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Rare Beachfront Apartments Command \$49M

By Bob Howard

EXCLUSIVE

REDONDO BEACH, CA-The lone private investor vying for the 161-unit Waterfront on the Beach apartment complex here has sealed the deal for a \$49 million purchase price in bidding against nearly 20 prospective institutional buyers. Ron Harris of Marcus & Millichap, who had the listing for the rare waterfront complex along with Greg Harris of Marcus & Millichap, tells GlobeSt.com that the property garnered nearly 20 offers and would have attracted 15 to 20 more were it not for the fact that the complex sits on a ground lease, which discouraged would-be bidders who would have preferred fee-simple ownership.

The locally based private investor acquired the complex, which is at 211 Yacht Club Way and includes a Charthouse restaurant, from a joint venture of the Irvine-based Bascom Group and the Rockpoint Group LLC. Ron Harris tells GlobeSt.com that REITs, pension funds, sponsors partnering with institutional equity and other institutional buyers were interested in the property, but the lone private buyer presented "a very compelling offer for the seller." Financing was not a problem, noted Harris: The buyer invested \$16 million of equity and financed the rest with a \$33 million Fannie Mae loan.

"Considering the credit markets today, financing was not an issue for this buyer, who had a previous relationship with Fannie Mae," Harris adds. "The quality of the property and the income from it allowed Fannie Mae to step up and make the loan without any reservations."

Harris notes that the property was marketed on an open bid basis and that the real challenge was overcoming the objections to the ground lease, which runs for 55 years. "This caused many of the traditional institutional buyers to reduce their offers significantly or precluded them from offering altogether," Harris says. Nevertheless, the property still closed escrow at a 5.1% cap rate and at approximately \$300,000 per unit, which Harris describes as "a healthy price in this challenging market." The buyer was represented by Mike Krantz of Southwest Investments.

The four-story complex, which was built in 1969 and occupies a 3.65-acre parcel, was approximately 95% occupied at the time of the sale and typically operates at a high occupancy because of the quality of the complex and its beachfront location, according to Harris. He notes that the Bascom JV spent about \$5 million upgrading the complex, which it bought for \$26 million about four or five years ago, according to a GlobeSt.com report at the time.

Harris calls the Waterfront apartments "irreplaceable" considering the property's oceanfront location and four-story height, neither of which could be duplicated under current Redondo Beach city zoning regulations and California Coastal Commission restrictions. "Properties of this magnitude and location trade once a generation," he says.

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