

Compassionate Capitalists

BY JEANINE GAJEWSKI

By using their “turnaround template”—a three-phase process that sets a repositioning project’s course—Brent Sobol and Robert Holtackers of TORO Properties Group turn distressed properties into vibrant communities.

Not too long ago, Shamrock Gardens Apartments was not the best place to find yourself on a dark night, much less a safe place to call home. By the time the bank had foreclosed on its previous owners in early 2005, the 343-unit garden-style community in southwest Atlanta was rife with crime and suffering from neglected maintenance, graffiti-ridden signage and visible damage from multiple fires.

Once one of Atlanta’s most desirable locations when it was built in 1964, Shamrock Gardens had lost its sense of community by the time Managing Partners Brent Sobol and Robert Holtackers of TORO Properties Group purchased

the ailing property in October 2006.

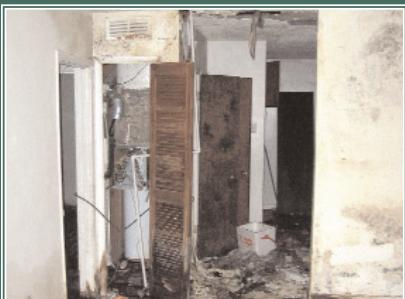
Just two years later, the results of the TORO team’s turnaround are a stark contrast from the original community it acquired. After a \$1.5 million renovation and repositioning, Shamrock now boasts amenities including a community center, a renovated playground, upgraded landscaping and onsite daycare. Since 2006, TORO has improved occupancy from 77 percent to 97 percent and has raised the value of the property from \$7.5 million to \$12 million in 2008—a return on investment of more than 200 percent.

The secret to TORO’s success at Shamrock Gardens was not luck, but rather a combination of a proven turnaround

process and a passion for improving people’s lives through re-building communities. Sobol calls it “compassionate capitalism,” and his company’s business model of doing well by doing the right thing is drawing national attention. Sobol and Holtackers were recognized as Independent Rental Owners of the Year at NAA’s 2007 PARAGON Awards ceremony, and Shamrock Gardens Apartments received the 2008 PARAGON Award for Best Garden/Townhouse Community, Pre-1979, Over 150 Units.

“I’d always seen the PARAGON Awards given to extraordinary companies that I admired,” Sobol said. “It was a tremendous honor to be in the ranks of some of

Before



Shamrock Gardens, Atlanta

the biggest and best companies in the industry."

Sobol and Holtackers see great opportunity to repeat Shamrock Gardens' success in a market flooded with distressed communities in the wake of the housing crisis. They hope to become leaders by example, paving the way for other developers to emulate their business model—a business model that not only puts money in their pockets, but also pride back in their communities.

Getting Started

Sobol and Holtackers spent years sharpening the skills they would need as turnaround artists before they joined forces in early 2006. For Sobol, real estate management was in his blood.

"My grandmother flipped homes during the Great Depression so she could make money to feed my father and his six siblings," Sobol said. "My father saw it as a noble profession and became a second-generation real estate entrepreneur."

However, as a young man, Sobol did not necessarily want to follow in his father's footsteps until he got his first taste of real estate as the student manager of his college fraternity house Sigma Nu at Washington University in St. Louis in the 1990s. "Talk about a tough resident base to start with," Sobol said. "Soon after, my father told me, 'You can pay for your college if we buy a house, fix it and sell it together.' So I did it and made a nice profit—and I decided to do more of it."

After graduation, a job with a subsidiary of Georgia Pacific took him to Atlanta. "The company was a dot-com with a real estate theme," Sobol said. "Then Sept. 11 happened and three-fourths of the company was laid off in six months. So I was jobless in Atlanta knowing that I wanted to be in real estate."

Sobol took a job with R. James Properties Inc., starting on site in leasing and eventually working his way up to General Partner with investments in several of the company's properties. He decided to strike out on his own and soon partnered with Holtackers, who already had a track record of repositioning distressed homes as a franchise owner of HomeVestors, a company that advertises "We Buy Ugly Houses."

Holtackers, a native of The Netherlands, moved to the United States to complete his MBA at the University of Georgia. A trip to Taiwan as part of a construction project provided his first experience with development and real estate, and he found the experience rewarding.

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Managing Partner, TORO Properties Group

Holtackers founded two Internet companies in the late 1990s and began investing in single-family homes with a business partner in 1998. "I was interested in a better business model because the single-family home model was not scalable," Holtackers said. "So we started focusing on multifamily and sold the HomeVestors franchise in 2006."

Creating Community

It was Holtackers who first spotted the 118-unit, 1960s brick apartment community in a newspaper ad. Towers Garden, located in Decatur, Ga., was a community in much need of a transformation. "It had operational problems," Holtackers said, "and fit our model for repositioning."

As Holtackers began the due diligence process, Sobol approached him with an interest in partnering on the project. "We got together and compared notes and decided to partner and buy Towers Garden," Holtackers said.

They set a goal of completing a full transformation of the community within six months. Using only private funds, the TORO team took the severely neglected, crime-infested property with poor financial performance to a fully occupied, well-kept affordable housing community with a return on investment of 300 percent.

