

CityView

Building housing for millennials — urban, authentic and with awesome amenities

Jonathan A. Schein, Institutional Real Estate, Inc.'s senior vice president and managing director of global business development, recently spoke with **Sean Burton**, CEO of CityView, a premier investment management and development firm specializing in high-growth, urban markets in the western half of the United States. An excerpt of their conversation follows.

What does CityView focus on in the industry?

CityView is an investment management and vertically integrated development firm founded in 2003. The firm currently manages a combination of eight funds and separately managed accounts. We focus on investing, developing and managing urban multifamily projects in the Western U.S., with a heavy emphasis on coastal California, Seattle, Denver, Boulder and key markets in Texas.

You say you are a multifamily investor and developer. What differentiates CityView from other multifamily developers and investors?

First, we are blessed to have access to some of the best investors in the world — major pension systems and insurance companies who provide us discretionary capital. Second, we are vertically integrated. We are not simply a firm doing financial engineering. Of course, we have employees who focus on finance, but we also have experienced development, construction management and asset management teams. In about 75 percent to 80 percent of our deals, we develop them on our own account, and for the rest, we joint venture with some of the best developers out there. The third strength that differentiates us is our laser-like focus on urban, West Coast markets, like Silicon Valley or South of Market in San Francisco, and the most desirable areas near transit lines in Los Angeles, Orange County, San Diego, Seattle, Denver and Boulder. We have a sharpshooter mentality, and we focus on these markets because we believe they have strong job and demographic growth together with high barriers to entry on the supply side.

Some people say, why invest in multifamily now? Is it close to the end of the cycle?

We have been hearing that for a number of years, but we do not believe that to be the case in our markets. We only target markets that have strong job growth. Not just the number of jobs, but the quality of jobs. Millennials are also a major driving force in multifamily. They make up the largest generation in history. And millennials, as we all know, tend to get married later in life, have kids later in life, and are more likely to want to live in an urban environment near jobs, culture, restaurants and nightlife. Our projects cater to millennials who crave that urban experience.

In addition, some of the recent tax changes have strengthened multifamily. In high-cost markets like California, for example, you can't deduct nearly as much of your mortgage interest as you could before. You also can't write off your property taxes to the level that you once could. Those trends are pushing millennials away from single-family homes or condominiums into multifamily.

How did you develop your vision toward looking at markets in the Western United States?

A majority of the growth in this country is happening west of the Mississippi, and these are the markets that millennials want to live in. If you are a college-educated engineer working in technology, you are going to look very hard at job centers like Los Angeles, Silicon Valley and Seattle. We love these markets with rising employment where well-educated millennials want to live, work and enjoy great culture, recreation, restaurants and nightlife. For example, we are in Mountain View next to Google and LinkedIn. We are fully leased on a new construction project in Menlo Park next to Facebook. We are currently building a project in Culver City adjacent to thousands of tech jobs in Silicon Beach. These markets attract the best and the brightest, and deliver a consistent source of demand.

It sounds like you are focusing on a very specific sort of tenant and then positioning yourself in the markets to which those tenants are relocating. What is the impact of this particular tenant group in the multifamily industry?

This tenant group is a major driving force. As we design our buildings, CityView seeks to craft a unique urban living experience, not just create another apartment building. The millennial renter wants authenticity, which is a key value of CityView. We spend a lot of time educating ourselves about the market — what the community is like, what people enjoy doing there, and what makes that particular area interesting and unique. We then strive to seamlessly integrate our projects into the fabric of the neighborhood. We also spend a lot of time thinking about amenities. Millennials are used to having everything at their fingertips, so when we design our buildings, we include amenities like amazing rooftop decks with fire pits and views, grab-and-go coffee bars, and incredible state-of-the-art gyms with Peloton stationary bikes and yoga rooms.

You mentioned earlier being a vertically integrated company. Why structure that way?

It was an intentional and strategic change on our part. After the Great Financial Crisis in 2008–2009, we took over some projects where our joint venture partners got in trouble or lost focus and we finished building and developing for them. We realized we needed to have a highly experienced in-house team — people who get up every day and think about how to maximize value on our assets. We hired people out of general contractors, development firms and property management companies. That in-house expertise positions CityView to do a couple of things: first, when we are underwriting a deal, we can roll up our sleeves and quickly understand all of the key drivers and risks. Second, it keeps us much closer to the real estate throughout its lifecycle, which enables us to do a better job mitigating risk, managing costs, and remaining extremely focused on the lease up of our assets. This strategy gives us a real advantage over companies who outsource those functions to third parties.

How does that play out in your company culture?

