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Multifamily Land Market Shows Signs of Life

By: [Les Shaver](#)

In another sign that there could be life in the long dormant land market, San Francisco-based BRE Properties announced Tuesday that it had acquired 2.4 acres of land in downtown Sunnyvale, Calif., for approximately \$19 million. It plans to build 280 units on the site.

The fact that BRE and other REITs are searching for land shouldn't come as a surprise, but it is a sign that, at least for well-capitalized companies, the development recovery is entering a new era. Instead of just building out their own pipelines, REITs (as well as some private and institutional companies) are willing to place their bets on better days ahead by buying new land.

Big Buyers Bet on Land

Haendel St. Juste, an analyst with Keefe, Bruyette & Woods (KBW), an investment banking and security brokerage firm based in New York, says BRE, Chicago-based Equity Residential, and Palo Alto, Calif.-based Essex Property Trust have stated they want to purchase new land upon which to build. He adds that Birmingham, Ala.-based Colonial Property Trust, Atlanta-based Post Properties, and Houston-based Camden Property Trust are actively monitoring conditions in a number of their core markets to start projects on land they own.

Equity made the first move by securing a land parcel in lower Manhattan earlier this year. "BRE and Essex are the same," St. Juste says. "They would like to grow, but land is hard to find and it doesn't always pencil out. It's something they've been keeping their eye on."

Private Interest Grows

But it's not just the public companies looking for land. Some private firms are as well. In July, Atlanta-based Wood Partners purchased a 2.5-acre site in Sandy Springs, Ga., where it is building a 168-unit community. CB Richard Ellis Strategic Partners U.S. Opportunity 5 fund provided funding for acquisition and development. In August, Wood purchased a 5.9-acre, fully permitted apartment site in the Spectrum Center business park in San Diego, where it plans to develop a 379-unit luxury apartment community. It plans to start the project by Sept. 1. Chase Bank is providing the debt for construction.

Other private companies are also on the hunt for land. Frank Apeseche, managing partner and CEO for Boston-based Berkshire Property Advisors, says the company is close to signing one land deal and is seeking others. "What we see is that the cost to build in high-barrier-to-entry markets right now is lower than the cost of acquisitions," Apeseche says. "That's a result of cap rates coming down. If you have the development capability, and you're smart about value engineering, you can buy land in core Class A markets and build cheaper than you can buy [existing assets]."

Challenges Persist

Still, not everyone can get the construction debt. While the REITs can essentially write a check for development, Wood is backed by CBRE, and Berkshire is an operating entity of The Berkshire Group, others face a tougher road to get debt. "Banks fared pretty poorly throughout the downturn but aren't inclined to rush out and put capital out," St. Juste says.