BUILDERPROFILE

JAY HIEMENZ

Alliance Residential Co.

Jay Hiemenz, 57, has been pres./coo of Alliance Residential Co. (Phoenix) since 2014. Before then, he was cfo since co-founding the company in 2000. Earlier, he was cfo & managing director of capital markets at BRE Builders from 1997, when parent BRE Properties merged with Trammell Crow Residential West; he was coo at Trammell Crow Residential Southwest from 1990. Alliance Residential has developed and acquired 87,000 units in 25 markets and currently owns about 25,000. The company sold its property management division to Greystar Real Estate Partners in June for about $200 million.

In the following interview, Hiemenz discusses the property management sale, performance for the year to date, and the outlook for business.

HBE: How has Alliance Residential changed over the past year?

JH: We began seeking strategic alternatives for our property management company at the end of last year; we sold it to Greystar in June. As part of the deal, Greystar will manage the multifamily properties that we build going forward. The partnership increases our operational economies of scale in the Eastern U.S., where we had fewer units managed in those markets.

We also paused our business activities in March to better understand the pandemic's daily effects. Many state mandates called for construction shutdowns, which we expected to impact labor. As it turned out, we saw increased labor availability in some markets. In addition, we pushed out land contracts that were in closing by 30 days, then pushed them out for an additional 60 days. So, closings that were expected to occur in the second and third quarters may become closings in the fourth quarter of this year and the following first quarter.

HBE: What were the circumstances that led to the Greystar deal?

JH: Strategically, we wanted to focus more on our core development business, having now diversified into different segments, including senior housing and workforce housing. We considered who would be a logical best-in-class provider to continue managing our multifamily investments, and Greystar was the right choice. The number of synergies in culture and approach gave us confidence that the combined companies would be the best multifamily provider with minimal disruption in the operation of our assets.

HBE: What are the advantages of partnering with Greystar?

JH: Even though we managed about 140,000 units at the point of the transaction, our market ratio was heavily skewed toward the Western U.S., as we started in the West before moving eastward. Many of the markets in the East where we had a limited presence will be a bigger presence immediately. More boots on the ground means more purchasing power and a bigger portfolio.

We can now focus more exclusively on our core investment businesses of development and acquisitions, as opposed to also running the day-to-day operations of the management company, and we downsized from 4,000 employees to 400. We are now a client of Greystar, no longer managing the day-to-day operating activities.

HBE: How does the business break down today?

JH: We have a $7 billion pipeline consisting of about 25,000 units and 100-plus projects in various stages of development. We are active in 25 markets.

Over the past few years, we have diversified from conventional multifamily into affordable workforce and senior housing. Conventional multifamily accounts for about 55% of our dollar business, workforce housing 25%, and senior housing the other 20%. The change is attributed to workforce housing, which has grown relative to the other segments through scaling existing markets and entering new ones.

By units, conventional multifamily accounts for about 60% of business, workforce housing 30%, and seniors 10%.

HBE: What have been the other key milestones over the past year?

JH: Our pipeline for workforce housing is now about 8,000 units. We also entered several new markets in workforce housing.

HBE: How is Alliance Residential operating differently based on lessons from the past year?

JH: We continue to press forward with our suburban strategy the way we did pre-Covid. It seems that, at least during Covid, renters want lower density and more space. It's hard to say if that continues, but for now there seems to be good demand in the suburbs relative to the urban areas in many markets.

HBE: What is the revenue for the residential construction business?

JH: As a private company, we don't disclose revenue.

HBE: How is the business performing to date?

JH: The jobs that are underway have been generating construction fees similar to last year's, but we are expecting a dip as closings for the current year are being pushed out to later this year and into next year. We expect a rebound in 2022.

We are seeing sales again, having closed a couple of projects that we sold in Houston, Dallas, and the Carolinas, and a couple more are in escrow. While the markets are performing again, we expect to see the same dynamic as construction, with sales getting pushed to later this year or next year.

The business is not driven only by the level of construction activity; it is also heavily weighted on new capital deployment and sales of existing properties.

HBE: What markets are the bright spots for Alliance Residential?

JH: Across our segments, our strongest activity is in Seattle, Phoenix, Austin, and the Carolinas. Seattle is enjoying a resurgence due to the strong tech sector. Phoenix was already recovering with good job growth pre-Covid and single-family home values appreciating. Austin is also benefiting from the strong tech sector. Apple announced another big facility in that market, and Google is expanding

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there. In the Carolinas, growth is driven by education, the tech sector, and a lower-cost environment.

We're busy across all of our market classes, but Prose workforce housing is where we are most bullish.

HBE: Where are the headwinds at this time?

