The Apartment Report™

CRITTENDEN RESEARCH, INC. • P.O. BOX 635107, SAN DIEGO, CA 92163 • CUSTOMER SERVICE: (800) 421-3483

Vol. 28, No. 20 **June 10, 2019**

EQUITY JUMPS FOR REDEVELOPMENT

Converting older buildings into apartments will draw in patient equity investors like moths to a flame. Adaptive reuse deals transform functionally obsolescent office, retail, factory buildings, etc., into apartments by creative sponsors. These opportunistic situations will attract equity dollars as they are some of the few multifamily deals out there that consistently yield high-teen and low-20 returns.

High-net-worth and large institutions can get debt at construction loan pricing at moderate leverage around 50% to 60% LTC at a 5% to 6% coupon. Some lenders will even be comfortable with 70% depending on the extent of the renovations. Cost of debt capital for less capitalized developers could be double that – in the 7% to 10% ballpark, 1 point in and 1 point out. The whole redevelopment process is time-consuming and easily lasts three to four years. It typically takes 18 to 24 months to complete work and 12 to 18 months to stabilize to standard benchmarks. The high-teens to low-20's return is typically expected over a 36-month holding period.

Capital stacks can also be a little more diverse. In addition to the debt and equity, deals can also receive city redevelopment contributions, local jurisdiction participation through tax relief/tax increment financing, environmental grant funding and LITHC if there's an affordable component. **Ready Capital**, **UC Funds**, **ABP Capital**, **INCA Capital** and **Thorofare Capital** will offer debt for adaptive reuse deals, while **Parse Capital** and **FCP** will provide equity.

The high returns mean both development and value-add players will keep their eyes peeled for these deals, but developers will be more accustomed to the amount of work needed. There is less time spent on site planning and zoning and more time spent in evaluating the existing structures in adaptive reuse. Depending on the property's original purpose, there can be very dramatic changes required to create a residential use, including very different needs in amenities, circulation and HVAC systems. An important factor is often whether or not the existing building is occupied. This can inhibit one of the most important components of proper adaptive reuse planning: destructive testing. Firms need to take parts of the building apart to see how they were made, what can and can't be eliminated or impacted and whether or not there are asbestos-containing materials hidden on elements of the superstructure fire protection.

Prices are significantly below replacement costs because most properties are either in distress or abandoned before redevelopment. However, redevelopment costs can exceed more than $50K per unit and even reach $80K per unit depending on the property type. The largest portions of costs go toward plumbing, electrical and structural needs. Zoning restrictions will always be present. Historic conversions cover a variety of property types but face more scrutiny from local municipalities that want the neighborhood to maintain its character. Historic buildings do provide a better story and will distinguish themselves from the competition.

Pennrose has had success in the reuse of schools, hospitals, factories and – less frequently – industrial or manufacturing facilities. Each type has advantages and disadvantages that relate to the yield in units and the availability of amenity spaces. By definition, it is difficult to maximize the efficient use of square footage in a building built for a different purpose. Therefore, the firm makes sure every space must be treated so that construction dollars yield revenue or directly contributes to the opportunity to offer a product that maximizes revenue-generating possibilities.

Oculus focuses on historical redevelopment and adaptive reuse projects in secondary markets throughout the Mid-Atlantic, such as Richmond, Va. The firm typically targets infill locations and builds units up to Class A quality. The company has a build-to-hold strategy and looks for a return of at least 6% COI or a high teens IRR threshold. Oculus has 600 units in early development and expects to deliver 1,000 units in the next 36 months. One example is the conversion of an old Coca-Cola bottling plant into 86 apartments in Fredrick, Md. The company will usually put 10% to 20% sponsorship equity in the deal with a balance from a syndication to either LPs, single high-net-worth individuals or family offices.

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OWNERS, DEVELOPERS, LENDERS & MANAGEMENT FIRMS

Bell Partners: 300 N. Greene St., Suite 1000, Greensboro, NC 27401. Cindy Clare, COO, (336) 232-1900.

JPI: 600 E. Las Colinas, Suite 1800, Irving, TX 75039. (972) 556-1700.

Morgan Properties: 160 Clubhouse Road, King of Prussia, PA 19406. Laurel Hillocks, Area VP, (610) 265-2800.

Oculus: 2900 Connecticut Ave. N.W., Suite 6, Washington, DC 20008. David Meit, Principal, (301) 563-9021, Ext.101.

Opus Group: 10350 Bren Road W., Minnetonka, MN 55343. Nick Murnane, Director, Opus Development Company, (952) 656-4765.

Pennrose: 1301 N. 31st St., Philadelphia, PA 19121. Lasserre Bradley, Regional VP, Midwest Region, (267) 386-8600.

Roscoe Properties: 5508 Parkcrest Drive, Suite 320, Austin, TX 78731. Kelly Blaskowsky, SVP of Operations, (210) 370-3401.

