

Apartment Lure Goes Inside Coasts

By **DAWN WOTAPKA** and **ELIOT BROWN**

Investor demand for apartment buildings is showing early signs of moving beyond the coasts and spilling into Middle America.

[Camden Property Trust](#), one of the nation's largest public apartment operators, is in contract to buy 11 Texas properties with 3,750 units from Verde Apartment Communities for \$321 million, say people familiar with the matter. The deals are expected to begin closing this week and continue closing through the end of the month.

Kushner Companies

Middle America's sales of apartment buildings are growing. Kushner bought Cedarwood Village in Akron, Ohio.

Meanwhile, a venture led by Kushner Cos. last week bought a troubled portfolio of 4,681 units in Ohio, Indiana and Western Pennsylvania. The seller, Prudential Mortgage Capital Co., was in the process of foreclosing on the portfolio. Kushner is paying about \$72 million for the portfolio, roughly half of the face value of the insurance giant's mortgage, according to people familiar with the matter.

The deals are the latest sign of the strength in apartment-building sales, which are being fueled in part by strong demand from homeowners-turned-renters. So far, that demand has been strongest in larger coastal cities like New York, San Francisco and Washington.

That competition has been pushing up prices, convincing some buyers to look for deals in the country's center, where prices have thus far been slower to recover. "There is life off the coasts," says Richard Campo, Houston-based Camden's chief executive.

Yields on the investments have fallen in the major coastal markets, given that prices have gone up faster than property incomes. In deals for some of the higher-quality properties, initial yields have fallen below 5%.

In secondary markets, however, yields are more attractive. For example, the \$321 million Camden is paying for the Verde Apartment portfolio owned by Verde Realty will give it a yield just above 6%, according to people familiar with the matter.

There are even distressed properties still available off the beaten path. These types of deals—typically involving buildings worth less than their mortgages or in some stage of a foreclosure proceeding—have been vanishing in the hottest markets.

"It's very hard to find opportunistic returns in the multifamily space," says [Jared Kushner](#), a principal of Kushner Cos.

Kushner, which sold 17,000 apartments in the Northeast at the market's peak, has lately moved back into an acquisition mode. Mr. Kushner, Donald Trump's son-in-law, has been bidding on numerous deals. The purchase of the distressed portfolio from Prudential is the family-owned company's first big deal since the downturn.

The Kushner venture, which also includes Square Mile Capital Management LLC and Ohio-based Apollo Property Management, is planning to invest millions to upgrade the properties, which have a high vacancy rate. The new owners believe that, given the discount price they paid, they can make double-digit returns if they can lease the apartments at market rents.

The deal, in which [Savills](#) was an adviser, includes apartment complexes in Pittsburgh; Toledo, Ohio, and Indianapolis. "We thought the returns could be quite attractive," Mr. Kushner says.

The Texas portfolio Camden is buying is less of a fixer-upper. The properties, all built within the last few years in Dallas, Austin, San Antonio and Houston, are about 95% occupied. Camden is doing the deal through its \$1 billion Camden Multifamily Value Add Fund, a partnership with the Teacher Retirement System of Texas. Camden will pay \$120 million in cash and assume roughly \$200 million in debt.

"A number of the Texas markets have come back quite a bit," says Haendel St. Juste, a senior REIT analyst with Keefe, Bruyette & Woods. "They're clearly benefiting from the high cost of oil."

Houston-based Verde Realty, which also owns industrial space, filed for an initial public offering in January of 2010, stating that it had \$363.4 million invested in its rental portfolio, then at 14 properties. But in March, it withdrew the registration statement, stating "current market conditions make it inadvisable to proceed at this time."

Verde's industrial properties weren't included in the Camden deal. C. Ronald Blankenship, Verde Realty's chief executive, declined to comment.

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