

# Creative Asset Management Breathes Potential Into Property

WRITTEN BY MATTHEW D. SUMMERS, PRESIDENT, KAPLAN MANAGEMENT

Kaplan Acquisitions and Development built a 392-unit, Class A apartment community in Rogers, Arkansas that opened in February 2007. The luxury apartment homes featured black designer appliances, microwaves, granite countertops, crown molding, 10' ceilings, slate entryways, garden tubs and showers, brushed nickel fixtures, and contemporary lighting fixtures.

The community boasts an expansive swimming pool with waterfall and beach entry, hot tub, attractive cabana area and a fully furnished outdoor gas kitchen. The residents also enjoy a billiards room, a 50-seat movie theater, coffee café and a state-of-the-art fitness center. This premiere property was in a class by itself.

The market was solid, the property was located near the world headquarters for Wal-Mart, and there were no other significant Class A-type communities in the immediate region. It should have been a no-brainer: the place would be full in eight months and what was built at \$81,000/door would sell for \$125,000/door.

Eight months later, however, the world changed. The sub-prime lending fiasco was in full bloom, capital was vanishing quickly, and the institutional equity lenders were looking for someone to throw under the bus. Many apartment communities, new or "pre-owned," were finding themselves in the same position, fighting over the limited amount of apartment traffic, rental rates being slashed to the bone, marketing costs going through the roof and expenses exceeding income. Conventional management tactics were simply proving ineffective.

**Born out of this tumultuous circumstance, was a management idea, to run the community like a highend corporate lodging resort. Scoffers abounded. Analysts were skeptical. Investors were incensed.**

But no one had a better idea. After all, wouldn't a traveling professional be more likely to enjoy the comforts of their own 1,000 square foot apartment – fully furnished with all of the amenities of a Class A community - than the confines of a 12' x 15' cookie cutter hotel room with a snoring roommate?

"Corporate units" in the multi-family industry are plentiful, but what about marketing a conventional apartment community as a corporate lodging resort and available at a fraction of the cost of a conventional high-end hotel? Is that possible?

Fast forward 12 months. Today, the property is 95 percent occupied, houses one of the largest accounting firms in the world engaged in a long term project with Wal-Mart, and the property is cash flowing beyond the projections of the original proforma. Several hotel chains are closely eyeballing this community that has proven there is an unexplored housing niche that combines Class A apartment product with "Four Seasons" service to produce a corporate housing resort at a fraction of the cost of high-end hotels.

While it may be true that investors, analysts, and owners are well-versed in the dynamics of effective site management, more often than not, they are agoraphobic – afraid of ideas that are outside the confines of conventional multi-family management wisdom. This case study punctuates the point that success can arrive in a radical and timely change in the way assets are managed – and with nothing more. Those of us that pursue effective stewardship need to remain cognizant of the limits of conventional management and remain resilient and willing to pursue unconventional management solutions where appropriate. ■

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