The Berkshire Group

By endowing money and experience into mid-sized projects, this real estate investor is able to rival its largest competitors. Frank Apeseche explains.

Helpful Hands

The Berkshire Group is not afraid to invest in a good real estate project or company in need of some support to push it along. As the holding company for Berkshire Property Advisors and Berkshire Realty Ventures, this Boston-based company looks for real estate multi-family properties and operating enterprises to acquire, grow, and harvest.

Berkshire Property Advisors operates 30,000 apartment units throughout the United States. With its 1,000 employees, this Berkshire subsidiary handles everything from buying the property, putting finance in place, developing it, managing it, and eventually selling it after it has been turned around for the better. The company manages about $3.5 billion of capital through three different structures: one public real estate investment trust and two institutional discretionary funds.

Berkshire goes into tier one markets (Boston, Los Angeles, and Washington, DC) or tier two markets (Baltimore, Denver, and Portland) to find mid-sized projects in which to invest. CEO and managing partner Frank Apeseche said the company is looking for a market where there is demand and room to grow.

If you are competing with the exact same model as the bigger more mature companies, your chances of being best of breed are very low.

"We look at the new housing product in that area, and then we try to buy something a little older that is run by a local establishment where we can add value by putting in our own nationally integrated operation," he said.

By owning its proprietary management company, Berkshire has less red tape to cut through to make changes to the property. The company invests between $7,000 and $50,000 a unit for renovations to the property, which can include adding washers and dryers or a second bathroom to the units or adding communal amenities such as a clubhouse, pool, or business center. Apeseche said one advantage to working with older properties is that the square footage of the units is usually larger and there is more open space on the property than compared to projects built after 2005, when construction prices skyrocketed.

"When we are done renovating, we like to make it look like the newer products in the area, but because we bought it for less, we can set the rent at $150 to $200 less than the newer products," Apeseche explained.

Concrete connections

Because rent is increased once the project is complete, Apeseche said it is important to offer residents more than just a new look. Along with the capital improvements come changes to the operational side.

"We have a unique approach: we try to emulate a hotel model in terms of services offered. Our staffs are friendly and marketing oriented, and there is the ability to establish a number of social activities and ancillary services for our residents. We want to provide that softer service to our renters," he said.

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The goal is to make residents feel like they are part of a community, so they will not want to leave once rents are raised. They may also encourage their friends to move to the property. Berkshire did this with a property in Charlotte by developing a Latin American theme for the property. According to Apeseche, when the company bought the property, it was populated by gang members, and the clubhouse offered nothing for children. Berkshire redeveloped the property with Latin American attributes, bringing in a bilingual management team, developing learning centers in the clubhouse, building a playground and soccer field, and eradicating the gang. Not every project is as extreme, but they all result in improved living conditions.

Berkshire Property Advisors employs different strategies for its investments depending on where in the cycle the market is. When the recession started to affect business in 2008, the company had to alter its plan. It spent two months traveling the country interviewing experts about how the recession was going to affect capital markets and real estate fundamentals. The new plan helped Berkshire weather the storm: while the average rent for multifamily real estate investment trusts was down 3.5% and net operating income was down 5.7% for 2009 and 2010, for Berkshire, these numbers increased by about 3% and 10% respectively.

Concrete ideas

The company's other platform is Berkshire Realty Ventures, a private equity investment company that focuses on real estate operating

enterprises. "We look for smaller companies that are newer to the marketplace. We grow them into mature companies that can access very efficient and low cost capital," Apeseche explained.

Berkshire uses the knowledge it has acquired in its 40 years in business to help these companies grow. Although Berkshire is looking for younger companies, it also looks for a few solid attributes before agreeing to work with the company. The company must be in a segment of real estate where the opportunities for growth are large, have a talented and experienced management team, have completed a number of successful transactions, and have a model that is unique and compelling.

"If you are competing with the exact same model as the bigger more mature companies, your chances of being best of breed are very low," said Apeseche.

The real estate market segments Berkshire is particularly interested in are the hospitality industry, because it is rebounding faster than other segments, and long-term care, because the baby boomer generation is now migrating to these types of facilities. Because of the recession, another arena that has become popular for Berkshire is mortgage lending. The company offers specialty lending; Apeseche said it is usually mezzanine loans on top of senior financing. When the recession hit, owners needed additional loans to pay off the maturities on their debt. Even as the market starts to recover, they still do not have enough financing to pay off their old loans. He also noted that there is a huge wave of assets caught up in the commercial mortgage backed securities debacle and owners need strips of capital to refinance these.

"We can get a higher return for this type of business, and we think the return/risk tradeoff is appropriate given where we are in the cycle," said Apeseche. "Like everything we do, we think there is a place for us to play here."

—Karen Kondilis