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## Apartment Finance Today

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Partnership Opportunities

### From Partners to Profits

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Faced with a growing distressed debt market, apartment owners, investors, and developers look to spawn partnerships that pursue opportunity—as well as liquidity.

BY BRAD BERTON



JOINT VENTURES ARE BUSTING OUT all over multifamily land.

With debt markets still tight, savvy multifamily executives are teaming up to form wide-varying ventures aimed at improving access to capital—and in many cases to distress-driven deals.

Whether the underlying motivation is opportunity or necessity, it's today's crazy capital conditions that are spawning many "strange bedfellow" alliances unlikely to be replicated in more liquid markets.

"That's what's driving many of these ventures we're now seeing," observes veteran apartment investment executive Harvey Green. "The pendulum has swung too far" into conservative lending territory after those bubble-building years, laments the president of Encino, Calif.-based investment brokerage firm Marcus & Millichap.

As Green and others point out, parties are pairing via numerous multi-housing-centric strategies: acquiring distressed properties and loan portfolios; tapping public equity markets; resolving busted condo ventures; and replacing hard-to-refidebt with hard equity.

Here are three such partnerships that are changing the way multifamily investors are doing business today.

#### 1. SYNERGIZING FOR DISTRESS

A common trait characterizing many of the noteworthy new alliances: synergistic combinations of partners' core competencies and capital capabilities.

Take integrated investment and services company Kennedy-Wilson Holdings (KW), which recently announced a strategic alliance with planning and development specialist Urban Partners (along with a related entity headed by Urban principal Paul Keller). Their goal? To leverage their collective equity into distress plays along the West Coast.

"Our thinking is that one plus one can equal three," stresses Bob Hart, chief executive of Beverly Hills, Calif.-based Kennedy-Wilson's Multifamily Management Group.

The Los Angeles-based Urban Partners team, headed by Keller and co-principal Matt Burton, has deep roots in large development projects and hands-on construction management. And the KW side, with Hart and colleague Stuart Cramer overseeing the



**CONDO CHAOS:** When developer Casey Shroff was unable to sell more than 45 units of his 232-unit Towers on the Grove condo project in North Myrtle Beach, S.C., he cut a deal with Wyndham Vacation Ownership to sell the remaining units as vacation properties.

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new relationship, has extensive experience in opportunistic investments such as recapitalizing stalled developments, as well as in marketing multi-housing properties and units.

*Photo: Wyndham Vacation Ownership*

The combined capabilities should give the group a leg up as the JV pursues multiple opportunities, with an investment target of \$250 million for the first year, according to Hart.

The synergy likewise extends to the financial realm—another key competitive advantage in the stingy lending environment. Each partner has access to equity sources expected to contribute to the mostly distressed residential ventures the partners plan to pursue jointly, Hart adds.

Illustrating parallel multi-housing joint venturing trends, KW is likewise participating in other partnerships pursuing distressed-debt portfolios and failed condo projects. [See ["Pairing Up"](#) below.]

## 2. 'RETAIL' EQUITY REIT

Another synergy-heavy venture unlikely to be forged during normal capital markets conditions: co-sponsorship of a new non-listed apartment REIT by investment manager KBS Capital Advisors and private multifamily developer Legacy Partners Residential.

The partnership teams a handful of well-known real estate figures: Chuck Schreiber and Peter Bren of Newport Beach, Calif.-based KBS; and Foster City, Calif.-based Legacy Residential's Preston Butcher, Dean Henry, and Guy Hays.

While debt markets continued to reel, sponsors of non-listed REITs were able to raise some \$5.5 billion in equity from mostly "retail" (individual) securities investors last year, according to REIT research firm Green Street Advisors (also based in Newport Beach).

And in what appears to be a highly unusual teaming of REIT sponsor and operating partner, KBS (in raising its fourth such vehicle) brought in apartment specialist Legacy Residential as co-sponsor. Legacy's reputation will presumably help attract investors to a program focused specifically on the multifamily sector.

KBS Legacy Partners Apartment REIT is aiming for a \$2 billion capital raise. Proceeds are to target properties in lease-up, development, redevelopment, and repositioning stages, according to its prospectus. (Sponsors declined to discuss the venture during the share offering "quiet period.")

### PAIRING UP

*Kennedy-Wilson Holdings seeks to reap profits from its partnerships.*

IN ADDITION TO its recently announced joint venture with Los Angeles-based planning and development firm Urban Partners, Beverly Hills, Calif.-based Kennedy-Wilson Holdings (KW) recently forged alliances with two other partners. Each partnership is aimed at profiting from the prevailing real estate distress by tapping KW's expertise in capitalizing, managing, and marketing multi-housing and other real estate assets.

One is a venture with New York private equity firm Siguler Guff to invest in distressed condominium projects. A fund managed by Siguler Guff has agreed to contribute \$100 million toward the effort, with KW putting up \$8 million.

