

# The Apartment Report™

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## REVERE RIDES INTO HOT MARKET, AGAIN

**Revere Investments** has partnered again with **Seaview Ventures** on a couple of acquisitions in California's Inland Empire. The partners recently entered the San Bernardino market with the purchase of the 197-unit **Mountainside Village Apartments** for \$21.8 million. The partnership also added another Moreno Valley asset to the two apartment communities the JV bought there last summer, in a deal that marked Revere's entrance into the hottest market in Southern California.

The JV paid **Pacifica Companies** \$4.6 million last month for the 47-unit **Ironwood Villas Apartments** in **Moreno Valley**. Cap rates on both the San Bernardino and Moreno Valley deals were around 6% based on trailing 12 months. In July, the Revere/Seaview partnership acquired the 118-unit **North Woods** and the 20-unit **Las Casitas** from a private investor from San Diego for \$10.1 million.

Competing with apartment REITs like **BRE Properties**, **Gables Property Trust** and **Essex Property Trust** and privates like **Bascom Group**, **Kennedy Wilson International** and **Eagle Real Estate Group** for acquisitions in one of the country's hottest markets isn't easy. Revere's founders **Mark Chalfin** and **David Jankowski** are pursuing a strategy of building relationships with area brokers to help them build a portfolio in the Inland Empire.

Chalfin and Jankowski hope to spend around \$200 million over the next 12 to 18 months on around 2,000 units in the region that includes both San Bernardino and Riverside Counties. Before starting their company in 2002, Chalfin worked with the **Lehman Brothers'** real estate group raising capital for investments and Jankowski directed acquisitions at **LendLease**. Both partners also have backgrounds in the office and industrial arenas, but are focused right now on apartments because they think that sector offers the best return a risk-adjusted basis.

Revere's first apartment deal was the acquisition of 52 units in Los Angeles County that were subsequently have sold. The company's current apartment portfolio includes 1,000 units, all in California. Revere's focus is on the Inland Empire believing that's where the greatest rental growth in Southern California will be over the next several years. The Ironwood deal was an off-market transaction and Mountainside was just hitting the block, allowing Revere to buy it before it was widely marketed.

Both acquisitions were funded in part by 65% LTV Fannie Mae loans with Seaview's and Revere's wealthy private investors putting up the equity. They bought Mountainside from a private investment partnership that acquired the asset from **Bascom Group** in mid-2003 for \$17.5 million in a 1031 exchange. Mountainside was 93% occupied at COE and occupancy at Ironwood Villas was 100%. **Alex Mogharebi**, VP of Investments at **Marcus & Millichap's** Ontario, Calif., office, represented both buyer and seller in both deals.

Revere plans a three- to five-year hold for the 16-year-old Mountainside and the 20-year-old Ironwood. Chalfin expects to spend around \$7,000/unit on repositioning of the San Bernardino asset that will include exterior paint, general upgrades to the units as they turn and improvements to the landscape and signage. He believes the big upside at Mountainside is in rental increases at the property that has been inefficiently managed and had rents that averaged \$940, about 10% to 15% below market at COE. Revere already has raised the asking rents by about \$50.

Ironwood Villas' rents that averaged \$880 at COE also were around 10% below market when Revere bought the asset that is a mix of twos and threes. Chalfin, who expects to raise rents around 10% as units turn or tenants renew, believes the biggest upside is in the threes because there are very few three-bedroom apartments in Moreno Valley. He expects to put around \$10,000/unit, or around \$500,000, into replacement of roofs, upgrading of the units and landscape and asphalt work.