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SAN FRANCISCO

After $1B default, Veritas' CEO and founder Yat-Pang Au plans a comeback

It's the company's moment of truth

Yat-Pang Au (Photo by Jay Watson)

- **Emily Landes**

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On a Thursday afternoon in January, on the sidewalk across the street from San Francisco's City Hall, Veritas Investments lost about one-third of its multifamily holdings in the city.

In an **unprecedented public auction**, Brookfield and local operating partner Ballast Investments officially took ownership of 2,150 units in 76 apartment buildings, having bought the nearly $1 billion in debt on the properties last fall. In the process, the investors helped themselves to the title of the city's largest residential landlord.

It was a crown Veritas had worn for years. Founder and CEO Yat-Pang Au says his institutional partners drove the decision not to extend the debt that had matured on these buildings, as well as on a smaller portfolio of 20 buildings with 316 units purchased by **local investors Prado Group**.

Losing the properties was "not a great feeling," Au said in a rare interview, but he understood why it had to be done.

"It was a question of debt and debt costs and then value degradation," he said.

Veritas and its partners are far from the only ones to have been caught in short, floating-rate debt as the Fed "spiked" rates last year, Au noted. More unusually, the foreclosures have not dimmed his commitment to his original investment philosophy: Buy older, smaller buildings with deferred maintenance and the potential for huge upside on turnover at a scale that attracts the enormous pocketbooks of institutional investors, who had previously ignored this asset class.

The industry's widespread **distress**, combined with his company's long-term investment in property management technology, is an opportunity to buy more in the city, expand into other markets and for the first time offer third-party property management services, he believes.

If there are **opportunities to be found in the wreckage**, Au might be just the man for the job. He founded Veritas in similar conditions in 2007 during the global financial crisis and purchased the bulk of the recently foreclosed properties in 2011 when they were owned by the former biggest name in apartments in San Francisco, then facing insolvency.

Given the history of the portfolio, Au said he can see a kind of cyclical rationality to his company's recent default at another moment of widespread distress.

"I got them in the same way that I lost them," he said.

Looking for love ... and investment properties

Au didn't intend to have a career in the apartment industry. He got his undergraduate degree in electrical engineering and computer science from the University of California at Berkeley, followed by a masters in information networking from Carnegie Mellon.

He grew up the eldest of five boys in "a very entrepreneurial household" in San Jose, he said. His parents, who had emigrated from Hong Kong, invested in apartments while his father worked as an engineer. In high school, Au said, he repaired the coin-operated washer-dryers in his parents' buildings.

Au joined the growing tech industry in the mid-'90s and put his salary toward seven condos in the Bay Area city of Fremont. He lived in one unit and rented out the other six. He also went to Harvard for an MBA, graduating in 2000.

In his early 30s, helping to run an alarm and security company his family owned, Au found himself spending his downtime in San Francisco, meeting "lots of interesting people" and "looking for love."

"I wish I had some sort of moment of brilliance," he said, "but the reason why I ended up buying my first little six-unit apartment building in the Mission District was because I just needed a place to crash when I was visiting San Francisco on the weekend."

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He met his wife, Helina, in a bar in the city. She “very quickly” moved into that first apartment building in the Mission, and they married in 2006.

By that time, Au had sold his Fremont assets to buy more multifamily in San Francisco. Friends and family, seeing his impressive returns, had begun giving him money to invest as well. In 2007, Veritas was born and became Au’s full-time job.

Colliers multifamily agent Brad Lagomarsino said he can remember when Au first came on the scene because he showed up at virtually every open house, was always “super diligent” and carried a camera with him on property tours. He focused on 10-plus-unit “legacy assets.”

“He was just really thoughtful about what he bought,” Lagomarsino said.

With his business school degree and tech background, Au was also a marked change from the dynastic Italian families and blue-collar tradespeople who had previously made up the bulk of San Francisco’s multifamily owners.

The mix of financial crisis conditions and increasingly tenant-friendly regulations were driving out those mom-and-pop owners. There was a lot to buy.

“I had no idea what was about to come down the pike,” Au said.