The typical scenario would have the KW/Siguler venture purchasing a foreclosed condo venture from the lender, or in some cases acquiring the distressed debt and pursuing the foreclosure process.

The venture would subsequently prepare the property for final unit sales through KW's auction division, or in some cases perhaps re-sell entire properties to other investors, explains Bob Hart, CEO of KW's Multifamily Management Group.

KW and an undisclosed new capital partner also just closed their first joint acquisition of a portfolio of mostly sub- and nonperforming residential, multifamily, and other bank loans, with a combined principal balance of \$342 million.

Seeking investment returns described as "opportunistic," KW's asset managers will work to resolve the financial issues at each collateral property, eventually resulting in a disposition, with net proceeds distributed to the partners.

KW and its capital partner plan to pursue additional distressed portfolios through their new investment platform.

With attractively priced and structured debt still elusive, co-sponsoring a non-listed REIT "is probably a good way for Legacy to source capital" as its dealmakers identify solid investment opportunities amid plentiful market distress, says Michael Knott, a senior analyst with Green Street.

This venture likewise oozes with synergy potential. Legacy brings a wealth of multifamily expertise and success, while KBS now has considerable experience with private REIT compliance, financial reporting, marketing, and investor relations. "Thus, a partnership was born," observes Knott, who couldn't think of any comparable co-sponsorship arrangement.

Knott also stresses that publicly-traded REITs offer superior long-term total returns compared to non-listed trusts.

## 3. FROM CONDOS TO TIMESHARES

Amid frighteningly large inventories of unsold new condominium units in destination resorts—along with the challenging financing environment—a just-closed venture teaming a struggling condo developer and a timeshare giant may be setting the pace for other such alliances.

Prominent local resort specialist Casey Shroff had managed to sell only 45 of the 232 beachfront condos he developed at the Towers on the Grove high-rise complex in North Myrtle Beach, S.C. Unfortunately, the remaining 187 units—one- to three-bedroom condos with asking prices ranging from about \$150,000 to \$670,000—were not selling, so Shroff cut a deal with major timeshare operator Wyndham Vacation Ownership (WVO).

Simply buying the unsold inventory outright from Shroff's group was too challenging in today's financing climate, so CEO Franz Hanning and other higherups at Orlando, Fla.-based WVO opted instead for a newfangled "fee-for-service" arrangement. WVO, which already manages several Myrtle Beach area timeshare properties, dubs it the Wyndham Asset Affiliation Model. (WVO has identified some

5,000 condos in North America that potentially fit its Wyndham Asset Affiliation Model, according to a recent company conference call.)

WVO will operate the vacant units as vacation rentals while endeavoring to sell timeshare interests in most of them on behalf of Shroff. WVO has also agreed to purchase 50 of the unsold condos over three years, with the goal of subsequently selling them into shared ownership.

Over the past couple years, Wyndham and other large shared-ownership outfits had grand plans to snap up unsold inventories of distressed condo developments at bargain-rate prices, notes veteran resort development consultant Dick Ragatz at Ragatz Associates in Eugene, Ore.

However, those expectations haven't come to fruition since lenders have been quite tight when it comes to financing planned condo-to-timeshare conversions. And consumers seeking financing for interval purchases have faced more onerous terms as well, Ragatz explains.

But with thousands of viable conversion candidates still unsold, Ragatz envisions the fee-for-service model becoming an increasingly popular strategy. It helps strapped developers (or foreclosing lenders as the case may be) keep skin in the game while selling off inventory in a less-than-receptive condo market.

And it allows growth-minded timeshare operators to expand their portfolios while construction financing is scarce, and also earn fee income—just without the big capital commitments they'd need to buy all the vacant units in bulk. "You've got all this idled expertise at these companies, and they want to keep growing," Ragatz relates. "It's not something we'd see under normal conditions."

*BRAD BERTON is a Portland, Ore.-based freelance writer specializing in commercial real estate.*

**AT-A-GLANCE**  
 These three partnership scenarios, albeit different in their details, have a similar goal—to help these firms compete in a tough economy.

COMPANY	PARTNER	ANNOUNCED	WHAT IT IS	TARGET
Kennedy-Wilson Holdings	Urban Partners	February 2010	Strategic joint venture targeting distressed properties	\$250 million in year-one investment activity
KBS Capital Advisors	Legacy Partners Residential	March 2010	Co-sponsorship of a non-listed apartment REIT	\$2 billion capital raise
Casey Shroff/Shroff Development	Wyndham Vacation Ownership (WVO)	March 2010	Establish vehicle for turning unsold condos into vacation rentals or timeshares	Acquire and sell 80% of the 232-unit Towers on the Grove project, with 137 units to be sold on the developer's behalf and 50 units to be acquired by WVO