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Finding First-Class Opportunities in Secondary Markets

By Maria Siakavellas, Senior Editor

JANUARY 01, 2004 -- Thanks to a combination of revitalizing downtowns, state incentives, stable economies and/or supply constraints, three secondary markets are moving up the charts in terms of their multi-housing appeal: Newark, N.J., Virginia Beach, Va. and Kansas City, Mo., despite their small-market stature, are generating some big-time interest among industry developers and investors.

KANSAS CITY
Mayor Sets Goal of 10,000 New Units

Downtown revitalization has become a major priority in Kansas City. Efforts here include a myriad of residential and commercial developments, with current projects totaling $1.3 billion, according to Hendricks & Partners' Midwest Multifamily Research Report.

In terms of multi-housing, various vacant buildings are being converted into loft apartments and condominiums as Mayor Kay Barnes continues to promote her River-Crown-Plaza Housing Initiative, which will link three submarkets—River Market, Crown Center and Country Club Plaza—into a junction of residential, business, retail and entertainment destinations. One key goal of the initiative is to deliver 10,000 housing units in the area by 2010.

According to one lender, the new units are being rapidly absorbed. "We are not seeing a situation here where there will be an over supply. The reason is tenants who live in the urban core want to be there and will be there for a longer term," said Tom Vrabac, a vice president with Collateral Mortgage Capital LLC.

Success is not limited to Kansas City's downtown. Submarkets such as Northland, Raytown, Grandview and Far South are also doing well, and developers are displaying interest in the areas. ePartment Communities LLC, for example, is developing a 340-unit, class A apartment complex in Northland. The $30 million Barre Woods community is seeking to differentiate itself by offering renters various amenities including more aimed at tech-savvy residents.

"We will deliver the clubhouse and first couple of residential buildings in April or May, and we will, in our mind, be the only true class A, resort-type, amenity-driven property there," said Terry O'Leary, principal of ePartment Communities. "The Northland market needs that."

According to O'Leary, institutional players who have played out development in more active Kansas City submarkets, such as Johnson County, consider the Northland market as too green and lacking the support of an appropriate population base or job growth to sustain much development. But he argued that the market there is on the verge of significant growth. "That market is issuing as many single-family permits as any market in town. It is a very high-growth residential area, and so the multifamily and retail are starting to follow that along with necessary infrastructure."

Collateral Mortgage provided financing to ePartment Communities' Barre Woods, which represents just one of many transactions the company completed in Kansas City last year.

"We are very eager to lend here. This has been a good multifamily market for us," said Vrabac. "We've [financed] everything from a building that was of 1920s vintage to brand new construction. Typically, we've seen apartments do very well here in the long term, so we are very interested."