Expansion explosion

The biggest opportunity to come out of the financial crisis was the CitiApartments portfolio. Started by patriarch Frank Lembi in the 1940s, CitiApartments owned over 6,000 San Francisco units at its height after buying up nearly every 20-plus-unit building that came to the market in 2006 and 2007. Shortly after the buying binge came the fall, and many of the family’s buildings went back to creditors.

Amid the tumult, Au developed a relationship with Lembi, whom he described as being from “the old guard.” He bought 2,000 units of the CitiApartments portfolio, thanks in part to their rapport.

“We talk about things and we shake hands and that’s the deal,” Au said.

With the Lembi portfolio, he had the scale he needed to get the interest of institutional investors. Firms like Blackstone had never had a real presence in the San Francisco apartment market because the city’s older, smaller buildings didn’t fit with their large-scale business plans.

“Pang was on the forefront of basically luring institutional capital to San Francisco,” said Lagomarsino. “They cannot write a check for a single 12-unit building, but if you can deliver a ton of units then it starts to make more sense.”

Au worked his Harvard Business School connections — Veritas is also the university’s motto — to bring Baupost, a Boston-based hedge fund started by former Harvard professors, on as backer for the Lembi deal.

Here was his pitch: This was a once-in-a-generation opportunity to buy at distressed values, scale quickly, spread risk over many buildings instead of one large complex, and work with an operator who had a track record of fixing up quality assets with deferred maintenance to attract the tech workers flooding into the city at the time.

"There was some confidence in being willing to take a flier on not just this asset class, but this company as well," he said.

Au originally planned on third-party managers to help him scale, but he quickly realized there weren't many with the "owners' mindset" and emphasis on technology that he required. It took him about a year to build out an internal platform to operate the new portfolio.

The company expanded further, assisted by a partnership with global real estate investor Ivanhoe Cambridge in 2014. Veritas quickly became one of the biggest buyers, owners and managers in the Bay Area.

"I thought there was an opportunity to essentially buy from these mom-and-pops, to have an institutional offering platform to better improve the assets, make those apartments better and really invite residents into beautiful, charming spaces in great locations that are just a little bit old," he said.

"Until the music stopped with Covid, everything was on fire," Lagomarsino said. "It was fantastic."

Wrong place, wrong time

San Francisco was one of the first cities to shut down in March 2020, and when remote work took off, the city's apartments began emptying out. Market-rate tenants were largely the ones moving out, while long-term rent-controlled tenants stayed put.

“These tenants that were all paying very high prices in San Francisco opted to move back to their family homes, or live at the beach or Lake Tahoe,” said Lagomarsino. “That began the downfall of it all.”

Conflicts with tenant groups heightened. Ever since it purchased the Lembi portfolio, Veritas had been dealing with those who objected to the core of its strategy: buying old buildings, updating them, passing through some of those costs and overhauling units on turnover to maximize rents.

In several lawsuits, long-term occupants called the noise and mess of the construction harassment, alleging that it was a way to get them out of their rent-controlled apartments. In 2021, some tenants organized a debt strike, refusing to file paperwork for government-funded rent relief unless Veritas forgave a substantial amount of back rent.

Au said he understands that as the biggest owner in San Francisco, Veritas made for a prime target in a tenant-friendly city, but he was still surprised by how personal this animosity became, even as he felt the company was trying to do right by its tenants during a difficult time.

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The firm put an eviction moratorium on its properties in the early days of the pandemic before it was mandated, he said, and offered to waive half the back rent for those affected by Covid. The next day, Au said, there were protesters outside his house, demanding complete rent forgiveness for past and future debt.

“I am pretty confident their agenda is really socializing housing,” he said of tenant activists. “So you’re going to have to find some enemy to point the finger at.”

“I will say,” he added with a laugh, “at least we’re not the largest anymore.”

Au said the investment thesis up until the default had always involved short-term debt to improve the properties and increase operating income, then a refinance into lower costs with slightly higher leveraged loans.

