

Newcomer acquires Lofts on Post Oak for condo flip

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The [Lofts on Post Oak](#) apartment complex was purchased last week for \$77 million by a firm that will turn the high-end units into for-sale condominiums.

The posh 351-unit property located on Post Oak between San Felipe and Westheimer was sold by Houston-based Hanover Co. to Tarragon Corp. and SunVest Communities LLC, both of which are experienced condo developers and operators. The buyers beat out more than a dozen bidders who were vying for the prime property, located in the heart of the Galleria area.

The Lofts on Post Oak complex is the first Houston property for New York-based Tarragon, a publicly traded company that controls approximately 16,000 rental apartments and 1.4 million square feet of commercial space valued at \$1 billion. The firm has developed and converted quite a few projects, especially in Florida. For example, Tarragon built the largest building in Fort Lauderdale, Fla., a luxury condominium tower called Las Olas River House that has 42 stories and 287 units.

Tarragon is also a 50-50 partner with Asbury Place Development in the Orion condominium towers, which are being built near Memorial Park in Houston. But since the first of the two towers is not scheduled for completion until 2007, Tarragon executives see last week's purchase as the company's entrance into the Houston market.

"The Lofts on Post Oak brought us to Houston, says James Helman, executive vice president of Tarragon in Fort Lauderdale. "We were excited to get into Houston. We've looked at Houston for a long time."

Even though the firm is a seasoned condo converter, Helman says the Lofts on Post Oak property stands out among the others.

"It's the most spectacular property we've ever done a conversion on," he says. "It's a very different kind of property. It's new. It's got a very cutting-edge excitement to it."

Hanover and strategic partner MetLife Inc. opened the contemporary Lofts on Post Oak in August 2004. The property features six resort-styled pools, a 20-seat movie theater with stadium seating, a fitness center with a fitness director and a social director -- all of which will remain, says Helman.

The complex has an eight-story tower and a four-story midrise building with units ranging in size from 700 square feet to 1,900 square feet. Only about 50 percent of the units are occupied, since leasing stopped two months ago when the property went under contract.

Brokers David Oelfke, Matt Rotan and David Wylie of Apartment Realty Advisors represented Hanover in the transaction, which fetched roughly \$219,373 per unit. The high sales price is justified by the prime location, which will create demand that will absorb the pricing, Wylie says.

Helman says the units will sell for just under \$200,000 to the upper-\$500,000s. The maintenance fee has not been determined.

Existing tenants will get a discount if they decide to buy their units. Helman says if current residents don't want to buy but still want to live at the property, investors may be willing to purchase their units.

The condo conversion market is being fueled by low interest rates that allow residents to own instead of rent, Wylie says. In addition, he says, people are tired of commuting in Houston's traffic, which adds to the popularity of close-in developments.

Jeb Bowden, head of disposition for Hanover, points out that more condo converters are acquiring properties outside of typical conversion markets such as Florida and Washington, D.C., because they are being priced out of those

markets. Converters prefer to acquire existing properties rather than build new ones because it is less risky, he adds.

"We have seen an increase in condo buyers over the last 12 months," Bowden says. "We are also seeing apartment guys. Their bidding is actually fairly close."

The sale of the Lofts on Post Oak fits in with Hanover's strategy, which is to develop upscale apartment complexes and then sell them. One example is Hanover's 33-story apartment tower at 1200 Post Oak, which sold soon after opening in 2003. The Houston company has several other properties under contract for sale in Dallas and California.

Hanover's latest local project is a 21-story apartment building next to the Riverway office and hotel complex near the intersection of Woodway and South Post Oak. That construction is expected to be completed in 2006.

Galleria shuffle

The Lofts on Post Oak sale is the latest example of a growing trend of condo conversions, particularly in the Galleria area where one multifamily property sold last month to a converter and two other complexes have a strong chance of switching to condos soon.

Atlanta-based Choice Condominiums LLC closed a deal last month to purchase The Bristol on McCue for \$30 million. The condo converter will spend \$2 million upgrading the 27-story, 96-unit property located at 3350 McCue just south of Richmond before putting the units up for sale.

And Wylie of Apartment Realty Advisors says a condo converter has entered into a contract to buy the 17-story apartment tower at 3525 Sage. Wylie, who represents the building's New York ownership group, says the buyer is a private group out of Kansas City, but he will not disclose their identity.

In addition, Apartment Realty Advisors has secured the listing to sell the Montierra Apartments. Wylie says a price has not been set on that 346-unit

midrise at 2345 Sage because it very likely will be purchased by a condo converter.