April 11, 2004

We Mean Business

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Multi-family specialist compiles market report

In other apartment news, Ron Spraggins, CCIM and owner of Commonwealth, an apartment brokerage, has compiled research on apartment rents, tenant profiles and sales figures. His work drew praise from one of the city's largest property management firms.

Steve Engle, president of Griffis-Blessing, cited Spraggin's work after reviewing the apartment broker's 2003 market report, which was completed in February.

"He confirms what we are seeing in our own properties," Engle said. "He delves not only into geographical data but into classes of property and concludes that better quality rental properties have filled up at the expense of lesser properties. That is consistent with what we're finding."

May 7, 2004
We Mean Business

Multifamily market trends key to successful investment

by Becky Hurley
05/07/2004

Some commercial and multifamily brokers derive pleasure from the sales process. Others enjoy crunching numbers to determine cap rates, internal rates of return or cash flow.

CSBJ Photo

In a special class, however, are the deal-makers who thrive on creating a "big win" environment for investors, based on pre-sale market analysis, on an examination of high-return investment opportunities and a working knowledge of market dynamics.

The latter, as Ron Spraggins, president of Commonwealth Investments has learned, comes from years of experience - his own began in the mid-1970s. As a contemporary of Colorado Springs' commercial real estate industry pioneers such as Steve Schuck, John Olive and Steve Engel, Spraggins founded the city's first multifamily brokerage in 1975.

He once owned Broadmoor Villa Apartments, Glen Pond and Country Club Gardens. Today the veteran broker is mentoring his sons, Shane and Ryan, on the intricacies of the multifamily market and on what constitutes a good investment.

To owners and property managers such as Steve Engel at Griffis-Blessing, this attention to the subtleties of the business pay off in increased profits. "In our business you have to pay attention not only to what year a property was built and the rents a one or two bedroom unit will generate, but to the quality of the structure - the 'class' of property you operate," he said. "You have to also figure in the cost of marketing and incentives."

Investors focus of data-rich report

Engel credits Spraggins and Commonwealth with providing some of the cleanest and most helpful data available in the Pikes Peak region apartment market. The Commonwealth 2004 Apartment Market Survey, compiled and published in January includes data from 313 apartment complexes of 20 or more units and encompasses more than 30,000 apartments.

Unlike other analysts, including the University of Denver's Gordon Von Stroh, who publishes the Pikes Peak Apartment Association's market status report, Spraggins' team breaks down rents and buildings, not just by quadrants of town, but into seven distinct neighborhoods.

"You can't say that an apartment near Old Colorado City falls in the same category with newer product near MCI in Mountain Shadows," he said. "And all buildings constructed pre-1980 are not alike. In Southwest Colorado Springs, you've got an older property like the Regency Towers Apartments which certainly qualifies as a Class A property. You can't lump it in with average units built in the 1950s off Cheyenne Road or Nevada Avenue."

The report defines Class A apartments as the "best" complexes in terms of location, amenities and quality of construction. Residents are typically white-collar and able to afford single family homes.

Class B units are in complexes surrounded by neighborhood settings. Amenities typically include a pool and formal play area. The properties are better maintained and have better curb appeal that Class C complexes. Tenants are described as young families and single parents who value school district location.

Class C properties are found in transition areas between commercial sectors and residential neighborhoods. They often are clustered with other apartment complexes, offer amenities similar to Class B complexes, but may not be as well-maintained. Tenant population is varied, and price, more often than location, is most important.

Commonwealth's team also divides multifamily rents into "street rents" and "economic rents" - differentiating what asking rents are for new tenants in contrast to street rents minus concessions.

"Since the 11,000 troops were deployed a year ago, we saw complexes giving away everything from one or two free months rent to washers and dryers or bicycles to attract new residents," he said. "Especially for investors who own 200 or 300 units, that cost mounts up and must be figured in to any P&L."

Engle said that Spraggins' analysis is "right on."

"Like him, we are seeing tenants migrate from Class C or B apartments to the amenities of Class A complexes," Engle said. "That has come about because low interest rates, a slow job market and troop deployments which created higher vacancies in all local properties. As a result, landlords have offered aggressive incentives and have lowered rents to attractive levels."

