



Holualoa Converts Westside Student Housing into Market Rate Apartments

by Lani Baker • published in the September 2021 issue

Holualoa Companies was founded in 1985 with a philosophy of discipline, attention to detail, patience, and an opportunistic mindset. The company has traditionally focused on purchasing and repositioning underperforming real estate assets including over \$3 billion of office, retail, industrial, hospitality, and multifamily properties in the United States and Europe. In recent years, in order to continue providing investors with exceptional returns, the company began adding more development projects in the portfolio.

In November 2018, we acquired Gateway at Tucson, an underperforming, 188-unit, 552-bed, student housing project. Our intent was to convert it into a dynamic and inviting residential community, transitioning it from a student housing property to a conventional apartment property serving the local workforce, snowbirds, and students.



New mail room lounge at Sonoran Reserve

The property was originally developed in 2005 during a cycle of student housing development on Tucson's west side. In 2012, the Downtown Area Infill Incentive District and Main Gate Urban Overlay District provided zoning changes that enabled development of mid- and high-rise student properties adjacent to the University of Arizona, putting competitive pressure on outlying student properties like Gateway.

We purchased the property via an online auction from the lender. Purchasing properties by way of auction provides challenges compared to traditional purchases. For example, we had very limited access to the property prior to closing and could not inspect the roofs, pools, mechanical systems, etc. Therefore, we built in higher-than-normal contingency amounts into our underwriting. Upon closing and getting full access to the property, we were pleasantly surprised that the property had “good bones.”



Renovated exterior including new staircase, exterior paint and landscaping

Upon acquisition, we immediately replaced the out-of-state property manager with Scotia Group Management. We have developed a relationship over the past 25 years managing Tucson apartments together and have found their expertise and managerial ability to compound value. After the acquisition closed, we began leasing the units on a per unit basis instead of per bedroom while we worked on our renovation plans.

The transition from student housing to a conventional apartment property included significant renovations to the property’s amenities, upgrading the interiors of the one, two-, and three-bedroom units, and splitting each of the 4-bedroom/4-bathroom units into a 2-bedroom/2-bathroom and a 1 bedroom/1 bathroom unit (converting one of the bathrooms and bedroom into a living room and kitchen). Reconfiguration of 4-bedroom units added 83 units to the property. We worked with our property manager, general contractor, architects, and designer to determine the best way to split the 4-bedroom units into the 2-bedroom and 1-bedroom units.

We worked with our designer, Lidda Design, to renovate the amenity rooms to cater to the broader demographic that we are marketing to. The spaces that were formerly used for study pods and tanning beds were converted into a mail room and tenant lounge. The fitness room was relocated and the former fitness room was converted into a club house, entertainment room, and kitchen. We also completed extensive renovations to the common areas including replacing the landscaping over the entire 12-acre project, replastering the pool, painting the exterior, repaving the parking lot, and upgrading the plumbing fixtures to water-efficient units.

We started construction in late 2019 with Tofel Dent as the general contractor, working in concert with them throughout the process. Development was not without its challenges. For example, since half of the 4-bedroom units were located on the 2nd story, we had to add staircases to the newly created units. Determining the layout and location of these new stairs to not interfere with the 1st story units, landscaping, elevation variants and building code regulations required a concerted effort from the entire renovation team.

With construction ramping up in early 2020, we experienced the effects of COVID-19. We worked through labor shortages, supply chain distributions and delays in government approvals.

The property remained partially occupied throughout the construction project. Retaining occupancy proved to be a helpful gauge of consumer sentiment as each converted unit served as its own test case. Once each building was complete, the units were added to the rental pool and rents were incrementally adjusted in response to market conditions.

The renovations and unit conversions were completed in April 2021 below budget. Once the renovation was complete, we rebranded the property to Sonoran Reserve. The rental market has validated our plans—the property is 100% leased at rents that are 57% higher than when we acquired the property, surpassing our underwriting assumptions. The project demonstrates Holualoa's mission set forth in 1985: Giving attention to detail and working with a trusted team of contractors and suppliers to meet the needs of our tenants, which increases the value of our investments, resulting in exceptional returns to our investors.

Lani Baker is Chief Financial Officer at Holualoa Companies. Lani oversees treasury, investor relations, and commercial real estate transactions including acquisitions, financing and sales for Holualoa's 6.5 million square foot portfolio. She can be reached at baker@holualoa.com.



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