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INSIDE THE DEAL: The Art of the Deal in Approaching Next-Door Neighbors

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By Keat Foong, Executive Editor

Foster City, Calif.—The best prices can sometimes be obtained by selling properties to the next-door neighbor.

The 42-unit Kula Kai Apartments was sold close to its listing price of \$10.9 million, or nearly \$260,000 per unit. The overall cap rate obtained was 5 percent.

Representing both the buyer and seller were Tom Doglio, vice president investments and director of Marcus & Millichap's National Multi Housing Group in Palo Alto, Calif., and Brian Henry, senior associate and associate member at that time of Marcus & Millichap's National Multi Housing Group. Doglio and Henry were co-listing agents.

According to Doglio, the property was listed, and then the property owner next door was approached about the opportunity.

However, competition was also created among prospective buyers: “We made sure we told the owner of the property next door that they were in competition with prospective 1031 exchange buyers,,” says Doglio. “This way the seller has more leverage.”

The buyer is a private family from San Francisco who wanted to acquire more units in the same neighborhood, said Doglio. The seller was a California limited partnership that was dissolving its partnership and taking a profit.

“Sometimes, the buyers next door are the most logical buyers,” says Doglio. He says the cap rate obtained was 120 basis points below institutional cap rates.

Apartment Sale

Kula Kai Apartments

Foster City, Calif.

Broker: Marcus & Millichap Real Estate
Investment Services (for buyer and seller)

Asking Price: \$10.9M
Units: 42
Vintage (Construction Completion): 1985
of Buildings: 3
Acres: 54,014 sq. ft./1.24 acres
Total Square Footage: 37,641
Occupancy Rate: 99% (time of sale)
Unit Mix: 1 Studio; 26 1BRs; 15 2BRs
 (3 2BRs 1 BAs; 12 2BRs 2BAs)
Rents: \$1,450-\$1,690 (1BRs); \$1,825-\$2,240 (2BRs)
When did transaction close: November 2008

Debt Financing

Amount: \$6,273,000
Source: Freddie Mac
Term: 7 year FR
LTV: 60%

“Kula Kai Apartments is a rare investment opportunity as less than one property per year becomes available for sale in Foster City,” says Doglio.

The well-maintained apartment community is in an A-plus location that is central to the Bay Area and halfway between Silicon Valley and San Francisco, according to Doglio. “The property is ideally positioned for tremendous investment returns in the long term.”

Located at 808 Comet Drive, the 37,641-square foot apartment community consists of one three-story building situated on 54,014 square feet, just a short drive from highways 92 and 101, the San Mateo Bridge and major employers.

Kula Kai Apartments features a mix of studio, one- and two-bedroom units. Interior amenities include large, private patios or balconies, ceiling fans and a fully equipped kitchen with a new dishwasher, stove, garbage disposal and microwave. Community amenities include a private, gated swimming pool, on-site laundry facilities, sauna, private courtyard and covered parking with storage area.

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