That trend may soon level off, however. Returning troops have swelled occupancy rates at properties such as Creekside at Palmer Park, a $20 million-plus new Class A complex completed by Griffis-Blessing for an investor in 2002. A spokesman for the 333-unit property said a $250 move-in incentive continues, but a four to five percent vacancy rate means tenants are willing to pay anywhere from $800 to $1200 per month (on a 12 to 15-month lease) for a one- or two-bedroom unit.

Reflecting on past highs and lows

An individualist who doesn't always subscribe to others' definition of a "hot market", Spraggins finds some top sales per unit statistics generated since 2000 to be contradictory. His office bases its work on the assumption that apartment investors like to buy low and sell high.

"Looking back, 2000 was the top of the market - the time to be selling, not buying," he said. "Almost all who bought earlier in the 90s made fantastic returns. Class A properties that sold in 2000 for $84,000 per unit won't see a positive return for years because the average price of Class A units sold in 2001 dropped to $71,000 and remain at that level in 2004. That means investors who have owned real estate for four years have not yet seen appreciation back to the price they paid in 2000."

Through four recessionary cycles, the broker has made an avocation of tracking "street rents", "economic rents" and tenant migration statistics, all of which are key to long-term investor gains.

In the preface to the January 2004 report, Spraggins included yearend 2003 migratory trends in the tenant population - noting that Class A vacancies were down to 12 percent while vacancies at Class B complexes soared to 17 percent. Perhaps surprisingly to those outside the industry, Class A complexes in good geographic areas were enjoying 90 to 98-percent occupancies.

Spraggins also notes that while "location, location, location" is an accepted real estate mantra, in the case of multifamily investment, "timing, timing, timing" may be more accurate. "I've seen investors lose money in a great location if they purchased at the wrong time," he said.

To illustrate, he recalls advising his clients to buy in 1990 when vacancy rates hovered at 14 percent and had been higher than 12 percent since 1984. By 1994, vacancies had dropped to 1 percent. "The largest rent increases in our history occurred through 2000," Spraggins said. "Building values rose on some complexes from $10,000 per unit to over $50,000 per unit. Once again, the idea, like all investments, is to buy low and sell high."

Looking into

the crystal ball

While Spraggins enjoys recounting stories of past "big win" investments - including a 4,300-percent return on one client's $200,000 investment in the Wildridge Apartment complex, purchased for $4.6 million in 1991 and sold in 1993 for $8.6 million - he remains focused on the future.

"Our research indicates that the market will basically remain unchanged in 2004 unless new apartment households exceed the new units being added," he said. "When this happens the vacancy rate goes down, allowing rents to start escalating, which in return, increases the value of the apartment complex."

Commonwealth's research reports that 300 units will come on line in 2004, but notes that 440 more are "on hold," pending the return of a robust apartment market.

Spraggins sees the return of the troops as a boon to the market, but cautions that the privatization of Fort Carson's post family housing is well under way. He points to 840 new apartments units added in Phase I, with additional units planned for Phase II, according to GMH Military Housing estimates.

-Editorial@csbj.com

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WASHINGTON DC PAPER INTERVIEWS RON SPRAGGINS, CCIM & PRESIDENT OF COMMONWEALTH, AREAS OLDEST APARTMENT FIRM

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Rocky Mountain News (CO)

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WAR COSTLY TO SPRINGS

M.E. Sprengelmeyer
ROCKY MOUNTAIN NEWS
Every day the troops are away in Iraq, the Colorado Springs economy keeps paying a steep ``cost of freedom.''

Four months into the deployment of about 11,000 soldiers from Fort Carson, the absence of the troops is taking a toll on local businesses, sales tax coffers, the housing market and even school district budgets.

Some economists say the financial effects are more severe than they had predicted, although things could have been much worse if El Paso County had not expanded other sectors of its economy in the past decade.

