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Many Challenges for Multi-Family

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San Fernando Valley Business Journal Staff

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The old movie theater and ‘50s diner have come down and now there’s just a long swath of dirt along Parthenia Boulevard awaiting the day when an apartment complex will bloom on the deserted site.

Ditto for the Kmart site at Corbin and Plummer. K-Mart is closed and the property has been fenced off pending demolition activities.

No word yet on when construction will be moving forward from Fairfield Residential which now holds the entitlements for both sites.

“We’re just kind of monitoring the approvals process and gauging the market,” said Brendan Hayes, vice president of development for Fairfield.

What he didn’t want to engage was the issue of financing saying simply, “Financing is the underlying problem for everybody everywhere right now.”

That’s pretty much the state of the multi-family sector in a nutshell with almost everyone monitoring and gauging, but not buying, selling or building.

Except maybe over in North Hollywood where JSM Construction looks to be nearing completion on the Gangi Apartments project at McCormick and Vineland. The scaffolding has come down and workers scurry about the site but the company did not respond to requests for information about the project’s timeline.

Senior apartment projects are also going full bore. Just down the street from Fairfield’s Kmart site, The Village at NorthRidge is being constructed by Cobalt Construction. A 381,912-square-foot senior living complex, being developed by Senior Resource Group will have 275 independent living and assisted living residences for rent.

Sales down

The transaction volume for apartments across all of Southern California has plummeted, according to Greg Harris, executive vice president of Marcus & Millichap/The Harris Group. “In the first quarter of 2008 there were 85 transactions that closed, while in the first quarter of 2009 there were 31.”

Engaging this same issue last year, brokers told the Business Journal that buyers were still waiting for prices to drop while most sellers were holding onto their properties which are still generating good income.

Same story one year later, said Harris.

“Most sellers are unwilling to be aggressive (in their pricing) because they think if they wait, they’re going to get a better price than they would today.”

That’s exacerbated by the low number of transactions since everyone looks at what’s sold to figure out value. No sales, no value comparisons.

And of course, there’s the “f” word again: financing.

The equity required to buy a typical building has gone up significantly, Harris said. “People are required to put more money down which has thinned out the buyer pool.”

Although Fannie Mae and Freddie Mac have money to lend, coming up with anywhere between 25 percent and 40 percent down is the challenge.

Bargain hunters should not expect a field day with all those condominium and luxury apartment projects that seemed to have sprung up everywhere over the past couple of years.

“There are very few projects truly in distress,” said Harris, referring specifically to the Valley. “There was never really a huge building boom as relates to new condominium projects, not like in the Inland Empire.”

Rents

The Valley has historically experienced very low vacancy rates; below 5 percent in most of the sub-markets.

That’s ticked up a bit, primarily in the Class A sector of the market. According to Harris, that’s a newer two-bedroom apartment that would rent for in excess of $1,800 a month.

“There was this phenomenon before where everyone was trying to trade up to highly improved, highly amenitized apartments,” he said. “Now there is a diminished demand for that.”

When pro formas were created for the Class A projects built over the past five years, they contemplated rents in excess of $2.25 to $2.50 per square foot, Harris said.

Class A vacancies are in the low 8 to 12 percent range and landlords are offering concessions, primarily free rent for one or two months.

“There are several select buildings that are suffering from much worse vacancy than that and that’s because they’re really trying to chase a pro forma rent that’s not realistic.”

The high end of the rent spectrum across all building classes has dropped in the last 90 to 120 days with high-end rents coming down by as much as 25 percent.

In the B and C buildings, which make up the bulk of the inventory in the Valley, vacancies have ticked up slightly but occupancy still remains fairly healthy, hovering in the 92 to 95 percent range across that sector.