"[Sobel] did the lion's share of the rehab while I focused on the financing," Holtackers said. "Within months, we'd repositioned Towers Garden."

For TORO Properties, "repositioning" means more than a mere rehab. "We had to get both the operations and the rehab right," Sobol said. "By focusing on both of these, you achieve a vastly improved community. We try to emphasize the human component. Smiling children are a good indication of how well we are doing."

Sobel and Holtackers created a community atmosphere at Towers Garden through TORO-sponsored cookouts, parties and credit counseling and have partnered with their local police, fire department and churches.

"In most C-class properties, you typically have few physical amenities," Holtackers said. "But when an owner really gets involved in the community, you can learn what is important to the residents and incentivize them to care about the community and foster a sense of community spirit. It's good for the owner and it's good for the residents."

At Shamrock Gardens, the TORO team has invested \$35,000 in a community center where residents host parties, family reunions, neighborhood watch meetings, a single moms' club and seniors' bingo.

"You have to concentrate on the human component of the business," Sobol said. "It is easy to get caught up in the spreadsheets and the financial analysis, but it is very much a people business. People want to rent from those they perceive as caring about them and the community. It is as simple as returning phone calls promptly or having cookies in the office so they feel welcome."

Sobel sees each turnaround as a partnership between four parties: residents, employees, service providers and investors. Building that sense of community goes a long way toward delivering on the partnership with residents. With its staff members, TORO strives to instill a sense of trust between employer and employee. The company also employs local supplier partners and pays them promptly for their services.

"And the fourth leg is the investors, who expect a return on investment," Sobol said.

"They have told us that when we take on a project, they like that we strive to change people's lives for the better. We call it the 'double bottom line.' There is the ROI, but there is also the more intangible, less quantifiable benefit to the four partners."

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Managing Partner, TORO Properties Group

The Going Gets Tough

Repositioning a community is a process fraught with unexpected roadblocks and challenges, and Shamrock Gardens was no exception. Soon after acquiring the property in the fall of 2006, the TORO team realized it had underestimated the level of crime that had permeated the community.

"One of the biggest challenges with repositioning is factoring in crime and criminal behavior," Sobol said. "In a distressed property, that's a risk and there is no exact science for fixing it. But if you don't fix it, you can't achieve the financial returns."

Next the team ran into trouble with their general contractor, who was not performing as they had hoped. By the winter of 2006, while Towers Garden was performing well, Shamrock was not turning around as quickly.

"So we hunkered down," Holtackers said. "[Sobel] took over community relations—including dealing with the police—and I took charge of the renovations and the maintenance. For nine months, we spent most of our waking hours to get it to the point where we needed it to be. We were both committed to doing whatever it took."

"We were absolutely not going to allow

After



Shamrock Gardens, Atlanta



Shamrock Gardens residents participate in National Night Out at Shamrock Gardens (left), a nationwide crime/drug prevention event in partnership with the local police department, and monthly children's arts and crafts activities (right).

it to fail," Sobol said. "Too many developers are willing to walk away when they hit a speed bump. We felt a sense of commitment to our residents, employees, community and financial partner."

By fall 2007, the team reaped the fruit of their labor with improvement on all fronts. They attribute their success not only to their willingness to work hard and dedicate the man hours necessary to pull off a turnaround, but also to a process they call the "Turnaround Template"—a three-phase process that maps out the course of a repositioning project.

"Different stages of the process require different techniques," Sobol said. "The first phase is damage control and assessment. The second phase is the heavy lifting and

implementing the business plan. That takes the longest. The third is stabilization, where you look to improve the processes so when another buyer eventually takes over, it runs like a well-oiled machine."

Today, Sobol and Holtackers have implemented the third phase of the process for Shamrock Gardens and are in discussions with prospective buyers for the community. Several community leaders and some of the prospective buyers have urged Sobol and Holtackers to continue managing the community after the ownership change. The TORO partners have embraced this suggestion and they are working out the details of this arrangement. They want to ensure the continuous improvement of neighborhoods in south

Atlanta and keep Shamrock Gardens as a shining example of a transformed and vibrant community. They believe that Shamrock Gardens and Towers Garden will be among the first in a long series of repositioning projects for TORO Properties in the Atlanta area—and beyond—and are looking to share their expertise with other independent rental owners and the local government.

"Our extreme makeover of Shamrock has attracted a lot of attention to our business model," Sobol said. "Recently, the federal government passed a bill allocating \$4 billion to help state and local governments reposition distressed housing, including multifamily. We are working with the local government to help them identify projects that would be beneficial to the neighborhoods."

"[Holtackers] and I both live in Atlanta and it is important to us that the city thrives," he added. "We are proud of our city and believe we can make a difference." ■

TORO Properties Scores An IRO Award Upset

This past June, TORO Properties trumped top national apartment firms to earn a 2008 NAA PARAGON Award for best garden or townhouse community—the company's second PARAGON Award in as many years. In 2007, Sobol and Holtackers won a PARAGON as the top Independent Rental Owner (IRO)—100 units or fewer. The PARAGON ceremony audience this past June took delight in the fact that Sobol and Holtackers scored an IRO upset, having won a category typically dominated by large-sized portfolio owners.

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