StarPoint Properties: 450 N. Roxbury Drive, Suite 1050, Beverly Hills, CA 90210. Lonnie Vidaurri, Director of Investments and Capital Markets, (310) 247-0550.

Sunrise Management: 7837 Convoy Court, Suite 100, San Diego, CA 92111. Joe Greenblatt, President/CEO, (858) 751-6321.

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StarPoint Properties tends to focus on re-entitlement in strong submarkets versus adaptive reuse. The company will also be looking for infill value-add opportunities and covered land. The firm is looking for asymmetrical returns – low risk and above market returns – so there needs to be some outlier or opportunity such as adding units on excess land. StarPoint will try to do one deal per quarter.

Anticipate **Laramar**, **WinnDevelopment**, **Gables Residential**, **Waypoint Residential**, **Mill Creek Residential**, **The Habitat Company**, **Millennia Companies**, **Crescent Communities**, **Middleburg**, **Paramount Assets**, **Post Brothers**, **Buckingham Companies**, **The Focus Group**, **Time Equities**, **The Opus Group**, **Beacon Communities** and **The Beach Company** to be on the lookout for redevelopment opportunities.

New Contacts Added to Database

See Online Directory http://multi.crittendenonline.com/ for Complete Contact Information with Email Addresses

Multifamily Firm	Address	Contact
1st Source Bank	100 N. Michigan St. South Bend, IN 46601	Shelli Alexander, SVP, Central Region Manager Darran Teamor, VP, East Region Manager Erik Back, VP/Valparaiso Manager Lanny Scoby, Kalamazoo City President Connie Lemler, Community Regional President Tim Rice, VP/Ft. Wayne Manager
40/86 Capital Mortgage	535 College Drive Carmel, IN 46032	James Kearns, VP, Commercial Mortgage Jim Klusmeier, VP, Commercial Mortgage Andy Aiello, Assistant VP
Bank of America	1 Bryant Park 16th Floor New York, NY 10036	Kenneth Cohen, Global Head of CRE Structured Jason Ourman, Managing Director Robert Springer, SVP, CRE Banking
Bentall Kennedy	7315 Wisconsin Ave. Suite 200W Bethesda, MD 20814	Kevin Riverst, SVP, Transactions & Acquisitions Philip Down, VP, Acquisitions &Transactions
Catskill Hudson Bank	63 Hurley Ave. Kingston, NY 12401	Henri Langevin, SVP/Regional Senior Loan Officer Fil Nieves, Commercial Loan Officer Bryan Smith, Commercial Lender, Hudson Valley
Cuna Mutual Group	5910 Mineral Point Road Madison, WI 53705	Tom Jensen, Managing Director Lee Kobza, Director Gerry Yates, Director
Eagle Realty Group	421 E. Fourth St. Cincinnati, OH 45202	Reid Abernethy, VP/Director, Structured Equity Robert Alpern, VP/Director, Strategic Investment Thomas Stanek, VP/Director Charles Thomas, VP/Director, RE Equity
Enterprise Bank & Trust	11401 Olive Blvd. St. Louis, MO 63141	Kristy Hess, VP/Relationship Manager, CRE Adam Kilpatrick, Director, CRE Lending Sara Burke, VP/Relationship Manager, CRE Brian Crisp, SVP, Commercial & Industrial Nancy Peterson, VP, CRE
EverWest Real Estate Partners	1099 18th St. Suite 2900 Denver, CO 80202	Matt Gangaware, Director, Capital Markets
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Fifth Third Bank	222 S. Riverside Plaza Chicago, IL 60606	John Hein, SVP/Head of CRE
Firstrust Savings Bank	15 E. Ridge Pike Conshohocken, PA 19428	Michael Dinda, Chief Lending Officer Seth Mackler, EVP, CRE Financing Joseph Rago, SVP, CRE/Construction Brandt Butcher, SVP, CRE Finance

PARKING PARALLELS CONSTRUCTION WOES

Watch for parking to be heavily scrutinized more often by developers as both land costs and construction costs remain high. Parking is expensive to build and requires a lot of valuable real estate. While the demand is still there, the cost to build is only increasing.

Due to sizing constraints for urban sites, most firms typically look at some form of structured parking. Underground parking comparatively would cost $400 more per rent than above-ground structured parking, which makes limiting parking requirements in cities that require it a high priority, especially as the affordability crisis hits urban areas the hardest. Parking style is usually driven by the site. Smaller sites generally have parking garages, while larger sites have room for surface parking lots and private tuck-under parking garages.

There's been a slight decrease in parking demand over the past few years. However, there's also been an increase in tandem parking stalls, in which a couple may have two cars but only uses one car on a daily basis. Developers are also taking into consideration how fewer people are expected to drive due to biking, taking public transportation or ride sharing, but reducing parking and not providing enough spots for residents is not a risk many are willing to take until the trend becomes more prominent. With surface parked projects, the municipalities typically require a high parking ratio so sometimes it becomes a design challenge to determine the right amount of parking and the right amount of private garages.

