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Conversation with Brian Connell, CEO of The Federated Companies

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Brian Connell

By Keat Foong, Executive Editor

Having completely disposed of its retail assets, The Federated Companies is now directing its energies at being an opportunistic player in the multifamily space.

According to Brian Connell, CEO of The Federated Companies, some of the best multifamily investment opportunities can be found in “high density markets in the Northeast region of the United States where barriers to entry are high.” In addition, the company is seeking investments further south, near major cities across the Eastern Seaboard. The company is also making a concerted effort to identify “development opportunities that fit the Company’s investment profile” in South Florida, which is still in recovery, he notes.

In the past 12 months alone, The Federated Companies has invested in five multifamily apartment and student housing projects which account for over $100 million in total project costs. Projects currently under construction are located in Manchester, N.H. (206 units) and Wakefield, Mass. (128 units). A new $20 million transit-oriented multifamily development project in Wilmington, Mass. (108 units) is expected to start construction in the next 30 days. The project “will offer residents access to downtown Boston.” In addition, the company has six other development projects that together make up a development pipeline of 1,500 residential units and 250,000 square feet of retail /office space.

“We find that the value of our land holdings has increased significantly over the past year,” says Connell. Land sites that the company acquired in 2008-09 have now more than doubled in value, he indicates, driven up by investors that are seeing double-digit rent growth in many Northeastern markets. “Given the volatility that is plaguing the global financial markets, investors are looking to hard assets such as multifamily investments which offer low volatility, inflation protection, and stable cash flow yields. Apartment fundamentals should benefit over the next few years from limited new supply and a declining homeownership rate."

Connell says the company typically targets development yields in the 9 percent range, with IRRs in the 30 percent-plus range. "Most of our projects' implied capitalization rates fall within an 8.5 to 9.5 percent range. We are a vertically integrated company, which in conjunction with our talented people and sophisticated investment acumen, enables us to generate consistent returns and positive alpha for our investors."

The Federated Companies sold its last two remaining legacy retail properties in 2010 and 2011. What is one lesson from the retail sector that the developer can apply to multifamily development? The answer: cost control. "We are very focused on delivering projects on-time and on-budget. Retailers hold developers to the day and dollar, which has taught us to be value oriented, efficient, and to always deliver on expectations," says Connell.