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In Atlanta, they see a housing opportunity that others miss - the working class

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Rather than finance the latest apartment tower with plush amenities, an Atlanta real estate group sees opportunity in something that's disappearing across the city — working class housing.

A recent \$42 million deal will put its model to the test.

Atlanta-based Tenth Street Ventures and Braden Fellman Group paid about \$125,000 a unit for 13 aging apartment buildings covering more than 12 acres between Buckhead and Decatur. The 335 apartments are clustered in a low-density residential area off Cheshire Bridge, Lenox and Lavista roads.

The properties offer a microcosm of their investment strategy. The apartments, built decades ago, are renting for about \$800 a month. After renovations, the new ownership would offer units starting at \$1,100 a month.

That is just under the \$1,168 average rent for apartments in metro Atlanta during the second quarter, according to the analyst Reis. It's also well below what many one- and two-bedroom units are renting for in new high-rises in Buckhead and Midtown, or in mid-rise apartments along the Atlanta Beltline's Eastside Trail.



BYRON E. SMALL

The joint venture bought hundreds of units in a low-rise residential area in the city. The Buckhead skyline rises just west of the project.

"Working-class affordable is what we are going for, as long as it's in good locations," said Tenth Street's Brian McCarthy. "I don't want people seeking working class housing far away from where they are actually working. That doesn't make any sense to me."

If rents range from \$1,100 to \$1,300 at the new project, that would qualify as workforce housing, at 80% to 120% of area median income, said Douglas Faust, executive director of the Decatur Housing Authority. Put another way, someone trying to live in the city on about \$42,000 could afford one of the renovated units. So could a family of four making from just under \$64,000 to about \$95,500.

Tenth Street's idea differs from the typical value-add investment model, McCarthy said. Those groups might spend \$5,000 per unit on a modernization. Then they'd bump up rents a little and find a new buyer who'd repeat the same process. But, the apartments basically look the same.

Tenth Street and its partners want to change that pattern.

"We'll put up to \$25,000 into the units," McCarthy said. "It's a modern twist on 60s vintage apartments."

It's also a riskier endeavor, he said. Its potential is based on finding good properties in cities with strong job growth.

"I do not think we will miss," McCarthy added.

The apartments set for the overhaul are woven throughout a residential area just east of Interstate 85 and north of the affluent Morningside neighborhood. Buckhead is to the west, Decatur to the east.

Tenth Street and Braden Fellman Group will call the project The Piet, a nod to computer programming language and abstract art. The buildings will be repainted by artist Chastain Bernard with vertical and horizontal shapes using black, white and primary colors. The apartments will be connected with walking trails, two pools, dog parks, grill stations, bocce ball courts and putting greens.

It's a complicated renovation.

"We are still wrapping our heads around the whole thing," McCarthy said.

Demand will come from Atlanta's working class that have jobs in the city but can't find nice, reasonably affordable apartments, he said. And, Atlanta isn't alone. A lot of cities are having trouble with affordability.

But, most investors don't use Tenth Street's approach. MF1 Capital LLC arranged a \$40 million loan that financed the recent deal. "Our lender has seen a few other groups trying this, but we are a rarity right now," McCarthy said.

How quickly the group can scale up their model in Atlanta and other cities remains to be seen. Other markets may include Las Vegas and Denver - cities where job growth is strong but so are pressures on affordability.

Atlanta's issues with gentrification and homelessness aren't as acute as West Coast tech hubs such as San Francisco and Seattle. But, challenges are mounting. Consider that Atlanta housing costs are rising faster than income and earnings, according to Enterprise Community Partners, a nonprofit that supports affordable housing.

In Atlanta, rental costs have increased 48% since 2010 and have outpaced wage growth in the region. Atlanta loses 1,500 affordable housing units annually, a trend that hits moderate and low-income families hard.

Typically, the housing is replaced by higher-cost units.

Andrew Braden of Braden Fellman compared the work it's doing with Tenth Street to the way tech startups use innovation to tackle complex challenges, in this case providing workforce housing.

The 13-acre purchase of the apartments was brokered by Jake Reid, Chad Defoor and Roger Schoerner of real estate services firm Franklin Street. Wesley Turner with Krevolin Hurst was the real estate attorney. CBRE Group Inc.'s Yakhin Israel arranged the financing.

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