Resmark Apartment Living

Mission Critical: Multifamily Development Execution and Site Selection in Light of Cycle Maturity

Ziv Cohen is the president of Resmark Apartment Living, the multifamily division of The Resmark Companies, and is responsible for the operations and strategy for the platform. He has more than 20 years of real estate experience and has been involved in the origination, financing and development of over 15,000 residential units in the United States and Israel. Under his direction since 2011, Resmark's multifamily division has developed approximately 5,000 units through joint venture and direct investments. Prior to joining Resmark, Cohen was a member of Fieldstone Communities' management team. Before arriving in the United States, he served as an operations manager for Peled Residential Construction in Israel and as a major in the Israeli Defense Forces.

CORPORATE OVERVIEW

Founded in 1995, Resmark is a fully integrated real estate investment group. The Resmark Companies' divisions — Resmark Land and Housing, Resmark Apartment Living and Resmark Impact Ventures — finance, acquire, develop and manage real estate in California, the Western United States, the D.C./Mid-Atlantic region, Texas and other select major metropolitan markets nationwide. To date, Resmark has participated in more than 200 investments encompassing approximately 30,000 single-family and multifamily residential units, and has committed in excess of $3 billion of capital. Headquartered in Los Angeles, Resmark also maintains offices in San Diego and Irvine, Calif.; Austin, Tex.; and McLean, Va.

In their book *Execution: The Discipline of Getting Things Done*, Larry Bossidy and Ram Charan rightly state that "execution has to be a part of a company's strategy and its goals. It is the missing link between aspirations and results."

Their viewpoint is more than paramount to investing in multifamily development during a maturing cycle; at such a critical time, the margin of error erodes, requiring more due diligence, more sensitivity analysis, and more downside-protection structuring to ensure that the investments undertaken generate a compelling risk-adjusted return. Mature cycle conditions are not very forgiving to those who are less focused on execution. In fact, execution flows through all aspects of the development process, starting with site selection.

Site selection is often considered a crucial component of the land acquisition process in development. The following factors require consideration, inquiry, and inspection:

- **Specific site characteristics:** Boundaries and edge conditions, site conditions, prior uses, and zoning and entitlements
- **Site and area attributes:** Walkability and access to transit, employment hubs, entertainment amenities, and recreation and social venues

These factors must accompany a business plan that aims to reflect a demand-driven product that is priced and budgeted appropriately, while projected to yield compelling economic returns. Site selection is a mission-critical component of the organization's strategy.

Just like parcels of land, strategies come in all shapes and sizes. Investors' goals and objectives, with respect to multifamily development, must be understood in order to match an operating strategy and meet those specific needs. This understanding significantly impacts how an organization should approach site selection. The following are typical strategies employed by multifamily developers:

- **A merchant strategy** (build, stabilize and sell) may fit in an investor's opportunistic allocation with higher expected returns, looking for a liquidity/capital event upon rental stabilization. A multifamily development-to-core strategy has a longer horizon and lower expected returns, but perhaps could be a better fit within an institution's or firm's multifamily portfolio; that portfolio should be looking to balance individual asset risk, geographies, micro locations and average asset age.

- **An urban strategy** might benefit from the convergence of factors affecting several demographic groups who seek the conveniences that the urban experience offers, leading to a more predictable stream of income and anticipated capital appreciation. However, this strategy is typically accompanied by several constraints: (i) a hyper-competitive landscape in terms of land availability and pricing, (ii) more challenging entitlements, including potential neighborhood opposition, and (iii) more complex site conditions that typically involve the obsolescence of previous land uses and the resulting environmental consequences. In contrast, investors might prefer the simplicity that stems from lower density typical of suburban "greenfield" projects, accepting greater market risk and a less reliable income stream at a potential higher yield. Other investors are intrigued by the emergence of the suburban/urban hybrid in well-located suburban markets incorporating walkability, employment and entertainment with more density and height. These sites can provide a more affordable alternative to the expensive urban core markets.
- **A unique design strategy** that caters toward a specific tenant group's dwelling preferences, and necessitates constant recreation of site specific plans and designs. Implementation may include formulating amenity and services packages that are very targeted, in contrast to designing around preexisting, off-the-shelf plans that are cost-effective and deliver affordable value to a broader tenant base.
- **A focus on dynamic job markets** with high-paying industries, such as technology, healthcare and entertainment. Other investors prefer the stability of government, and education-centric metropolitan statistical areas.

Does any single strategy perform better than the others in terms of market timing? Can any strategy be considered optimal to overperform in a more mature business cycle environment? The not-so-simple answer is, not necessarily.

In Resmark's experience, the overarching factors that most directly influence performance, as business cycles mature, are discipline, selectivity and flawless execution. We believe that selectivity starts not only with the sites we pursue, but also with joint venture investment partners whom we choose to align with, the lenders we bring in to finance development, the general contractors engaged to execute the construction, and the property managers that lease up the assets — in sum, every decision influencing the investment along the way. While the old adage is "location, location, location," Resmark believes that the path to successful and prudent investing is "execution, execution, execution."

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As a cycle matures, sites can be a tangible demonstration of an organization's strategic intent. But heed Bossidy's and Charan's advice: Without execution, site selection alone won't connect aspiration and results.

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