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## 4 Reasons Classic, Urban Apartments Can Command a Premium in the Market

by Yat-Pang Au [National](#) [ViewPoint](#)

A Veritas case study explores infill apartment investment-rehab as an institutional strategy in San Francisco, and how it could apply to the rest of the United States.



The magnet drawing people to live and work in cities is one of the biggest demographic trends affecting U.S. housing policy, corporate retention-recruitment and urban planning and development. Much of the discussion centers on new housing, which of course has the biggest impact on supply, but an oft-overlooked segment is the existing, older rental housing. These properties, such as the Victorian/Edwardian buildings that personify many San Francisco Bay Area neighborhoods, are a strong attraction among renters due to their proximity to urban amenities, and offer more potential for investors because of the long-term supply-demand conditions. The principals apply to most any major U.S. market, where people want to be close to the cultural centers, retail streets and amenities that are typically located in the well-established parts of the city.

Why do people often prefer living in classic, well-designed buildings over brand-new construction?

It's a question that potential investors—especially large institutional ones—often ask us about Veritas' strategy of aggregating older, 20- to 50-unit buildings in the San Francisco Bay Area. Many don't understand how smaller classic, restored apartment buildings can

achieve the solid returns we've enjoyed, or how these kinds of buildings can stack up against larger, newer construction. Here's why we are committed to investing in this asset class, why we believe doing so is a superior programmatic opportunity throughout the San Francisco Bay Area's urban centers, and why there's more potential ahead.



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**Urban renters want a neighborhood-oriented, walkable lifestyle, with top amenities.** In terms of neighborhood, we carefully curate our ground-floor retail spaces with an eye to what makes a community vibrant, local, and desirable. The classic properties we invest in have rich architectural histories, and we work to preserve the unique character of each building while we simultaneously modernize interior space and offer the newest, technology-enabled amenities. We are continually developing and expanding partnerships that benefit our residents, for example, we are the largest host for Zipcars in the city, as well as for Scoot Networks' scooter rentals. We also offer on-demand shared economy services for housekeeping, dog walking, dry cleaning, and more. We are simultaneously honoring and preserving character while we modernize the units, and this strategy really allows us to make a positive impact for our residents and in the community.

**Aggregating existing 20-to-50-unit apartments in concentrated clusters provides significant benefits through integrated operation and management.** We're a vertically integrated business and do all our acquisition, management, leasing and operations in-house. Because we've refined our technology and systems for best practices on both the investor and operator sides, we are in a position to scale even further throughout the San Francisco Bay Area. It's an interesting fact that the vast majority of smaller properties are owned by individuals or small entities, and they have limited ability to bring in new technology and services. As we scaled up the Veritas organization including our RentSFNow rental group and our GreenTree Property Management arm, we've been able to create easier systems for residents such as payment options and online access and have brought in new services at cost-effective scale—to the delight of our residents.

**Investors are enthusiastic for this relatively undiscovered asset class that is being institutionalized.** Investing in smaller, classic buildings is an investment that's in sync with the growing desirability of urban living. The smaller buildings are usually located in the most

central and best parts of the city, and too small for larger institutions. Investors are realizing that upgraded, classic buildings offer residents the unique, non-cookie-cutter, amenity-rich lifestyle in great demand today. These types of properties form a highly valued and appreciating asset class that, due to its desirability and stability, can provide excellent returns for our investors due to the lower initial cost and significant potential return. And because smaller properties are generally owned by smaller, individual entities, it's exceedingly difficult for newcomers to aggregate portfolios of a meaningful size to take advantage of the economies of scale.

**The potential for this aggregation strategy is deep in San Francisco Bay Area cities and beyond, and creative approaches offer more opportunity.** Veritas' goal is to keep enhancing communities by transforming real estate into desirable places for people to live and work. By pioneering the aggregation of existing buildings, we're in a great position to make a difference for our residents, create purpose for our employees, and generate financial and community returns.

One of the more creative new tools is San Francisco's new Accessory Dwelling Unit legislation which allows us to develop affordable housing in underutilized ground-floor space, without displacing tenants. The new apartments within existing buildings provide new housing and density in a diffused way. For example, the City of San Francisco has enacted new regulations that make it easier to convert an apartment building's underutilized storage areas, laundry rooms and ill-designed garage areas into new housing units allowing Veritas to often increase supply without increasing square footage. We are under construction now on buildings sprinkled throughout the city, creating new housing that fits into the same footprint, without overtaxing local services. Looking in-house, we've innovated a number of strategies including a highly efficient system that customized websites for our buildings while celebrating the unique character and attributes of each one.

## **WHY DOES THE STRATEGY WORK?**

Older, close-in properties are better located; are less expensive on the buy side; provide value-add opportunity; enable nimble owner-operators to implement economies of scale and aggregation premiums, and can enhance neighborhoods with thriving retail and design improvements.

Veritas and other committed owners are investing in existing housing, in existing communities, and we look forward to continuing that strategy in helping provide desirable housing alternatives in close-in neighborhoods.

*Yat-Pang Au is CEO of Veritas Investments, one of the largest owners and operators of multifamily, urban retail and mixed-use properties in the San Francisco Bay Area. With assets in excess of \$2 billion, the firm's vertically-integrated services include property management, leasing, project management, redevelopment, accounting, asset management, financing and investment management.*