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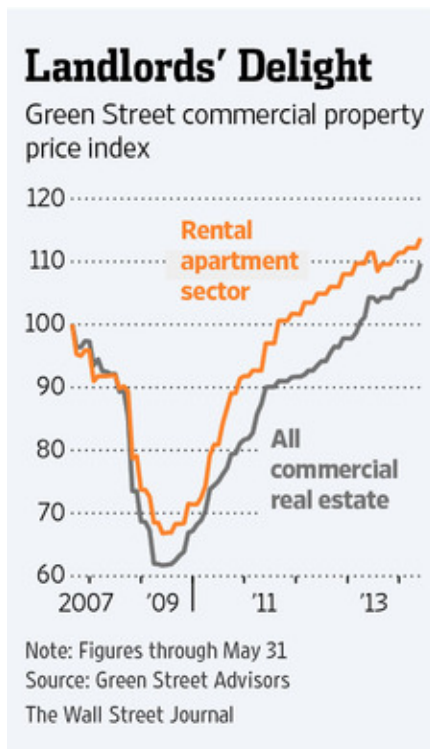
REAL ESTATE

Apartment Market Shows Staying Power

Rental Apartment Values in U.S. Are Up 14% From 2007 Peak

By CHELSEY DULANEY

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Investors in the past week have closed on two separate purchases of apartment complexes in the Denver region and Washington—for a total of \$324 million—in the latest sign of the surprising endurance of the multifamily sector.

A venture including the Guardian Life Insurance Company of America and Allstate Life Insurance Co. bought a \$229 million portfolio of 1,514 units in Denver, Aurora, Colo., and Renton, Wash. Radco Cos., an Atlanta-based real-estate investment firm, acquired a \$95 million apartment complex with 512 units in the Lakewood suburb of Denver.

The buyers said projected yields were 6% and 5.9%, respectively. That is a decline from average yields in the Denver area of 6.3% in the 12 months ending on March 30. Falling yields typically represent rising prices.

The continued strength of the multifamily sales market has been a relief to many landlords who were worried the market would weaken. Rental apartment buildings were among the first types of commercial properties to rebound after the recession. But as

early as 2011, some analysts were predicting the sector would cool off, fearing competition from improving home prices and the fledgling single-family rental market.

Those thunderclouds passed without a storm. The competition from the sales market has been weaker than expected largely because mortgage lending has continued to be restrictive.

Rental apartment values nationally are up 14% from the peak 2007 levels hit before the downturn, according to a Green Street Advisors index that tracks the performance of listed rental-apartment landlords. Sales volume in Denver increased 15% in the first quarter compared with a year ago, according to Real Capital Analytics Inc., a research firm.





An Aurora, Colo., complex that was part of a \$229 million purchase. *Apartments247*

Rents and occupancy rates also are up nationwide. In the first quarter of this year, rents rose another 0.6%—up 13% since the upswing began in 2009—and vacancies fell to 4%, according to real-estate data firm Reis Inc.

Denver has been one of the strongest housing markets in the country, fueled by a high-tech and startup scene that has launched companies including Chipotle Mexican Grill Inc. and Rally Software Development. Denver has seen 2.8% job growth in the year ending in April, compared with 1.7% nationally, according to Green Street Advisors analyst Dave Bragg.

Property prices in Denver are up 23% since 2007, the biggest rise of any U.S. city outside of San Francisco, according to Green Street. Denver's growing job market "bodes very, very well for" its rental market, Mr. Bragg said.

Mike Moran, who leads Allstate's real-estate investment group, says the Denver portfolio is appealing because it consists of "workforce housing" with monthly rents ranging from \$1.20 to \$1.35 a square foot. Few developers are building such housing right now, he said, leaving the market wide open for high returns.

Dan Fasulo, managing director of Real Capital, also said workforce housing has less risk than upscale apartments because there is less new supply in the pipeline. "If the overall economy does improve, you'll basically reap the benefits," he said.

TruAmerica Multifamily, an investment firm founded last year by industry veteran Bob Hart and Guardian Life Insurance, was part of the buying group and will manage the portfolio.

TruAmerica and its partners will spend between \$25 million and \$30 million renovating the apartment buildings, which were built in the 1970s and '80s. Mr. Hart said he hopes to see a 20% to 25% rise in rents over the next five years.

Radco plans to spend about \$1.2 million on renovations including updating the clubhouse, swimming pool and dog spa. "Denver is a dog town," said Radco founder Norman Radow.

Still, some question whether Denver's housing market can maintain this trajectory. Denver's rents have been on the rise for the past five years, up 20% since peak '07 levels. "You can't do 10% rent increases every year," Mr. Fasulo said.

Others worry that an oversupply of upscale housing will flood the market. The supply of multifamily housing in Denver is expected to rise 8.1% in the next four years, according to Green Street.

But Mr. Radow thinks his firm is getting in on the front end of the trend. "We think the rent curve is continuing to go up," he said.

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