For our urban projects, **Opus Group** typically looks for a ratio of 1:1 parking stalls per unit. While the demand for parking has begun to trend down slightly, it is still seeing a need for one stall per unit in most metros. **JPI** typically uses structured parking garages as well. It also offers residents the opportunity to purchase reserved spots for a premium so they can park close to the stairs or on the floor they live on if they would like.

MANAGERS RACE FOR EMPLOYEES

Property managers will go all out to bring fresh blood to the multifamily industry and focus even more on keeping their best employees. With the low unemployment rate and new developments coming online, operators need all the help they can get. Keep an eye out for salaries to creep up as the pool of experienced candidates is shallow and hiring is a struggle for nearly every company.

Attracting new talent must go beyond posting open positions online. Participating in college and professional career fairs is a good first step, but partnering with and recruiting from technical/trade schools and hiring interns will provide even better results, as it introduces the future workforce to a specific company and industry. Employee testimonials for different roles give potential employees the opportunity to hear directly from current staff members on why they love their jobs.

Bell Partners created an intern program that has six interns in various locations to learn about Bell and property management. Bell Partners is also involved with Virginia Tech's advisory board for its property management program. They help the school schedule courses and get access to the students through speaking during classes to give insight.

Morgan Properties will sponsor career fairs to attract new talent. It also relies on its network of existing employees to share their work experiences and refer others. Promoting and sharing employee accomplishments with appreciation events, community volunteering and award recognitions give potential employees an idea of what it's like to work for the firm and the type of team environment they can expect. Last year, the company implemented its management trainee program, which brings in four recent college graduates with solid GPAs for an 18-month program that teaches the ins-and-outs of the multifamily industry to provide young professionals with the tools and skills to manage their own property at the end of the 18-month period.

Roscoe Properties looks for people who have an entrepreneurial attitude to fit its culture. The firm has also been successful in identifying individuals hungry for growth who may not have been given the chance to move into a new position. Offering the opportunity for elevation leaves the new employee incredibly grateful and dedicated.

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Donaldson Group has had great success with *Shelters To Shutters*. The program provides employment and housing at a discounted rate for individuals facing homelessness. It boasts an 87% annual employee retention rate. **Sunrise Management** makes sure responsiveness to team members and residents will be its priority. Deploying technology thoughtfully can also be an important attractor and retainer.

Training will be crucial to improving employee retention. By providing a supportive culture and focusing on career growth, employers create value for their employees, which is reflected in overall job performance and longevity. Training must continue throughout one's career via professional development programs and individualized seminars on industry skills, leadership, time management and more. Employee appreciation days are also powerful motivators and keep teams happy.

Bell Partners will give its employees a clear career path with its leadership programs. *Spark*, *Ignite* and *Torch* are the three different levels of the leadership program based on where employees are in their career. Morgan Properties will send employees to industry events for networking and learning opportunities, which also enables them to get an outside perspective. It will arrange team bonding activities and employee appreciation events including happy hours, team bowling and other outings to create opportunities for employees to interact with their colleagues and build a sense of community. The firm also encourages employees to participate in corporate fundraising efforts such as Alex's Lemonade Stand Foundation's *Annual Lemonade Days* to help raise awareness for important causes.

Roscoe believes its corporate team can impact positive performance by keeping its supervisors with smaller portfolios, allowing them time to spend on each site to truly "dig-in" to operations and look for areas of improvement while building solid relationships with employees and clients. Every year, the firm provides a survey to its employees to see how management is doing, and this allows staff to voice any concerns or changes they would like to see happen. Roscoe recently rolled out its *Paid Time Off* policy where team members with five years or more of service receive unlimited paid time off. Additionally, their wellness program provides employees with a low-cost option for Fit Bits and lower than typical monthly gym membership fee.

Oakwood Management Company created a 3,000-s.f. training room for service techs. It has HVAC, electrical, refrigerators, dishwashers, stoves, water heaters, video room, etc. It has reduced callbacks and orders for new parts in addition to cultivating in-house loyalty. The initiative helps groom younger talent and teaches older members on the service team new tricks of the trade.

Operators such as **Pinnacle**, **Camden**, **ZRS Management**, **Lincoln Property Company**, **Cortland**, **FPI**, **Bozzuto**, **Related Companies**, **Connor Group**, **New Standard Equities**, **Panther Residential Management**, **Greystar**, **Avenue5**, **Rivergate KW Residential** and **NRP Management** will view hiring and employee retention as a top priority.

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The Apartment Report™ is published by Crittenden Research, Inc., 201 Alameda del Prado, Suite 220, Novato, CA 94949. Send address changes to *The Apartment Report™*, P.O. Box 635107, San Diego, CA 92163. Sample reports may be requested online at http://www.crittendenonline.com.

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