% of CBRE's Atlanta-area sales in the first quarter, the balance has tipped in the second quarter, with urban properties accounting for 65% of closed sales so far, Berry said. He added that the current listing pipeline appears split about 50-50. Greater Atlanta was the second-most active apartment market last year, according to **Real Estate Alert's** Deal Database, and CBRE has been the leading multi-family sales broker there since 2009.

Brokerage executives say the outlook is improving to varying degrees in urban markets across the country.

"We are definitely seeing signs of life," said **Marcus & Millichap** president and CEO **Hessam Nadji.** "We're seeing apartment leases being signed pretty aggressively in New York and Seattle, and also San Francisco and Los Angeles to a lesser degree. There is definitely life emerging in downtown urban markets."

That's led to a shift in investor confidence. "From a buyer perspective, there was so much uncertainty during the pandemic related to operations and collections and therefore valuations in urban areas," Nadji said. "Investors were very hesitant to dive in and make significant acquisitions — but that clearly started to change about 60 days ago."

Instead of focusing on trailing three-month numbers, buyers are taking a more forward-looking approach to performance assumptions, said Lawton at JLL.

"Once owners in these urban markets start seeing strong fundamentals, buyers and capital will price off that momentum, and the bid-ask spread will close," Lawton said. "We're anticipating some significant velocity and significant inventory coming to the market this summer. It's going to be pretty dramatic."

In fact, the run of interest already has driven up valuations. "Most cap rates in any core market, or any good market with a good institutional-quality asset, are in the low- to mid-3% range," Lawton said. "This is the lowest I've seen cap rates in my 35-year career."

Berry said he's seeing that in Atlanta, with deals being priced at cap rates of 3.5% or lower. "A lot of capital wants to buy these multi-family assets, and they're convinced that urban properties in Sun Belt cities are going to do well. As a result, buyer demand is exceeding the supply of available acquisitions, and if investors have to stretch and lower the cap rate in order to win the deal, they are demonstrating a willingness to do that."

Naturally, that's drawing out more listings.

"As the depth of the buyer pool increases, it will attract more sellers into the market," said **Blake Okland,** vice chairman and head of multi-family investment sales at **Newmark.** "They realize capital markets are pricing through a lot of the Covid-related issues that may be lingering on rent rolls and profit-and-loss statements."

Market pros point to a fresh batch of sizable listings in cities that were hammered by the pandemic-induced downturn, including Atlanta, Chicago, Fort Lauderdale, Houston and Phoenix.

This month, the 548-unit Shoreham Lakeshore East hit the market in Chicago, testing the waters for large plays in that city. The 47-story property, at 400 East South Water Street in the tony Lakeshore East neighborhood, could attract bids of $337,000/unit, or $185 million. CBRE is marketing it for **AFL-CIO Building Investment,** an arm of the union advised by **PNC Realty Investors.**

A new luxury high-rise in Houston, the 357-unit Drewery Place at Fannin Street, also went on the block this month, valued at roughly $150 million ($420,000/unit). Australian developer **Caydon Property** built the 27-story tower in 2019. CBRE also has that listing.

And in downtown Fort Lauderdale, **Property Markets Group** is pitching the 639-unit Society Las Olas. The 34-story building, at 301 Southwest First Avenue, is expected to attract bids of around $300 million, or $469,000/unit. **Cushman & Wakefield** is representing the New York-based seller.

There's no doubt that the pandemic dramatically reshaped urban life in 2020, and that the hardest-hit gateway markets, such as San Francisco and New York, likely will take longer to recover. But market pros agree it's not a question of "if," but "when."

A **Moody's Analytics** CRE Solutions report this month said multi-family markets in dense urban areas such as New York, Washington and the San Francisco Bay Area likely have hit their lowest rents and are beginning to recover. Nationally, it said average effective apartment rents, which fell a record 3% in 2020, are forecast to rise 2.1% this year and return to near pre-pandemic levels in 2022.

A CBRE analysis of monthly rent and concessions data for 36 of the urban core submarkets that saw the worst rent deterioration in the past year found that in this year's first quarter, 50% saw rents stabilize and 25% saw growth, while 25% saw additional decline.

"We're still in the very early stages," Nadji said. "There are probably 12 to 18 months still to go before there is enough of a sea change in office re-openings, and people coming back to offices in a large enough scale, to support the housing demand and urban retail demand."

Market pros stressed that investors are not shifting away from suburban markets in favor of urban markets. "Capital is now interested in both," Nadji said.

Berry echoed that sentiment. "The suburbs are still doing extraordinarily well, but now urban markets are also starting to do well," he said. "It is not a situation of the haves and have-nots. It is a situation of haves and haves." ❖