

SAN DIEGO | MULTIFAMILY

Honing Your Multifamily Value-Add Strategy

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Pathfinder Partners' value-add renovations are focused on providing renters with what they want, but more importantly, what they will actually use, Matt Quinn tells GlobeSt.com.



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SAN DIEGO—**Pathfinder Partners' value-add renovations** are focused on providing renters with what they want, but more importantly, what they will actually use, VP **Matt Quinn** tells GlobeSt.com. Since the firm opened in 2006, it has acquired or sold more than \$1 billion in real estate, most of it value-add **multifamily** property. The company's strategy has included renovating and rebranding multifamily and single-family communities that had stalled during the **economic** downturn, as well as upgrading **apartment** buildings built in the 1970s and '80s. We spoke with Quinn about some of Pathfinder's recent multifamily acquisitions, including the **Shores** in Breckenridge, Co.; **Aderra** in Phoenix; **Sky Las Vegas**; and the **Habitat** in Portland—and his company's value-add strategy.



The Shores at Breckenridge

GlobeSt.com: Tell us about some of the most recently acquired properties in your portfolio and your repositioning strategies for each.

Quinn: The original developer of the Shores lost the property to a lender **foreclosure** in 2009, and the bank sold it to a regional developer that was unable to restart the project following the death of one of its principals. Pathfinder and a Colorado partner that specializes in **resort developments** acquired the remaining 40 fully entitled lots (eight had been built and sold) in 2014 at a time when the second-home market appeared to have bottomed. The property is well located just 1 mile from the ski resort and historic Downtown Breckenridge. It's also directly across the street from a 27-hole Jack Nicklaus-designed golf course and located on the banks of the Blue River, a popular fishing venue. River properties are exceedingly rare. We **repositioned** the property by restarting **construction**, building model homes and new monument signage, revamping the sales-and-marketing campaign with the leading Colorado mountain-resort brokerage team and outsourcing the marketing campaign to a luxury-home marketing specialist. We worked with the **City of Breckenridge** to substitute smaller detached, **single-family** homes for a number of previously approved duplexes in order to provide a lower price point to the buyer pool and speed up the pace of construction. To date, we have sold 11 homes and have five additional homes under contract.



Aderra

For Aderra, we purchased the remaining 90 unsold condominiums from a large private-investment fund with whom we had a prior relationship. The 312-unit community, built in 2007, has an attractive exterior and state-of-the-art amenities, but the interiors felt tired and outdated. We repositioned the property by building out and furnishing three high-end model units and performing approximately \$30,000 in renovations aimed at modernizing the interiors of the condos within the sales pool. Additionally, we hired a new sales-and-marketing company, reworked the website and online presence and relaunched the sales campaign with a more modern look and feel. To date, we have sold 18 condominiums and have five additional condos under contract.



Sky Las Vegas Condominiums. Shot on assignment for Higher Ground Creative Agency by Adam Shane Productions for Atmo Media.

For Sky, when we purchased the remaining 64 unsold **condominiums** from the original **developer**, the building was suffering from a poor reputation in the marketplace due to operational issues at the building and security concerns. During our initial 12 months of ownership, we were elected to the HOA's board of directors and worked with the newly appointed HOA manager to improve the operational and security issues and create an improved common-area environment for the relaunch of sales-and-marketing efforts. In parallel, we built-out and furnished three model units and hired a local, best-in-class sales-and-marketing team that focuses on high-end condominium sales. We renovated more than 25 units and invested about \$35,000 per unit in interior renovations aimed at modernizing the look and feel of the condos while **rebranding** the property to better align with the requirements of luxury and second-home buyers. To date, we have sold 20 condominiums and have two additional units under contract.



The Habitat

We closed on the purchase of the Habitat apartment community in August and plan to complete a comprehensive renovation on the remaining 88 un-renovated units (of the 160 total units) and to add washer/dryers to approximately 80 units that do not currently have them. Additionally, we plan to remedy deferred maintenance and enhance the property's exterior by improving the landscaping and hardscape, add new signage as well as upgrade the pool area and playground.

GlobeSt.com: What do you look for when acquiring a value-add community?

Quinn: Pathfinder's strategy is to acquire opportunistic and value-add properties. We seek properties that have not been renovated (or have been only partially renovated) and look for sellers with a catalyst to sell. Ideally, the properties have been starved of **capital**, so there is an opportunity to invest and add significant value. We take an "**institutional**" approach to each asset by repositioning undermanaged, undercapitalized properties with extensive renovation programs that materially alter a property's profile, tenant appeal, marketability and value.

GlobeSt.com: How can multifamily owners reposition, rehab and add value to a community? What trends you are seeing in terms of amenities?

Quinn: Our value-add renovations are focused on providing renters with what they want, but more importantly, what they will actually use. Our strategy includes constructing a new, modern clubhouse, gym and **leasing** area, upgrading the pool area(s) to create more of a resort feel and adding amenities aimed at the needs of renters in particular submarkets. For example, at **Driftwood**, near the beach in San Diego, we are incorporating outdoor resident/pet showers, bicycle racks and a car-and-dog-wash/vacuum station. In Boulder, CO, we are providing a bike-repair station and a yoga room since seven out of 10 Boulderites own bicycles and Boulder is the number-three yoga-friendly town in the US. Amenities can also promote greater social interaction within the community, including parks, community gardens and bocce ball courts, which encourage residents to spend time together. Whether it is a rock-climbing wall or pool cabana, the right tailored amenities can enhance a property and a renter's perceived value. Renters with friends in the community are more satisfied and stay longer.

On the apartment-interior renovations, our strategy has always been to remodel the apartments to a level that is superior to that of our competitors. This includes replacing carpet with luxury vinyl plank, upgrading cabinets, replacing tile or Formica counters with granite or quartz, adding a colorful kitchen backsplash, painting the units with two or three tones (including an accent wall), installing new slate or stainless-steel appliances and replacing kitchen and bathroom fixtures.

GlobeSt.com: Which markets have a surplus of these types of properties and which are especially attractive to you?

Quinn: Our target markets include Southern California, Denver/Boulder, Seattle, Portland, Phoenix, Sacramento and Las Vegas. Our strategy continues to be to **acquire** and add substantial value to properties that are too small for institutional real estate funds and too large for local investors and developers. Many of our markets are experiencing strong population and job growth and supply constraints and have been characterized by occupancy levels and rent growth during the past several years that are well above historical levels. Our research suggests that these trends are likely to remain in place for the next several years.

GlobeSt.com: What are the challenges to this type of acquisition?

Quinn: Because we are often buying properties without highly professional management, a major challenge can be transitioning the ownership and management of a property while improving the tenant profile. Also, our properties are usually of an older vintage (1960s to 1990s) and frequently have significant deferred maintenance, which requires careful planning and budgeting to remedy properly.