San Francisco Specialist Set To Expand Portfolio

Yat-Pang Au

Veritas Investments, a San Francisco-based investment company that solely targets its home market, is carving out a niche in the city's fragmented apartment market. "Over the past two to three years, we've acquired more multifamily in the city of San Francisco than any other operator but only control a small fraction of the market," said **Yat-Pang Au**, ceo.

Pang, a San Francisco native, founded the company is 2007. "We are a fully vertically integrated owner-operator and we focus on boutique and niche properties that are often rent-controlled. We look at multifamily and mixed-use deals outside of the city on occasion but for the most part, we are adding to our assets in San Francisco."

REFI: Veritas has a very specific focus – apartments and mixed-use properties in the San Francisco Bay Area. Why this concentration?

PA: You could say it started off as an expansion of my social life. I was living in the South Bay and working as an engineer—I have degrees in engineering and an MBA—and decided I wanted to be in San Francisco for the weekends. It prompted me to acquire my first six-unit apartment building. I set aside one unit for myself and managed the rest.

That's when I started to develop our rent arbitrage model and realized that the real estate business is very interesting. It became clear there was an opportunity for value creation in a high-demand, supply-constrained market with huge inefficiencies that can be unlocked with a good operator.

REFI: It's my understanding that San Francisco's apartment market is fairly fragmented.

PA: It's incredibly fragmented. There are few institutions that own and operate multifamily in San Francisco. There are high barriers to entry such as rent control and the smaller, highly granular nature of the assets.

Apartment properties in San Francisco are small, with an average of 15-20 units per building, and that's hard for institutional investors to acquire, much less operate, at scale. Over the past two to three years, we've acquired more multifamily in the city of San Francisco than any other operator but only control a small fraction of the market.

REFI: What is your acquisition plan for the coming year?

PA: Veritas is consolidating multifamily and mixed-used properties in locations where we already own assets, such as the Mission District, Nob Hill, Pacific Heights, Downtown and the Tenderloin. We're also eyeing additional submarkets.

At a fundamental level, our deals tap into the trend towards urbanization that favors cities such as San Francisco. We buy unique apartment buildings with ground floor retail and we think these assets have a unique appeal for tenants.

If you think about Las Vegas, you see malls and properties with fake vintage features. If you think about San Francisco, we own the buildings that were constructed a hundred years ago with historic details and character that developers in Las Vegas and other locales are trying to replicate.

REFI: Why is now a good time to be buying?

PA: We believe that the trend towards urbanization is accelerating not only domestically but also internationally and San Francisco is one of the most sought-after markets in the world. By providing modern amenities and spaces to older buildings and utilizing our vertically integrated platform, Veritas is well positioned to continue to expand. Also, the apartment sector is generally less volatile than others, and most of the value we create is because of what we do as an operator. That means that for us, it's still a good time to buy.

REFI: You recently acquired a $100 million portfolio – how does this fit in with your broader acquisition strategy?

PA: We like to think that we are translators between the highly fragmented mom and pop ownership-base in San Francisco and institutional investors. Our acquisitions team is able to aggregate together small, discrete assets from individual owners, and acquire as portfolios with our institutional equity and debt partners. This recent $100 million transaction represented three different sellers and properties ranging from $2 million to $10 million. Grouping transactions together makes a highly efficient market for us and our equity partners.

REFI: What's your outlook for 2014?

PA: Our outlook is to continue to add to our multifamily and mixed-use portfolio in San Francisco and we may also look at opportunities that are outside the city. We are also deeply committed to sustainability. To that end, we have become one of the largest solar power deployers for existing multifamily stock in San Francisco and have also become the largest to host Zipcars in San Francisco.

For 2014, we will be adding EV charging stations within our portfolio of properties which is just one more amenity that residents in San Francisco appreciate.