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DENVER BUSINESS JOURNAL

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Foreclosure wave hitting Jacksonville apartments

Jacksonville Business Journal - by [Christian Conte](#)

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Single-family homes and condominiums aren't the only residential properties sinking in the rising tide of foreclosures.

Four apartment complexes have been foreclosed on and one went to the Florida Housing Finance Corp. in lieu of foreclosure in the first seven months of 2009, according to public records. More apartment owners are delinquent on their loans and face a similar fate, according to brokers in the industry.

"There is more of it coming down the pike," said Mark Farrell, president of **Killashee Investments Inc.**, a commercial real estate company specializing in multifamily properties. "The market is still soft, which will probably lead to more properties getting into trouble."

Occupancy rates remain below normal at around 85 percent and many apartment complex owners continue to offer concessions like free rent for one or more months — a combination that makes it difficult to pay back loans, Farrell said.

So far this year, there have been eight sales of apartment complexes. Of the five that fell into or near foreclosure, the largest was the 164-unit Chelsea Courtyards Apartments. The certificate of title was granted to Chelsea Apartments Jax LLC in June for \$29,100, just 15 months after the former owners, Ocoee-based Coast 2 Coast Management Partners LLC and L.P., bought the property for

\$7.9 million.

Five apartment complexes were foreclosed on from Jan. 1 to July 30, 2008, according to public records. Four properties were foreclosed on during the same period in 2007, compared with only one during the same period in 2006.

Although many of the properties that have been foreclosed on so far this year have fewer than 100 units, the larger properties and apartment complexes are not immune to the problem, said Dhaval Patel, a financial analyst at CB Richard Ellis Group Inc. (NYSE: CB).

The financially struggling apartment development company Bethany Group LLC, based in Irvine, Calif., abandoned its 6,000-unit portfolio earlier this year — including at least two complexes in the Jacksonville area: The Deerfield Apartments on Lane Avenue and the Blanding Place Apartments in Orange Park are being foreclosed on now.

Farrell said in the run-up to a foreclosure, many apartment owners start cutting costs and services, which directly impact the tenants. But, once they go into foreclosure, lenders or the court usually appoint a receiver to manage the property to maintain the value, continue operations and protect tenants.

Foreclosed apartment complexes are both a challenge and an opportunity for prospective investors, said Hector Rivera, an analyst at **Walchle Lear Multifamily Advisors**.

They can be difficult to sell because most of them do not generate enough income to cover loans and may have deferred maintenance issues, and, therefore, may be difficult to get financed.

Some lenders discount these properties heavily to account for the risk and the additional equity required to make the deal work, and others cannot afford to sell at deep discounts and absorb more losses, so they may opt to sell their loans or to extend or modify them, Rivera said.

“Buyers are on the lookout for high-quality distressed assets that can be acquired at a discount,” he said. “Incredible buying opportunities should surface during the next 12 months.”

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