SEATTLE
DAILY JOURNAL OF COMMERCE
Helping Business do Business Since 1893

June 11, 2010

Longwell buys unfinished apartments in West Seattle

By LYNN PORTER
Journal Staff Reporter

This week an entity of the Bellevue-based Longwell Co. paid $4 million cash for an unfinished 60-unit West Seattle apartment building that previously was owned by Mastro Properties, according to Longwell President Stanley Xu.

Photo courtesy Longwell Co. [enlarge]

Longwell Co. plans to put about $4 million and six months time into finishing the project, which is at Southwest Avalon Way and 35th Avenue Southwest. It was previously owned by Mastro Properties.

Longwell intends to put $3.5 million to $4 million and six months time into finishing the property at Southwest Avalon Way and 35th Avenue Southwest, Xu said. He estimates the six-story building is 50 to 60 percent complete.

The complex has 15 studios, 12 one bedrooms, 22 one bedrooms with a den, and 11 two bedrooms, with an average unit size of 631 square feet. It also has 2,346 square feet of commercial space and three levels of parking.

Longwell bought it because of its proximity to downtown Seattle, Xu said. Its target renters will be younger professionals that work there.

"In my opinion it was a good buy from an investment point of view," he said. "Our total cost will be well below replacement cost."

Xu said it should be a relief to the community to see the unfinished building completed. Some people have taken to calling it the "orange house" because of orange water-proofing wrapped around it, he said.

"We had very positive support from the city of Seattle," he said.

Longwell Co. will act as the general contractor in finishing the complex, which was designed by Mark Travers.

The apartments will have high-end finishes, including granite countertops, stainless steel appliances and wood cabinets usually associated with condos, Xu said. However, he said Longwell doesn't plan to convert the project to condos in the near future.

Rents for studios will start at $1,000 and $1,050 for one-bedrooms.

Northern Trust Bank was the construction lender for the project, which Mastro Properties called Avalon Apartments.

It is one of a number of buildings Seattle-based Mastro lost when it ran into financial problems in this economic downturn.

According to a court filing in November 2009, Northern Trust funded about $5.8 million of its $8 million commitment under the construction loan. Additionally, the court authorized the bank to use not more than $466,279 to prevent damage to the building from foul weather.

Mastro purchased the property from the Seattle Monorail Authority for $2.2 million in 2006.

The property is assessed at $4.3 million, including land and improvements, according to an offering brochure issued by Tom Craig of TSC Real Estate and Bob Watson of R.M. Watson Co.

Watson said the property was sold out of bankruptcy to Longwell by a court approved receiver. The receiver hired Watson and Craig to market the property.

Mike Scott, a principal with Dupre + Scott Apartment Advisors research firm, said it looks like Longwell got a good deal.

Using the industry standard that the amount of retail space in the complex is equivalent to three units and surmising that Longwell will put another $4 million into the building, it will have paid $126,984 a unit, he said.

Not many apartment buildings have been selling in King County this year or last, he said.

In the two sales this year of buildings constructed in 2000 or later, one went for an average of $163,000 a unit, he said. It was in the Central Area of Seattle. The other in Factoria sold for on average of $209,856 per unit, Scott said.

In West Seattle, the average price per unit of all five-unit-and-above properties that have sold this year and last has hovered around $147,500, Scott said.

“That suggests that the ($126,984) is a good value because it's brand new construction, which will typically sell for more anyway,” he said.

Scott said you have to go back to before the 2000 to see newer construction prices in King County as low as Longwell paid.

West Seattle apartment vacancy is 5.4 percent.

The area has attracted much interest from developers, partly because of its proximity to downtown. Some are also counting on RapidRide buses that will travel faster and more frequently to downtown than standard buses. It is anticipated to come to West Seattle in the fall of 2012.

However, upcoming construction on the Alaskan Way Viaduct should affect commute times, Scott said.

“I think it will have some impact, but I don't think the overall commute times are going to go up so much that it's going to drive people away, said Scott.

Denny Onslow, executive vice president and chief development officer with Seattle-based apartment developer Harbor Properties, said that the building is worth $10 million (assuming there are no leins against it), but that's a real rough estimate.

“You're getting a 20 percent head start,” he said.

The upside of buying a half-finished building is you can see the quality of the construction, he said. The downside is it may not be configured the way you want.

“It's not just about bricks and mortar, it's about what the end product is going to be,” he said.

Onlsow said having the complex sold is “better than a half-done building sitting there. That doesn't help anybody.”

Xu said Longwell plans to buy more properties in the Puget Sound region. At the end of 2009, one of its limited liability companies bought a property at 846 108th Ave. N.E. in downtown Bellevue. Xu said it plans a 20- to 23-story apartment building there.

The firm is interviewing architects for that project, but no construction date has been set, Xu said.

Longwell is a private real estate investment and management firm based. It has acquired, managed and disposed of multifamily real estate assets since 1992 with a total value of more than $350 million.

It has 2,200 apartment units, most in the Puget Sound region, but some in Dallas.

Lynn Porter can be reached by email or by phone at (206) 622-8272.