That all changed when interest rates went up rapidly just as San Francisco took a hit to its reputation while downtown office buildings stayed empty. Residential rents fell, vacancies rose, values dwindled and cap rates went up.

“I think they unfortunately got caught at the wrong place at the wrong time,” said Transwestern agent Shivu Srinivasan, who sold Veritas several apartment buildings in the East Bay at the height of the last cycle.

“What’s happened to them has happened to a lot of people,” he said. “Maybe it’s not as high-profile, but it’s happening around the country where people who bought property in the late 2010s with floating-rate debt are stuck in a very difficult situation right now.”

Down but not out

The difference is that Veritas is primed and ready for its next stage and has enough investors betting on it to move forward. Au said he initially had concerns that the default would impact the company’s desirability to investors, but he currently has enough funding to replenish at least some of the inventory he lost in San Francisco and is actively looking for buildings to bid on.

That is a relief to the city's apartment agents, who have counted on Veritas to offer on their bigger buildings. For the first two years of the pandemic, Veritas remained an active buyer, picking up a trophy half-block-long 42-unit Polk Street property for over $30 million **as late as November 2022**.

There's no particular unit count Au's looking to hit, he said, but he thinks that prices have come down more than they should have, which means he is very interested in investing more and doing so quickly.

"The city will come back with a vengeance. We're already seeing it happen," he said. "Our leasing velocity in January was the strongest of any January we've ever had."

Au said Veritas is also **expanding** into other West Coast markets and that it has already connected with investors on opportunities in those areas, which will continue to be a focus. He declined to name the markets.

Veritas has spent nearly $40 million on four apartment buildings in Seattle since the end of 2023 and is growing in Los Angeles. In both cases, it is using the same playbook it employed in San Francisco and is especially seeking out distressed opportunities.

The company is also taking on third-party property management for the first time, selling the solution that Au himself was looking for back when he needed to scale overnight in the early 2010s. Many of his first clients are lenders who recently found themselves the owners of distressed buildings and need a local operator to run them.

"You cannot do this remotely," Lagomarsino said. "It's a full-contact sport here."

Even other property managers are bringing Veritas in to get through their backlogs of routine maintenance and repair requests on the city's century-old apartment stock. Patrick Slen of BanCal Properties, which operates about a dozen apartment buildings in the city, said he's been impressed by the speed with which the company will respond to a work order, provide proposals to fix the issue and close out the request.

"It's a very good partnership, and we're lucky to have been introduced," he said.

Innovation and influence

Tech plays a role in both the property management business and Au's ability to buy buildings in new markets.

"I think the key to why we've been successful at operating these fragmented, scattered sites is through the combination of a centralized service delivery model and also building and adopting technology that allows us to be able to operate much more efficiently," he said.

There are echoes here of Au's original innovation — bringing institutional investors into a previously uninvestable real estate market by hacking together disparate small rental buildings. Now he sees technology as the ticket to centralizing a large number of holdings.

"Where they are with their technology with respect to the larger REITs is pretty incredible," said Sunny Juneja, co-founder and CEO of Canopy Analytics. "They definitely punch far above their weight."

The property management workflow startup counted Veritas among its first clients after it launched in 2017. Juneja recalled being impressed that Au and other top brass attended those first meetings and that they had insightful comments about how the fledgling company could make changes to better build its product. He has heard from others in the space that Veritas has done similarly, essentially harnessing millions in VC funding to address its specific concerns.

What’s more, as Veritas employees have gone out on their own or to other firms, they have taken what they learned at the company with them, Juneja said, spreading their philosophy throughout the city. That has solidified a change in mindset among San Francisco landlords from thinking like individual operators to embracing new technology and, more broadly, taking risks.

Ballast, which now operates the bulk of the properties Veritas defaulted on, was co-founded by a Veritas alum. The COO of Mosser Companies, another large San Francisco-based owner with institutional backing, was formerly the SVP of operations at Veritas.

It may be these alumni who carry Au’s business philosophies on to the next generation. He has three children ages 9 to 14, and he said thus far none of them have expressed much interest in making Veritas a family business.

“My youngest says he wants to be a YouTuber,” he laughed.