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Big Deal in a Hot Market

Eagle Real Estate Group closes on second biggest apartment transaction of 2002 in Orange County

By Julie Nakashima, CREJ Staff Writer

Orange County's hot apartment market posted another large deal, with Eagle Real Estate Group's landing of the 402-unit Bayport Apartment Community in Garden Grove.

Located at Chapman Avenue and Bayport Street, the 10.6-acre complex consists of 11-low rise buildings built during the late 1960s. Anaheim-based Eagle paid \$38 million for the property and plans to spend an additional \$5 million on improvements.

The deal marks Orange County's second-biggest apartment transaction this year, according to Scott Davis, partner in Moran & Co. Davis and Moran partner Mary Ann King represented Bayport's seller, Klein Financial of Palo Alto.

Eagle used five tranches of bond financing to acquire the property, according to partner Randall J. Friend, a former attorney in the real estate law firm Allen Matkins Leck Gamble & Mallory

"Our business plan is to acquire deals of \$20 million or above," Friend said. "We think it's the same amount of brain damage to do a \$1 million deal as it is for a \$50 million deal."

Because of the tax-exempt bonds, Eagle is required to set aside 20 percent of the units, or 81 apartments, for low- to moderate- income families. The use of bond financing to acquire apartments is not exactly unheard-of, Friend said.

But he added: "There are a lot of people in the marketplace who are not inclined to acquire bond deals for one reason or another, so there's a smaller buyer base. We understand the potential pitfalls and the potential value."

Eagle Real Estate was formed two years ago and concentrates exclusively on multifamily product. With its latest acquisition, the company owns nearly 2,000 units.

“Our focus is work force housing,” Friend noted. “We’re not too interested in the luxury product.”

The company’s first acquisition was a portfolio of five apartment communities in Ontario, purchased from Pacific Gulf Properties in November 2000 for close to \$40 million.

Bayport represents its first Orange County acquisition. Eagle’s plans to call for improving the landscaping and parking structures, and replacing the wood around the patios with wrought iron. Individual apartment interiors will receive upgrades such as new appliances, granite countertops and vanities and a spiffy two-tone paint job.

“We see a continuing trend of investors renovating older multifamily properties to increase quality of life in Southern California,” Davis said.

Besides lawyering, Friend brings apartment brokerage and development experience to the company. The other principals in Eagle come with their own unique skills. Kenneth R. Melton has a background in asset management and finance, and previously worked as an adviser to the Resolution Trust Corp. in the early 1990s; Kyle C. Martin is a contractor who has built thousands of apartment units and homes in Texas and California.

The company also boasts a high-profile board of directors, including H. Gordon MacKenzie, president and chief executive officer of Polygon Development; Steven R. Layton, founding principal of Layton-Belling & Associates; and Davis M. Conant, a businessman who owns a number of automobile dealerships in Southern California including Norm Reeves Honda.

To curb construction overruns, the company runs its rehab process in-house under Martin’s direction.

“That’s where you can make it or break it,” Friend said.