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Confident in Market's Future, Sequoia Adds to Orange County Holdings

[Regions](#) May 28, 2009

With the growing evaporation of jobs, Orange County, Calif.'s multi-family housing sector is starting to feel the burn. Yet, deteriorating fundamentals aren't scaring off investors like Sequoia Equities Inc., which recently acquired the 484-unit Alize Apartments in the upscale Aliso Viejo master planned community from Northwestern Mutual Life Insurance Co. for \$75 million. Walnut Creek, Calif.-based Sequoia relied on financing from Fannie Mae and a \$17.3 million equity partnership for the purchase of Alize. Presently 90 percent occupied, the approximately 442,700-square-foot, decade-old apartment complex features 11 three-story residential structures, as well as three single-story buildings encompassing a management office, fitness center and a clubhouse. Alize's sister-complex, the 428-unit Alicante Apartments, has been part of Sequoia's portfolio since 2003, when it was acquired for \$66.3 million. Indeed, times have changed since then. Speculating, Sequoia senior vice president William Brooks, told CPN that, at the peak of the market, Alize might have traded at a cap rate in the high 4 percent range; it actually traded at a rate in the 7 percent range. The Orange County apartment market is headed for harder times. More job cuts—an anticipated 42,000—and the delivery of 3,200 new units will push the vacancy rate up to 7.1 percent this year, according to a report by Marcus & Millichap Real Estate Investment Services. Despite bleak predictions, Sequoia and others in the know remain keen on the area. “Our approach in terms of analyzing an acquisition hasn't changed,” Brooks noted. “We look at two factors; the largest is job growth, but we continue to look at desirability of the area in terms of a living environment. Obviously, there's been a major, major correction, but that didn't take away any of the major benefits of living and working in the area. And when we do hit bottom, if we haven't already, Orange County should be one of the areas to recover the quickest.” Sequoia is in the position to hypothesize about what is on the horizon for Orange County's multi-family market. With the purchase of Alize, Sequoia, whose assets are located predominantly in California, the company now has six properties in Orange County. “We're already seeing evidence that the market has stabilized,” Brooks said. “There have been no massive rent reductions; there may be some stagnancy in rents, but you're already seeing some stabilization in that area. The longer-term outlook for Orange County is extremely positive.” For Sequoia, more acquisitions are certainly a possibility in the near

future. "Finally, sellers are more willing to meet the market," he said. "There's more of a meeting of the minds in terms of cap rates, so velocity should be picking up in most of our California markets."

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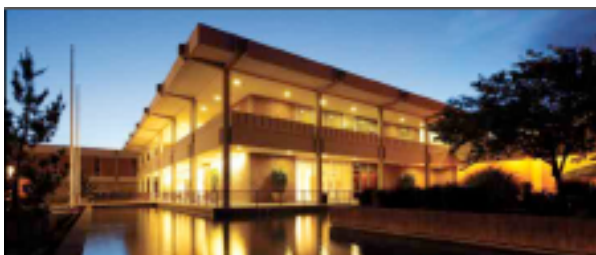
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