

Building a portfolio: California partnership buys one complex, prepares to close on others

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Compass Pointe Apartments, an 86-unit complex at 29 N. Lakewood in Tulsa, recently sold for \$830,000. (Rip Stell)

TULSA – A California real estate partnership intends to buy up to 1,000 Tulsa apartment units this year – and double that in 2011.

Tahiti Partners, led by Geoffrey S. Payne of Long Beach and David Schieber of Portland, Ore., started that process in July with Compass Pointe Apartments, an 86-unit north Tulsa property. Paying \$830,000 cash for its bank note, Tahiti acquired the deed in lieu of foreclosure, said broker Raymond Lord of NAI Commercial Properties. Tahiti budgeted more than \$500,000 for an extensive renovation to upgrade the distressed property.

"We'll probably invest almost as much as we paid going forward," Payne said in a telephone interview. "I don't know if you saw Compass Pointe, but it was pretty frightening. Both laundry rooms were closed down. A lot of units were leaking like sieves. It was also an atrocious paint job. In addition to that, the railings were failing."

Tahiti is in escrow on two more Tulsa complexes, a \$3 million, 132-unit deal Payne hopes to close within a couple of weeks, and a \$3 million Class B, 250-unit property in south Tulsa.

"It's somewhat similar to Compass Pointe," Payne said of the closest deal to closing. "Maybe not quite as bad a shape, but not in great shape."

He anticipates spending \$1.5 million on improvements between those two.

"What we try to do is do improvements that help minimize maintenance and give it a longer-term life, create a nicer atmosphere for our tenants," Payne said. "We have the philosophy that if you create a nice atmosphere, you'll get good tenants regardless of their income levels and they'll stay with you for a long time. And that's what we want. We will probably hold our properties seven years or longer."

While two of these prospects qualify as distressed properties, Payne said Tahiti did not use that as an investment benchmark.

"We're looking for good opportunities relative to what we want," he said. "We hold properties for a long time. So we want properties that we can get to a certain condition. We are making them nicer than our competition. If it's a Class C area like Compass Pointe, we want it to be nice. We want to exceed the expectations of our renter."

Tahiti hired Jack Emerson of Kansas City's Emerson Property Management to head Compass Pointe's renovation and transition. Lord counted down a vast list of planned improvements, from new roofs, siding, and heating and air-conditioning systems to a parking lot overlay, new landscaping and a revamped apartment office.

"This is an incredible renovation on a property which was dilapidated and in extreme disrepair and had a very bad reputation," Lord said. "Their intent is to repair and reclassify the property."

To speed the improvements, Emerson said he allowed occupancy to drop to about 50 percent.

"We're losing money on Compass Pointe right now," Payne said, noting the extent of renovations. "I can only charge my investors so much of a reasonable amount and it's taking a lot more work than I feel I can charge. But it's worth it for me to eat the cost because I'm trying to build an investment base. I know that my owning a certain number of units there gives me cost synergies.

"We're not buying to just buy them and flip them in two years," he said. "We are strong believers that if you buy properties, fix them up well, maintain them well, you create long-term assets that create income and wealth for our investors."

Emerson expects to finish the Compass Pointe work by mid-September, changing consumer expectations of north

Tulsa apartment complexes in the process.

"Our goal is to be the best property in that part of town," Emerson said in a telephone interview. "Typically up in that part of town are some of the properties that don't get a lot of attention. We plan to turn that around."

That thrilled Lord.

"It's refreshing to see a group come in and really see the value of an asset," he said of the 29 N. Lakewood Ave. property. "These guys are really, really looking long term, for a good return for their partners and good return for them."

With many lenders still facing pressure on commercial property loans, Payne said Tahiti emphasizes using internally generated cash. But it still feels the recession's sting.

"We're just kind of doing things the old-fashioned way – we're raising money through investors," said Payne. "I'd like to believe we have about \$10 million committed to us, but even with our established investors we're not finding that people just open the checkbooks."

Tahiti owns a dozen office and retail properties across Texas, Kansas and other areas. Payne said the partnership now intends to focus on the multifamily sector, with Compass Pointe its first acquisition.

Payne, a 30-year real estate veteran and tax attorney, said Tahiti studied the Tulsa market for a year before making its first offer, hiring broker Lord and other consultants at NAI Commercial Properties to advise them.

"We reviewed at least 100 deals in Tulsa," Payne said. "On those hundred we made a dozen offers and we got one placed."

Closing on Compass Pointe led Tahiti to train its growth prospects on Tulsa, seeking to build cost-saving synergies through a large multifamily cluster. While the partnership is also studying deals in Oklahoma City, Wichita, Kan., and the Kansas City area, Payne said Tahiti will concentrate on Tulsa until it reaches a critical mass.

"That's everything," he said.

"Think of when I travel to Tulsa," Payne said as an example. "When I'm allocating that for just one property, it's an expensive trip. Now let's say I own four properties and I come and do a heavy-duty three-day trip and I meet the managers and walk the properties – I tend to be very hands-on. I spend the same amount on the trip, but it costs a lot less per property."

As it adds apartments, Payne said Tahiti would rely on Emerson's management skills.

"Once we close three or four deals and we own, say, 700 units, we'll probably look hard at opening an office there," said Payne. That could be a through a joint venture with Emerson or an organic offshoot of Payne's Southern California property management company, G.J. Property Services.

Compass Pointe breakdown

Fifty-four one-bedroom apartments, 685 square feet, leased monthly from \$385 to \$400.

Thirty-two two-bed apartments, 885 square feet, \$485 to \$525 a month.

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