Opportunistic Buyer Seeks Second-Tier Multifamily

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Isis Condominiums

New York–The feeding frenzy is on for trophy multifamily properties in top-tier markets. At least, that's the conclusion of an opportunistic investor who's been busy recently seeking out multifamily assets to add to its portfolio—three multifamily loan purchases and two REO properties, one of which is a multifamily development–most of which aren't in top-tier markets.

"New York City, LA, San Francisco and DC in particular have attracted major investor interest," Mitch Siegler, senior managing director of San Diego-based Pathfinder Partners, tells *MHN*. "REITs are falling all over each other to buy these at 4 and 5 percent cap rates. We're seeing this for the best-located multifamily properties, which benefit from Fannie Mae and Freddie Mac financing. Meanwhile, second-tier properties, as well as assets in secondary and tertiary markets and smaller assets, go wanting."

He adds that he believes that the spreads between premier-asset cap rates and cap rates for smaller properties in second-tier markets is too great to be sustainable. "It's a little like junk bonds," he posits. "Not justified by the risk-return relationship. Either cap rates for the best properties will rise or those for the others will fall, so spreads will narrow."

Thus, Siegler says, his company focuses on smaller properties below the radar of the largest institutional buyers. The company is a classic opportunistic player, raising two funds since 2007 for that purpose. Since its inception in 2006, Pathfinder has acquired more than $250 million in defaulted commercial real estate loans and REO properties and currently owns and operates more than 1,000 units in California, Florida, Texas, Colorado, Oregon and Oklahoma.

During 3Q10, the company's investments included a $27 million senior loan on Crimson Park, a 268-unit, 792-bed resort-style student housing project in Oklahoma City; a $6.9 million senior loan on Hawthorne Lofts, a newly constructed 27-unit loft project in the Hawthorne District of Portland, Ore.; and a $12.5 million senior loan on Hewitt Street Lofts, 33 partially constructed lofts in Los Angeles' Little Tokyo district.

During the third quarter Pathfinder also acquired Isis Condominiums (*pictured*), a 41-unit, new condo project in Orlando, which includes 6,500-square feet of retail space. Pathfinder and its partner concluded the acquisition in August and the project is now 100 percent leased. Another recent residential purchase, though not multifamily, was Valencia Homes, a detached residential subdivision project in Coachella Valley, near Palm Springs, Calif., consisting of 22 partially completed single-family homes and 50 finished lots.

"These assets are more difficult to underwrite and have a higher level of risk," says Siegler. "They tend to be too large for individuals, but too small for large institutional buyers, and carry a level of complexity that keeps many potential buyers away. They are also typically transactions that need to be concluded very quickly, on an all-cash basis."