



DANIEL

Daniel to Buy Apartment Building in West Buckhead

Developer Expands Pipeline of Multifamily

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by Doug Sams

Daniel Corp. plans to spend more than \$50 million as it buys and expands a luxury apartment building.

The deal for The Rocca Piazza at Paces was spurred by Ronus Properties' decision to sell its U.S. real estate holdings, including the 80-unit luxury apartment building and two adjacent sites that could be developed.

Daniel obtained financing last year for a 22-story Midtown apartment and retail project to be called 77 12th Street. It's taking shape near its giant 12th and Midtown development on Peachtree.

The Rocca project might be seen as a contrarian play, because most intown apartment developers want to be close to Peachtree Street, major transportation hubs and job centers. The Rocca stands within the affluent West Buckhead Market near Northside Drive and Interstate 75.

But, Daniel believes the West Buckhead apartment market is likely underserved. Daniel has The Rocca and adjoining property under contract. Construction could begin this summer.

Daniel is one of a growing number of companies turning greater attention to apartments because those properties, more than office buildings and shopping centers, are showing the most significant recovery in values from the deepest commercial real estate downturn in more than 20 years.

Investors are bullish because of the fundamentals they believe are driving the multifamily sector.

For one, the percentage of Americans who own their homes saw the biggest decline since the Great Depression, dropping from 70 percent near the height of the market eight years ago to about 65 percent in 2010, according to the U.S. Census Bureau. Apartment investors are also banking on the influence of 80 million echo boomers, or people born between 1979 and 2000, or Generation Y and millennials, entering the apartment rental market. The size of this generation is expected to have as much impact on real estate as the baby boomers, according to the think tank Urban Land Institute.

Northwestern Mutual, the debt and equity partner for Daniel and Selig Enterprises' 77 12th Street, is just one example of a company expanding its investments into multifamily.

“The tea leaves show a significant demand for rental product in the years ahead,” said Pat Henry, chief development officer for Daniel.

The company wants to deliver 3,000 apartment units over the next three years and take multifamily from currently 10 percent to at least 30 percent of its overall development portfolio, Henry said.

Atlanta will be a key market, but Daniel is also master developer for Lane Parke, the redevelopment of a 276-units apartment and retail center in Birmingham, Ala. It broke ground on Ashby at Ross Bridge, a 250-unit apartment project also in Birmingham.

Daniel joins an ever-more-crowded playing field of developers getting into apartments.

Hines, the Houston real estate company known best in Atlanta for its office towers, recently launched its first apartment project here. Hines will develop a 215-unit apartment building at Dresden Drive and Peachtree Road in Brookhaven, Nationally, Hines has 3,000 apartment units in the development pipeline, including three projects in South Florida.

Atlanta, though, will be a key market for the expansion of its multifamily platform. Atlanta’s slow jobs rebound might put the brakes on some of the optimism.

The University of Georgia’s Terry College of Business predicts net employment in Georgia to increase by just 18,000 jobs in 2012, after the state lost 25,000 jobs in 2011 and 50,000 in 2010.

But, nationally, the supply of new apartment units has been limited, as credit tightened.

“It’s probably going to be viewed as one of the longest stretches of relatively little construction in the post-World War II era,” said Dan Fasulo, managing director with Real Capital Analytics, a New York-based global real estate research firm.

Meanwhile, investors see the risk of developing new apartment units lessening, especially as apartment values continue to soar.

That trend is playing out in Atlanta.

Last year saw developers add the most Atlanta apartment projects to the long-range development pipeline since the real estate market crashed.

At the same time, investors scooped up about \$2 billion worth of Atlanta apartment buildings, an increase from \$1.1 billion in 2010 and \$600 million in 2009, according to Real Capital Analytics.

It was the most activity for apartment buildings since 2007, when Atlanta posted about \$4 billion worth of apartment building sales.

“Multifamily has been the standout in commercial real estate,” Fasulo said.