We spend a lot of time thinking about culture. I notice when companies talk about culture, they talk about pingpong tables and pizza parties and things like that. We definitely do fun things together, but the fundamental tenets of our culture are transparency and mutual respect for team members. We invest heavily in making sure that people throughout the organization are up to speed on our projects, our investors and our fundraising. Being open and upfront with employees allows us all to understand our shared vision and work together on behalf of our investors, residents and communities.

Another ideal we focus on is meritocracy. For us, this means an open sharing of ideas at all levels of the company. We provide a forum for all members of our team to express ideas and openly brainstorm solutions, rather than limiting decision-making to closed-door sessions with the senior people. We really try to create an environment where people are encouraged and expected to speak up and share ideas, then we have open and frank discussions and in the end the best idea prevails.

We also view every mistake as an opportunity to learn and grow. Making mistakes is inevitable, but we strive to understand our mistakes to avoid repeating them. We are mindful to record lessons learned so we can constantly evolve and refine our process, endeavoring every day to do better than the last. We are very process focused in the best sense of the concept.

Elaborate on what that means.

We have detailed processes from how we source, manage and underwrite new deals to how we transition projects from our deal team to our development and construction management team to our asset management team. We have detailed processes on how we manage budgets, timelines, design and execution, lease up and core asset management. These processes were developed over many years and continue to evolve. We did many things well over the years, and we have made plenty of mistakes. We have tried to learn from those. An integral part of the company culture and

ethic is to constantly be improving ourselves, and it is something that keeps the team excited. People like getting better. Everybody wants to play on an A team, and if you operate in that way, you attract great talent.

How can investors benefit from investing in multifamily?

Multifamily is quite stable if you are in high-growth markets. Multifamily is a great hedge against inflation, because, unlike in the office space sector, in multifamily you reset rents every month. It is also a great way to hedge against some of the changes going on in other real estate asset classes. Obviously the way people work has changed significantly in the last decade and continues to change, going from office space with exterior offices and interior cubes to co-working spaces and telecommuting. Retail, too, has been going through a tremendous transformation. But for multifamily, you are still housing people. Everybody needs a place to sleep, everybody needs a safe place where they can eat, raise a family, work and relax. That is not changing.

Is there a particular project you want to highlight as an example of your portfolio?

The Baker Block project, which we just finished in Costa Mesa, is a great example of how CityView is different from a lot of our competitors. We decided to build in Costa Mesa, which exemplifies the active lifestyle in Southern California. Baker Block has 240 units, and looks very different than other projects in Irvine and other parts of Orange County. We designed an incredible rooftop deck, zen garden, co-working spaces and state-of-the-art gym with a yoga and spin studio. We had a garage along the freeway, which served as a big blank canvas, so we hired Shepard Fairey, a famous muralist, to create a 120-foot by 80-foot mural that is unique to this CityView project. The mural completely fits in with what we call the “Costa” state of mind — that active, surf/skate lifestyle. That is a great example of what CityView does to be authentic and different and allow residents who want that experience to find a home that feels special and personal.

CORPORATE OVERVIEW

Founded in 2003, CityView is a premier investment management and development firm dedicated to redefining urban living. Focused on developing multifamily and mixed-use projects in high-growth markets in the Western United States, CityView has attracted some of the largest and most sophisticated public pension plans and financial institutions in the country. The firm currently manages a combination of eight funds and separately managed accounts, which have collectively generated more than \$4 billion in urban investment.

With experience across more than 90 projects, CityView's targeted investment strategy allows us to take a unique holistic approach to uncovering and tapping into the ideal urban way of life, which is why we build our projects next to transit, jobs, restaurants and culture. This ensures that residents live happy, neighborhoods achieve their potential and investments add up to far more than just investor returns. From sophisticated designs and amenities tailored to the local community, each CityView project is built to seamlessly integrate into the fabric of the local neighborhood.

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This article presents the author's present opinions reflecting current market conditions. It has been written for informational and educational purposes only and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product.

CONTRIBUTOR

Sean Burton is chief executive officer of CityView and a member of CityView's Board of Directors and Investment Committees. Mr. Burton also currently serves as the president of the Los Angeles Board of Airport Commissioners, which oversees LAX and Van Nuys airports. He previously served on the Los Angeles City Planning Commission, where he chaired the subcommittee overseeing approval of the proposed National Football League stadium. He also served in the Defense Intelligence Agency and the Commander Third Fleet Units of the United States Navy Reserve. Prior to joining CityView in 2003, Mr. Burton was an executive in the Corporate Business Development and Strategy Division for Warner Bros. He also served as a transactional attorney at O'Melveny & Myers, LLP and in the White House during the Clinton Administration.



CORPORATE CONTACT

George L. Ochs, Senior Vice President, Investor Services
+1 (310) 566-8785 | gochs@cityview.com | www.cityview.com