MHN Interview: Federated Companies' Dung Lam

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By Joshua Pringle, Online News Editor

The Federated Companies recently sold its last remaining retail asset so that the firm can focus on multifamily development. Around 2005 and 2006, the company was headed in the opposite direction, moving away from multifamily and toward retail, but then changed its course a few years later due to market conditions. Since 2009, the Federated Companies has accumulated development rights for more than 3,000 multifamily units. CEO Dung Lam discusses with *MHN* the different factors that have led to these strategic decisions.

MHN: Can you tell us about the decision to move away from retail and focus on multifamily?

Lam: When the company was founded in 1999 we started in the multifamily space buying multifamily as well as residential development. Then when the market got overheated in 2005, we didn't find it sustainable to continue to develop multifamily, so we repurposed the company and developed a strong portfolio of more than a few hundred thousand feet of net lease retail.

When the market in retail started to sputter, we looked to get back to multifamily and found opportunity due to a decline in land values and construction costs, and relative rental rate stability in our core market. We also felt that the Internet would have a negative impact on retail real estate.

So we started to shift over to multifamily, knowing that the shorter lease terms would allow us to quickly capitalize on a market recovery. That's what prompted us to exit and dispose of all our retail assets and put our focus back into the sector that was a major foundation when the company was founded.

MHN: Can you expand on how the Internet had an effect on the retail market?

Lam: That was one of the long-term things that we saw affecting, and that will continue to affect, the overall demand for brick and mortar in retail. I don't think anyone knows how much this will cause the retail market to contract, but we feel that it's safe to assume that the Internet will have a long-term negative impact on the retail real estate market. Conversely, in the multifamily sector, the Internet has only helped us, in terms of networking, marketing and social media.

MHN: What are some of the biggest differences you see between the multifamily industry now as compared to in 2005 or 2006 when you were moving away from it?

Lam: We have seen a significant decline in the number of units constructed annually. This decline combined with a decline in homeownership rates and moderate household growth has contributed to supply constraints that will continue to present an issue for renters until considerable supply provides the necessary relief. We are excited to be doing business in markets that have been traditionally supply constrained and also to be early to market with newly built inventory that will compete directly with significantly older and outdated product.

MHN: Can we expect to see you being aggressive on the development front? I know you have four projects already underway and several others in the pipeline.

Lam: We're certainly a bull in the market in terms of development. In our primary market, Boston, you're seeing suburban, Class A apartment transactions at cap rates in the fives, and we're able to deliver product at a 7.5 to 9.5 percent return on cost. We've acquired about 3,000 permits since 2009, and in 2010, started the construction phase of our program.

We're really focused on developments because of the discounted basis that we can deliver product. This is due to our vertically integrated construction platform as well as a low land basis. Our near-term goals are to continue to feed the project pipeline with land acquisitions, landowner/developer joint ventures, and to build our third party construction.