JH: In the capital markets, the headwind is in the debt markets. Domestic banks, which we use as our largest source of multifamily construction lending, pulled back on their lending activity. Many of their corporate unsecured real estate line facilities were drawn on as a response to Covid-related concerns about liquidity drying up. It translated to less availability and drove higher pricing and worsening terms.

While we believe rents will be fairly durable in the long run, they are particularly volatile in the short term. There have been rounds of stimuli that have helped buoy renters' ability to pay rents, and we're cautiously optimistic that will continue — and jobless claims have been dropping. We have a way to go before we are completely out of the woods, but at least collections have recovered to almost pre-Covid collections. The biggest dip was in April collections, but those have increased each month since. The rate of deferrals that we granted to renters with Covid-related hardships is starting to subside.

From a geographic standpoint, there are pockets of California that are headwinds; that state is high regulatory barrier, and deals take so long to entitle and complete; we are always battling some aspect of development delay. Parts of California have been on the low end of the spectrum in terms of rent collections. Affordability, the overall impact from the industries most affected by Covid, and rent activism are factors.

HBE: How is Alliance addressing the growing number of people moving out of cities and into single-family homes in the suburbs?

JH: Multifamily is still undersupplied in most of these markets. After we see how the pandemic plays out, we feel good about 2021. This year will be a restart, a little more muted, and momentum will start to pick up and set us up for a more normalized 2021, then we expect a full rebound in 2022.

HBE: When will Broadstone enter new markets?

JH: We are comfortable with the market mix for Broadstone, so we have no plans to enter any new conventional multifamily markets.

HBE: How is the company addressing other challenges in the current climate?

JH: We are being more careful in underwriting new deals and navigating the debt markets. We are definitely utilizing lower leverage. We are also getting more time on development deals. It's more difficult to get stable, real-time information on costs, and get through the entitlement process. Many municipalities are still virtual, and there is limited capacity and capability for reviewing new deals and giving feedback on entitlement. In addition, we're renegotiating construction costs as we've seen segments like hospitality, office, and retail get into new projects.

HBE: Will Alliance enter hospitality, office, or retail building?

JH: No.

HBE: What are the expansion plans for the Prose brand?

JH: We have our first Prose workforce projects in Phoenix, Orlando, and Portland and are looking at Denver, other Florida markets, and parts of California.

HBE: What are the expansion plans for Holden Senior Housing?

JH: We are entering new markets with the Holden brand. We have our first developments in Boca Raton and Fort Lauderdale, FL, and Westlake Village, CA, in the northern Los Angeles. In addition, we are doing our first project in Phoenix and exploring opportunities in other markets.

HBE: Where will the fastest growth come from going forward?

JH: Suburban workforce, which is driven by our Prose brand. We don't necessarily see a huge shift, but we expect to keep seeing stronger activity and less competition in some of the suburban markets. We will continue to put R&D into our workforce segment and grow the pipeline and number of markets.

At the same time, we are trying to add an urban product to the mix in markets like California, where land values and other structural costs prevent us from building suburban-feeling products.

HBE: Where are the opportunities for longer-term growth for Alliance Residential?

JH: Senior housing is one. We know that the aging of America will carry over into the long term. We're early in the aging demographics as people put off their moves, but the baby boomer generation is aging and that's a big segment of the population.

In multifamily, U.S. housing is still undersupplied, particularly in the affordable segment. Affordable multifamily is becoming part of some political platforms, and it needs to continue. As an industry, we need to partner with local, state, and federal governments on affordable housing and incentive programs, as there is strong demand.

HBE: How are the tastes of multifamily residents evolving?

JH: Technology will continue to play a broader role. Covid accelerated trends that were already starting, such as online customer service and deliveries taking place inside each unit to make living experiences better, easier, and more convenient. With many renters now relying on their homes as remote work sites, we are adapting to make more of our services speak to that environment. If we have the technology piece in play, then we can leverage that to help renters use it. Broadstone will continue to address technology that improves the living experience.

HBE: How is Prose addressing this trend?

JH: Prose's focus on affordability is forcing the use of technology to control costs and develop more efficient building techniques for competitive, lower-price-point buildings. For renters, it means a focus on value — the have-to-have versus the lifestyle amenity that drives costs up. In-unit, that might mean a less luxurious appliance or bath fixture. In-building, that means not having a gym, business center, or pool.

HBE: What recent developments in the industry have you found interesting or surprising?

JH: The focus on housing as a need and a solution from a political perspective is interesting. In navigating that, we are trying to address the affordable housing shortage through production techniques where we can "politically" and create more opportunities to educate politicians.

HBE: Where are you currently focusing the majority of your attention?

JH: In the near term, on completing the orderly transition of the asset management business to Greystar by December. We're also working on getting real-time feedback on market operations so that we can make informed decisions to best navigate the pandemic, and then communicate that to investors and lenders.

Longer-term, the strategy is to continue diversifying and be the best in all of our segments and markets.