

Crittenden Apartment Report™

Crittenden Apartment Report – March 28, 2005

CREEKSTONE BEATS FALLING CAPS IN LONE STAR STATE

Creekstone Partners got lucky in Austin with the recent purchase of the 253-unit, four-year-old **Alexan Congress**. Creekstone paid **Trammell Crow Residential** \$33 million at a 6.25% cap rate, based on current income, for the infill community in Downtown Austin. The acquisition marks Creekstone Partners' entry into the Austin market.

Creekstone Partners Principal **Marc Goldstein** thinks the acquisition of the Austin community the company has renamed **SoCo at 1007** is the new division's most exciting deal since last April, when the division of Creekstone Companies was created to acquire and manage multifamily and commercial real estate assets. Because of the recent growth of major corporations, universities and government, he believes the Austin market is about to explode.

Since Creekstone put the community under contract four months ago, cap rates have dropped into the 5% range and rapidly improving apartment fundamentals in the Lone Star State's capital city are attracting a slew of investors.

Other recent acquisitions in the city include **AMLI Residential**'s purchase of the 264-unit **Hills at Lantana** from the **Finger Cos.** and **Mentor Ltd.**'s sale of the 290-unit **Savannah Apartments** to **Falcon Southwest**. Creekstone also is under contract to purchase a 284-unit community that was set to close at the end of this month.

Because Creekstone Companies is a diversified operation that includes a home-building arm, condo conversion is a possible exit strategy for the community that is located in Austin's South Congress submarket where young professionals want to live and new condos and condo conversions are underway. **Creekstone Capital** has managed condo conversions executed by **Creekstone Builders** for the company in Louisville, Ky., and is currently involved in a couple of conversion projects in Charleston, S.C.

Apartment occupancy rates in Austin increased by 2% in Q3 2004, bringing average occupancy above 90% for the first time since 2002. Rental rates have increased along with occupancies, rising by about \$0.81/s.f. after an 11-quarter downward spiral. Average rent in Q3 was \$669, a \$7 increase over Q2 rents. In addition, the supply/demand picture continues to brighten with annual completions declining by 69% over the past year. Around 2,500 units were completed in 2004, down from the 4,100 units that were delivered in Austin in 2003.

Creekstone plans to capitalize on the rent increases in Austin by cutting concessions at SoCo at 1007 from the current one to two months free to a month or less on an upfront basis instead of the previously pro-rated concessions. Goldstein also plans to raise the rents \$15 to \$45 within the next month or two. The community consists of ones, twos and threes that range from 579 s.f. to 1,527 s.f. with rents ranging from \$895 to \$2,165 at COE. In-unit finishes include ceramic tile entries, wood plank flooring, crown molding, garden tubs, walk-in closets and dual sink vanities. Amenities include a clubroom with large-screen TV and fireplace, fitness center, business and conference center and a swimming pool.

Frank Satterfield of **Harbor Capital Group** arranged the financing. The capital structure, which totaled \$31 million, included senior debt provided by **MetLife** and mezzanine debt provided by **RAIT Investment Trust**. Harbor Capital Group, a commercial mortgage banker, this month was named a loan correspondent for RAIT's Texas region, which will mean significantly more financing alternatives for Creekstone and Harbor Capital's other clients.