

Friday, December 12, 2008

Korman kicks off \$300M expansion

The firm seeks to separate itself from the competition

Philadelphia Business Journal - by [Natalie Kostelni](#) Staff Writer

[Korman Communities Inc.](#), which sat on the sidelines for the last year and a half, is poised to make some real estate grabs next year — spending more than \$300 million — to expand its three residential real estate divisions.

The move comes as the company decided to re-brand two of its lines of business to better distinguish itself from competition and solidify its position in the Middle Atlantic States and the Northeast. This comes after the company established a new division last year called “AKA” that caters to clientele who want to stay in luxury accommodations in major cities. It was Korman’s way to try to capture a niche that five-star hotels offer on an overnight basis but instead offer it on an extended basis — be it a week or a month.

Now the Plymouth Meeting real estate company has formed a new division based on its existing and growing portfolio of midrise and garden apartment complexes in the suburbs called “AVE” and plans a big marketing push of the brand. It will eventually roll out “ARK,” which focuses on its original Korman Suites apartment properties, some dating back to the 1950s.

The branding effort highlights how a real estate company that is entering its 100th year of business has evolved and stayed above the fray at a time when many highly leveraged commercial builders are retrenching, with some even faltering, as they cope with a dearth of available credit.

In the first part of last year, the private company completed \$624 million in deals between acquisitions and sales and then pulled back. Its financial partners, pension fund advisers and investment management firms supported the move.

“We stopped buying in the middle of 2007 and we were purposefully quiet all of 2008,” said Brad Korman, who serves as co-president of the company with his brother Larry Korman. “Frankly, we thought prices were too high. We went to the sidelines to basically focus on operations.”

Times have changed and the company is set to seize upon some good deals. “We think there will be a lot of opportunities for us in 2009,” Korman said. “We don’t know where the opportunities will be, but we think it will be in all segments.”

Korman is ready to spend \$200 million to \$300 million buying up to five properties in Philadelphia, Washington, New York and New Jersey. For example, Brad Korman anticipates finding some steals among stalled condominium projects in urban areas that may go for 60 cents on the dollar and fold them into the AKA brand. The company also is conservative about its transactions, leveraging between 60 percent to 65 percent on a deal.

Korman was founded in 1909 by Hyman Korman, who mostly did residential construction in the region. His grandson, Steven Korman, developed the concept of Korman Suites in an apartment building along the Benjamin Franklin Parkway that is now an Embassy Suites. Slow to rent the pie-shaped apartments, Steven Korman decided to furnish one as an example of how the unit might look. Then someone wanted to rent the furnished apartment for a few months but not as long as a year.

“All of a sudden it hit him that there was a need for a whole realm of lodging for someone who needed a place for six months,” said Brad Korman about his father Steven.

At that point, the Korman Suites concept took off. In the mid-1980s, Brad and Larry Korman joined the family business, expanding its footprint into Atlanta, Washington, Delaware and Raleigh, N.C. About four years ago, the company decided to exit the Southeast and focus on the mid-Atlantic area and Northeast Corridor, where it’s more difficult to build new apartments but allows the company to find ways to stand out from the competition. One way of doing that was to create these brands and invest heavily in new and existing properties to ensure the real estate and brand were in synch.

For example, at an existing 264-unit community off Route 30 in Malvern, it spent \$6 million on a complete overhaul to the property that was built in 1996. This summer, it completed an \$80 million project in Union, N.J., and is completing the construction of a \$70 million development in Dulles, Va.

AVE properties are in suburban locations near corporate centers, major arteries or transit stops, shopping and restaurants. However, the style is anything but suburban. “The AVE collection is chic, modern, hip yet warm and comfortable,” said Lea Anne Welsh, president of the AVE division. “You feel like you’re in a suburban W Hotel.”

Korman will next focus on its ARK division. This older portfolio consists of garden apartments that have a smaller percentage, usually between 10 percent and 20 percent, that are furnished. The properties, typically in established neighborhoods, are geared toward traditional renters who sign year-long leases.