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For-Sale Properties Are Paying Off For Start-Up Developer

Sycamore Urban wants to acquire up to 2,000 more distressed housing units in the next three years.

By: [John Caulfield](#)

When Lew Halpert and Mitchell Bradford, two long-time real estate veterans, were conceptualizing their startup investment firm [Sycamore Urban Properties](#) in 2007, they originally planned to acquire distressed condo projects that were at least partially built, complete them, and then rent them until the for-sale market got stronger.

Their first deal—a 41-unit townhouse development in Rancho Cucamonga, Calif., which they rescued—fit their business model perfectly, and is currently fully leased. However, similar projects that met their financial parameters have been fewer and farther between. The three subsequent deals that Sycamore Urban has transacted—including its acquisition earlier this month of a stalled 36-townhouse community on 4.33 acres in Thousand Oaks, Calif., which the [FDIC](#) seized from IndyMac Bank in 2008—have ended up putting the finished product on the market for sale instead of for lease.

For example, all of the townhouses in the Thousand Oaks project, which Sycamore refers to as Hillcrest, are in various stages of completion. When finished, they will range from 1,811 to 2,095 square feet and sell at prices starting the \$400,000s.

“We tried to buy a variety of fractured condo conversion deals, but there weren’t a lot of them,” says Bradford, Sycamore Urban’s president, whose resume includes stints with Kaufman and Broad, [Ryland Homes](#), [William Lyon Homes](#) and John Laing Homes. “How we’ve been evolving is being dictated by the market and how institutions are putting this stuff back onto the market.”

So far, Irvine, Calif.-based Sycamore’s deals are paying off: it took the company only five months to sell 42 single-family homes in Apple Valley, Calif., it acquired from FDIC last year. The deal included 60 finished lots that Sycamore sold to an investor. The company also recently

opened for sale an 18-unit luxury condominium project in West Hollywood that it picked up earlier this year.

Bradford says that the way Sycamore is structured, it needs to find projects that are at least partly completed. “We can’t build from the ground up.” It acquired the project in Apple Valley at 25% of what its original improvements cost, and bought Hillcrest at 50% of its improvement costs. “The properties have to be pretty far along” for them to make financial sense.

Sycamore has “a great partner” in [Pacific Western Bank](#), says Bradford, who in the 1990s was a vice president with Security Pacific/Bank of America’s OREO group, which disposed of residential land and developments. Bradford contends that there are other lenders willing to provide financing for the kinds of deals Sycamore does. “It’s just that the underwriting isn’t what it used to be, so you have to come in with lots of equity.”

Sycamore operates under the premise that it can locate buyers and renters as long as it choose markets that are currently supply-constrained. “Buyer demand is there if you can get to the right price. Somebody’s buying all these REOs and short sales.” He says the homes in Apply Valley were priced from \$170,000 to \$210,000, and only 15% of the buyers had FHA mortgages. “And not one of them was an investor.”

Such optimism is fueling Sycamore’s growth plans to acquire between 1,000 and 2,000 more housing units over the next 36 months. Bradford says that his company is looking beyond California at multifamily opportunities in Reno, Nev., and the Phoenix-Tuscon market. “We’re looking for properties with maps on them so they eventually can be sold as condos. But we’re being very selective because some markets will recover faster than others.” He particularly likes Phoenix, whose housing market he thinks has “overcorrected” even while the region is still creating new jobs.