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THE WALL STREET JOURNAL.
WSJ.com

COMMERCIAL REAL ESTATE | JANUARY 14, 2009

Apartments Try to Stay Afloat

By PRABHA NATARAJAN

The rapid reversal of fortunes in commercial real estate is taking down yet another sector: apartment complexes.

Owners and developers of multifamily buildings are trying to stay afloat as the deteriorating economy and escalating job losses create difficulties in raising rents and shortfalls in projected revenues from these buildings.

While sharp declines in retail and office sectors of commercial real estate have commanded attention in recent months, some analysts say deterioration in the multifamily sector is quickly catching up.

A downturn in this sector also drags in housing mortgage giants [Fannie Mae](#) and [Freddie Mac](#), which are already hurting from losses in subprime and other risky home loans. Together, the two mortgage giants have nearly \$200 billion of these loans on their books.

"On a broader scale, these loans are performing well relative to other segments in the market," said David Cardwell, vice president of capital markets at the National Multi Housing Council, a Washington group representing apartment owners. "But conventional wisdom on apartments is that it follows the trend in jobs. It takes a few months for job losses to trickle into the rental market, as people double up in apartments or move in with their folks."

Last week, the government reported that the U.S. jobless rate rose 0.4 percentage point to 7.2% for December. Less than a year ago, the rate stood at just 5%.

Much of the multifamily sector's problems center on troubles in converting apartments to condominiums, as is the case in Miami, or on the challenges in converting rent-controlled units to market-rate apartments, as in New York's Manhattan.

In Florida, California, Arizona and Nevada, the flood of unsold condominiums entering the apartment market and is lowering rents in those areas, Barclays Capital analysts say. That has resulted in lower revenues for owners, which in some cases is making it more difficult to keep up with mortgage payments.

Meanwhile, in New York, aggressive revenue projections and poor underwriting have dragged some recently sold large properties into trouble.

For instance, the \$222.5 million loan taken by Rockpoint Group and Stellar Management to purchase the Riverton Apartments was transferred to special servicing in August as the buyers warned of an imminent default of the loan. By December, they had fallen behind in their mortgage payments. The 1,228-unit rent-controlled complex in Harlem is converting to market-rent units at a much slower pace than expected, according to a Moody's Investors Service report.

At the time of the loan securitization in 2007, reserves of \$48.3 million were set aside for any shortfalls in debt service and property renovation. By September, the reserves had fallen to \$10.8 million.

Similarly, at the Peter Cooper Village-Stuyvesant Town property on Manhattan's East Side, only 37% of the units were converted to market rents as of September, compared with 28.5% at the time of the loan securitization, according to Moody's. In 2006, at the time of the purchase by Tishman Speyer and Blackrock Realty Advisors, nearly half of the apartments were expected to be converted by 2008. The loan's \$590 million reserve had dwindled to \$200 million by September, which is expected to be depleted by the end of the third quarter of this year.

In November, the delinquency rate on securitized loans to apartment and condominium properties rose to 1.9%, a sharp jump from the 0.9% at the start of the year, according to Realpoint LLC, a Horsham, Pa., rating firm that analyzes commercial-property mortgages and financing. Realpoint will have December data available at the end of this month.

Delinquent multifamily loans now add up to \$3.17 billion and make up nearly 45% of the delinquencies affecting the nearly \$1 trillion commercial mortgage-backed securities, Realpoint research shows.

At Fannie Mae, serious delinquency rates on multifamily loans doubled to 0.21% in October 2008 from 0.1% in January.

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