

Wood Partners Uses Dispositions to Spur Development

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Until recently, the REITs were the only multifamily builders making headlines for new development. For instance, Chicago-based Equity Residential is building in Manhattan, Denver, and Arlington, Va., while Alexandria, Va.-based AvalonBay Communities recently bumped up its 2010 development guidance from \$200 million to \$600 million.

“The REITs are sitting in the catbird’s seat,” says William Acheson, a REIT analyst with New York-based Benchmark Capital. “If you’re a private developer, the banks won’t be favorably disposed to lending new capital. They’re more concerned about getting current loans paid off than making new loans.”

But some formerly prolific private builders are now getting back into the game. And they’re able to do it because the acquisition market has helped them sweep formerly burdensome legacy construction loans off their books. Atlanta-based Wood Partners is putting its shovels back into the ground in numerous areas around the country. As of the end of July, Wood had four deals out of the ground and financed. In January and February, the firm also started projects in Washington, D.C., and Boston—two of the most resilient markets through the downturn. Wood also has a letter of interest from a top three bank for a project in San Diego.

So what’s behind these developments? Wood has been able to rid itself of some legacy assets. In fact, the company has sold six assets in the past six months. “In many cases it has helped us deliver and help take construction debt off our books,” says Wood CFO Joe Keough. “We’ve gotten our balance sheet to a much healthier point than it was last year.” Indeed, the frenzied acquisition market has helped the company clear the decks. “You’re being paid very aggressive assumptions today,” he says. “Wood Partners and a lot of our equity partners have looked at our portfolio and found a number of assets that make a lot of sense to sell today.”

Wood isn't alone. Peter Donovan, senior managing director of Los Angeles-based CB Richard Ellis' Multi-Housing Group, whose parent company CB Richard Ellis owns a majority interest in Wood, says other builders are using the frenzied acquisition appetite to clean up problems. "It's a slow, gradual climb," he says. "People are getting their balance sheets in order so they're ready to think about new development."

And that's ultimately helped Wood secure new construction loans for the projects its starting today. "We're seeing development come back with our equity and debt providers much more quickly than we thought," Keough says.