Not 2007 by a Long Shot, But Apartment Sales White Hot

Co-Star

Distress Sales Recede as Developers Find Willing Buyers

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Going into the fourth quarter, multifamily sales have already bested 2010 total sales volume by more than $1 billion. The $33 billion in multifamily sales in the first three quarters are up 70% year-over-year compared to the first three quarters of 2010.

And the momentum is not slowing down, said Erica Champion, senior real estate economist for CoStar Group in a presentation at CoStar's State of the U.S. Multi-Family Market - Q3 2011 Review & Forecast this past week.

Still, Champion added, while it appears that the apartment investment sales market is white hot, this year's sales volume is still dwarfed by 2007 -- the peak year for investment activity. For example, in New York, Washington DC and Los Angeles, activity is only about one-third of the unusually high level of sales activity that occurred in 2007, Champion noted.

In addition, when looking at the annual sales volume of apartments compared to other commercial properties, it is actually tracking a similar share of sales compared to historical levels.

What's different this year is that more and more of the apartment sales involve nondistressed properties. The level of distressed apartment sales peaked in the first quarter of 2010 at about 29% of all sales being distressed. That percentage has dropped steadily.

The total number of distressed trades has dropped off by one-third in the third quarter alone versus the second quarter. As of the third quarter, only about 16% of apartment sales were classified as distressed.

Some markets are still working to purge distressed assets, Champion noted. For example, in Las Vegas, Atlanta, Houston, San Francisco, Chicago and Dallas, the percent of distressed sales are still relatively consistent with activity since 2009. While, in markets such as New York, Tampa, Washington DC, Los Angeles, Seattle, Denver and Northern New Jersey distressed sales seem to have run their course.

"The markets that are grabbing the most sales are on pace to crush last year's sales volumes," Champion said.

New York, Washington DC, Los Angeles, Atlanta, Phoenix, Chicago and Dallas have already topped $1 billion sales so far this year and all are ahead of last year's pace. Boston, Northern New Jersey and Seattle are on pace to pass that mark this quarter.

However, apartment sales volumes are trailing last year's activity in Tampa, San Francisco, South Florida, Houston, Long Island, Raleigh-Durham and the Inland Empire in California. A lot of that has to do with the slowdown in distressed sales, Champion said.

Portfolio transactions have been fueling the overall increase nationally, Champion said. Portfolio transactions are seeing a larger share of volume. In 2010, portfolio transactions accounted for 13% of sales; that is up to more than 16% so far this year.

Interestingly, smaller portfolio deals are driving the trend. For example in 2007, the $2.2 billion Lehman Bros. Purchase of the Archstone portfolio pushed portfolio sales to about 8% of total apartment sales volume that year. So far this year though, the largest portfolio sale totaled just $460 million and still portfolio sales are double what they were in 2007.

REITs kicked up their investment activity in the third quarter, in particular UDR, which is on a buying spree. UDR picked up nearly $1 billion in assets this past quarter -- mostly in New York, paying some extremely rich pricing, Champion noted.

Private sellers have been the biggest net sellers this year as regional and national developers and operators are finding liquidity in the market.