

# Blackstone's \$5.8B Preferred Apartment Deal Shows Value of Sun Belt Apartments

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*Market Intelligence*

[Preferred Apartment Communities Inc.](#)'s roughly \$5.8 billion [deal](#) to be taken private by [Blackstone Real Estate Income Trust Inc.](#) signals an increasing investor appetite for apartment communities in the U.S. Sun Belt, analysts said in interviews with S&P Global Market Intelligence.

Robust demand for Sun Belt multifamily communities, which make up the bulk of Preferred's portfolio, drove the deal, said Barry Oxford, managing director of real estate at [Colliers Securities LLC](#)'s research division. Owing to strong migration and job creation in the Sun Belt, apartments in these markets have "that most favored nation status right now and people are willing to pay dear for that property type," he said.

Another possible factor is Preferred stock's substantial discount to net asset value, allowing Blackstone Real Estate Income Trust, or BREIT, to offer a relatively high price agreeable to the residential real estate investment trust.

What weighed down Preferred's stock was mainly the company's capital structure, said Michael Lewis, managing director of [Truist Securities Inc.](#)'s REIT Equity Research division.

Preferred needs capital to repurchase its \$1.7 billion of preferred stock. BREIT "is able to come in and quickly recapitalize this in a way that Preferred could not in the public market," Lewis said.

## Bet on market rebound

[Blackstone Inc.](#), whose subsidiary externally manages BREIT, is also betting on the U.S. multifamily market's recovery.

The private equity giant is underwriting a rent increase in Preferred's multifamily portfolio, as many of its apartments have a "loss to lease," wherein in-place rents are below market rate, Lewis explained. Blackstone "should be able to mark those up pretty quickly," he added.

A recent [Newmark](#) report showed that the Sun Belt [outperformed other U.S. markets](#) in terms of multifamily rent growth in 2021. The trend is expected to continue in 2022.

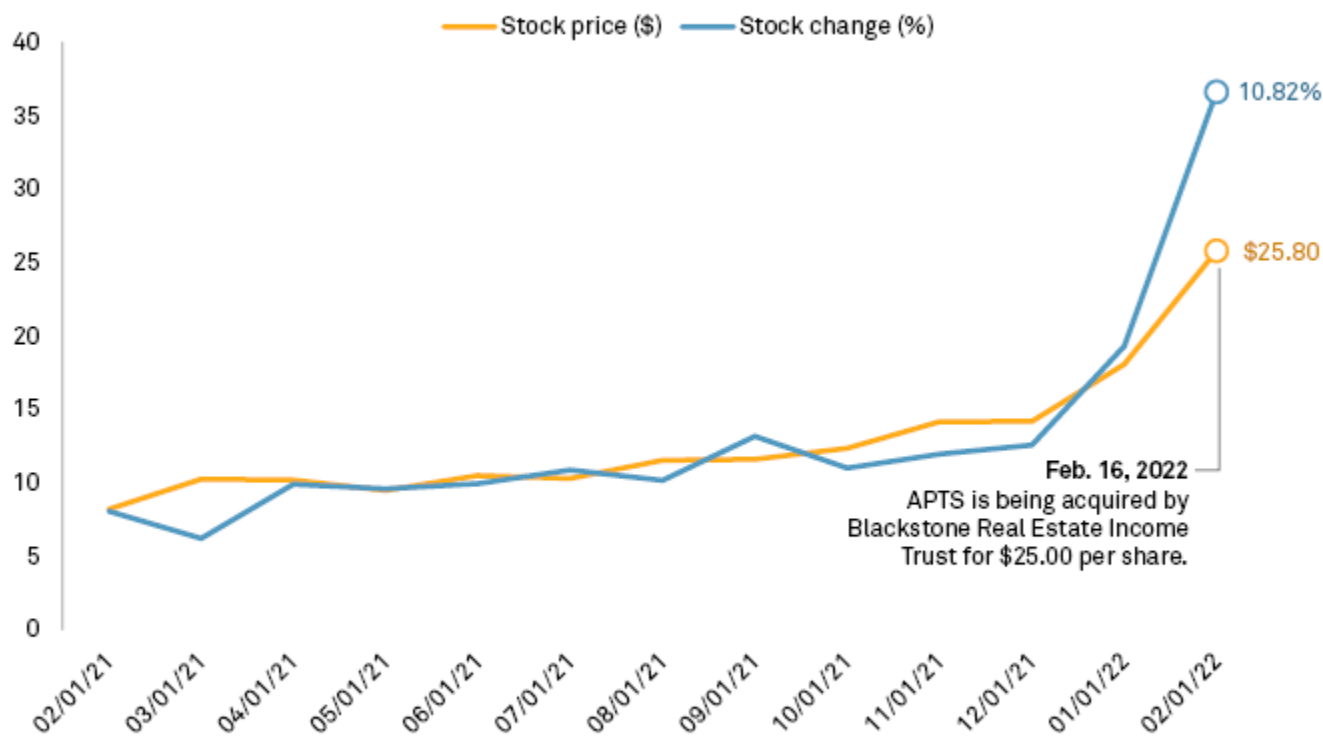
"There's a great sweet spot where demand exceeds supply, particularly in the Sun Belt and we're seeing that translate into terrific rent growth," Lewis said.

Under the deal terms, BREIT will purchase Preferred's entire outstanding common shares at \$25.00 apiece. Preferred's stock rose 10.82% to \$25.80 on Feb. 16, when the deal was announced, representing the company's highest closing share price since its [March 2011 IPO](#), according to Market Intelligence data.

Unless a compelling superior proposal emerges during the go-shop period provided in the agreement, Oxford and Lewis see no big obstacles to closing the deal, which could occur in the second quarter.

## Preferred Apartment Communities Inc.'s 1-year stock performance

Stock data from Feb. 16, 2021, to Feb. 16, 2022 (\$)



Data compiled Feb. 21, 2022.

Sources: S&P Global Market Intelligence

The planned takeover of Preferred would mark BREIT's third billion-dollar M&A deal in the U.S. residential REIT segment in about two months.

BREIT struck deals to acquire [Bluerock Residential Growth REIT Inc.](#) for \$3.6 billion on [Dec. 20, 2021](#), and [Resource REIT Inc.](#) for \$3.7 billion on [Jan. 23](#).

## Residential REIT M&A deals by Blackstone Real Estate Income Trust Inc.

Target	Date announced	Ownership (%)	Total deal value (\$M) <sup>1</sup>	Deal value per share (\$) <sup>2</sup>	Deal premium to price 5 days before (%) <sup>3</sup>	Deal premium to price 3 months before (%) <sup>3</sup>
Preferred Apartment Communities Inc.	02/16/22	100	5,417.3	25.00	39.20	76.30
Resource REIT Inc.	01/24/22	100	3,991.5	14.75	110.41	105.15
Bluerock Residential Growth REIT Inc.	12/20/21	100	3,127.6	24.25	73.96	91.25

Data compiled Feb. 21, 2022.

<sup>1</sup> Deal value paid for equity, plus the value of assumed current liabilities, net of current assets.

<sup>2</sup> Total consideration paid to the sellers for the equity of the target on a per-share basis.

<sup>3</sup> The percentage change between the deal value per share and the target's closing stock price five days and three months prior to deal announcement.

Source: S&P Global Market Intelligence