



Workforce housing developer acquires more Phoenix-area properties

Company plans to place properties in a REIT that eventually could go public

By **Angela Gonzales** – Senior Reporter
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In an effort to develop more workforce housing units, a Phoenix developer has purchased more apartment communities and has another in escrow.

With its next acquisition, Urban Communities LLC will have acquired \$100 million in multifamily communities throughout the Valley within a 12-month period.

Most recently, in June, the developer paid \$14.73 million to an entity tracing to Herald Daugs for the 148-unit Avenue 15 Apartments, 1609 W. Glendale Ave., Phoenix, according to Vizzda LLC, a Tempe-based real estate database.

Plans call for investing about \$5 million to renovate the property, including replacing deteriorating air conditioning units and adding washers and dryers to each unit, said Maximiliano Palacio, president and CEO of Urban Communities.

The property is currently 87% occupied, and won't be accepting new tenants until renovations are completed.

"Avenue 15 Apartments is the black sheep of the neighborhood," Palacio said. "If you go east, you will find \$1 million-plus homes."

That apartment community was a fractured condominium property, he said, until the seller consolidated it into a single property.

With renovations come higher rents. Plans call for monthly rents to be around \$1,250 for a 2-bedroom apartment, up from the current \$850 monthly rate, Palacio said.

Part of the renovation includes cleaning up the neighborhood, which means making it more difficult for unwanted tenants – those who aren't following the rules – to want to stay.

When Urban Communities bought its first property at 1601 W. Camelback Road in November 2015, that property was overflowing with gangs, drugs and prostitution, Palacio said.

They are now gone and the community is 100% leased.

In March, Urban Communities paid \$8.73 million to an entity tracing to Alan Schapker for the 128-unit Puesta Del Sol, 8818 S. Central Ave., Phoenix, according to Vizzda.

That property already has a wait list, so plans call for adding anywhere between 70 and 120 more units on adjacent vacant land, Palacio said.

And now, Urban Communities is in escrow to buy another apartment community in Phoenix.

The company is expected to close out the year with \$150 million in acquisitions, Palacio said.

These properties are being financed by a \$20 million fund, which invites qualified investors to invest in the fund.

Creating a REIT

Within the next two years, Urban Communities will move these properties into a real estate investment trust that is now in formation, Palacio said. The REIT has yet to be named.

Within three to five years, he would like to take that REIT public. It would have its own investor fund that could include some of the same investors who are investing in the current \$20 million fund, he said.

"Our mission is to improve people's lives through the development and redevelopment of sustainable communities, creating value for residents, stakeholders and society," Palacio said.

Palacio points to his partner and mentor Peter Thomas, chairman of Urban Communities, for the success of the company.

"We are spot on to where the smart money is headed and our particular niche, gray-collar workforce housing, is the needle in the haystack," Thomas said. "The larger funds simply cannot make projects like these work – there is too much specialized work required."

While Christine Mackay, the city of Phoenix's economic development director, had wanted to see Urban Communities use opportunity zone funding for these projects, Pete Alford, vice president of

investor relations and business development for Urban Communities, said the timeframe doesn't work because equity investors exit after three years.

At that time, the properties are sold to Urban Communities' REIT, with a different set of investors, Alford said. On the other hand, "opportunity zone" funds, require a 10-year hold.

Plus, opportunity zone funds require a bigger financial investment in renovations than Urban Communities is making.

Any bigger investment in renovations would require higher rental rates and Palacio said he wants to keep rental rates within 30% of the income of the everyday worker, such as teachers, nurses, food servers and bartenders.



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