``Colorado Springs has a diverse economy, and the military and defense industry are just one part of that - albeit a large part,'' said economic consultant David Bamberger. ``Deployments are a bump in the road.''

That bump is slowing down the area's recovery from the downturn in the high-tech industry, Bamberger said.

Earlier this year, he projected that a one-year deployment would take $280 million out of the local economy. He has since revised the projection to $310 million. How is that impact felt?

* In the housing market. The departure of soldiers' families has contributed to double-digit apartment vacancy rates that were already high because of a glut of new units. In southeast Colorado Springs, some complexes near Fort Carson reported losing 30 percent or more of their tenants overnight, and landlords have been forced to drop rents, said Ron Spraggins, president of Commonwealth, an apartment brokerage firm.

* In the job market. Bamberger estimates that 2,300 jobs have been lost in local businesses as an indirect result of the troop deployment, contributing to an unemployment rate still hovering around 6 percent.

MAY 1993

The Colorado Springs Business Journal

Slowdown in real estate? No way. Apartment market booming

Rent Increases

Sales Market

1993

Colorado Springs and the Southern Front Range *Focus*

Industry experts analyze Colorado Springs' real estate markets

Office market

Palmer McAllister Company

The Colorado Springs office vacancy rate has dropped to 14.9%, the lowest surveyed since 1983, and an impressive fall from the 18.5% level reported one year ago. Leasing activity is up 10.2% compared to one year ago, and absorption of office space has increased nearly ten-fold during the same period. The northern and eastern market areas have accounted for the vast majority of activity, while the CBD and southern market areas have been relatively stagnant thus far in 1993. The average lease rate for available office space is virtually unchanged from the levels reported one year ago: $6.23 NNN versus $6.24 NNN.

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Industrial market

Palmer McAllister Company

Industrial market activity during the first quarter of 1993 is comparable to the levels reported one year ago. Leasing activity is down by 3.5%, and absorption was off 79.0% compared to the first quarter 1992. Vacancy rates have increased marginally during the past year, to 12.1% from 11.9%. The weighted average lease rate for vacant industrial space stands at $4.26 NNN. Strong leasing activity in light of minimal absorption is due to current industrial users moving from one building to another and, to a lesser degree, new companies taking space vacated by other firms leaving the area.

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Shopping center market

Palmer McAllister Company

The local retail market continues to show great strength, fueled by strong job and population growth. Retail leasing activity and absorption are up 12.5% and 36.5%, respectively, compared to the first quarter of one year ago. Vacancy rates have dropped from 21.5% to 18.1% during this same period. Lease rates for available space have increased 1.4% since last year and now stand at $6.33 NNN, unchanged from year-end 1992.

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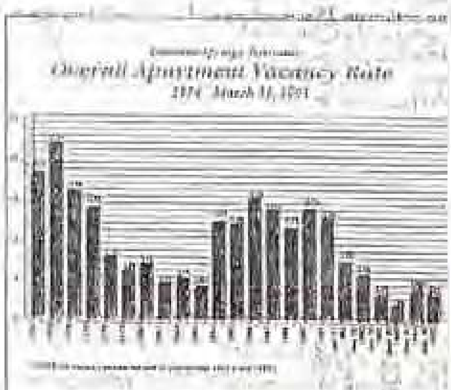
Apartment market

Apartment Guide and Frederick Ross Company

The information provided in *The Colorado Springs Quarterly Apartment Survey* is the largest compilation of apartment data in Colorado Springs, Colorado. It has been taken from the Colorado Apartment Guide, Inc., data bank as of March 1993. The majority of all apartment complexes consisting of 20 or more units have been included in this survey. The data bank consists of 378 complexes, representing over 26,000 apartments. The data contained in this report is maintained through daily interaction with apartment resident managers and their leasing agents.

Source: Ron Spoggins, CCIM, Frederick Ross Company



RTC sales

Source: Turner Commercial Research

The Resolution Trust Corporation (RTC) controls approximately 40% – approximately 8.5 million s/f – of the area's foreclosed property. The remaining 60% is in the hands of federal banks, insurance companies, the Small Business Administration and

(continued on page 27)