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New Canyon Capital Principal Angelides Sees Great Future for Urban Rental Housing Feb 5, 2008

By: Scott Baltic, Contributing Editor

“A set of very powerful forces” is making urban rental housing a great investment over the next five years or more, says Phil Angelides. And the Canyon-Johnson Urban Communities Fund he’s helping to launch will be a significant player in that sector.

Continuing urban population growth across the United States, driven in part by immigrants and minorities, Angelides said, but also by “echo Boomers” aged 20–35, will make urban rental residential redevelopments increasingly profitable and increasingly attractive to investors. “The financial fundamentals are very strong,” he said, pointing out that the average American family is now spending \$3,500 a year on gasoline, up from \$1,400 in 2000, which makes access to public transit more important than ever.

The former California state treasurer and Democratic gubernatorial nominee has joined Canyon Capital Realty Advisors as a principal of the firm and as chairman of the new Canyon-Johnson Urban Communities Fund (UCF). The fund, a partnership between Canyon and basketball great Earvin “Magic” Johnson, will focus on acquiring, improving and greening urban rental housing across the nation.

Angelides isn’t just a political pretty face, either. For more than a decade before becoming state treasurer in 1999, he had headed his own commercial real estate investment firm, River West, which he sold to a partner on assuming the treasurer’s office. One of the firm’s hallmarks was an emphasis on smart growth, most famously in the New Urbanist development of Laguna West, near Sacramento. In 2005, Angelides received a Lifetime Achievement Award from the Congress for the New Urbanism.

The Urban Communities Fund is “launching as we speak,” Angelides told *CPN* in an exclusive interview, and funding should be complete by the second quarter, with deployment beginning by the second or third quarter. The fund is looking to raise \$1 billion to \$1.5 billion in equity, so it will have “upwards of \$2 billion” in all. The funds will be raised primarily from Canyon’s existing institutional partners, Angelides said, with possibly some participation from global funds also. Complete deployment of funds should take 12 to 24 months. Where will that money go?

“We’re not talking about luxury lofts,” Angelides explained, but about rental housing for teachers, nurses and construction workers. There’s a gap in many urban markets between home ownership and subsidized/low-income rental housing, he says, and “We’re talking about filling that gap.” He notes that between 2002 and 2005, only about 200,000 net new units of rental units a year were built in the United States, versus an estimated annual demand of 430,000 a year.

A typical UCF redevelopment project will be 200 or more units, Angelides said, in any style from garden apartments to high-rise; perhaps mixed-use, with office and/or retail space on the ground floor; preferably near public transit; typically of 1970s or 1980s vintage; and perhaps undermanaged and/or underperforming.

An important part of the UCF mission for these redevelopments is the green factor. There's "a tremendous opportunity" for greening of existing properties, Angelides said, so in addition to new landscaping, fitness centers and new carpeting, improvements will include low-VOC paints, reflective roofing, new HVAC and new windows.

And there will be other sides to the UCF's projects, such as a rent subsidy for police officers and partnerships with corporations and non-profits to provide programs like after-school tutoring. The UCF's goal include a "triple bottom line": achieving successful financial results, fostering opportunities for underserved urban neighborhoods and their residents, and embracing environmental responsibility. Angelides said that cutting energy costs by 20–25 percent is a realistic target, and that could cut overall operating costs by 4 percent and bump a project's NOI up by about 2 percent.

Though the UCF intends to build brand recognition of its developments and envisions a hold period of perhaps five to 10 years, Angelides said, buildings with such green improvements will be very attractive to other purchasers and investors down the road, especially in view of rising consumer demand for urban living and what he predicts will be more public policy initiatives militating against suburban sprawl.

"We intend to do well financially," he says. "We intend to be environmentally responsible."

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