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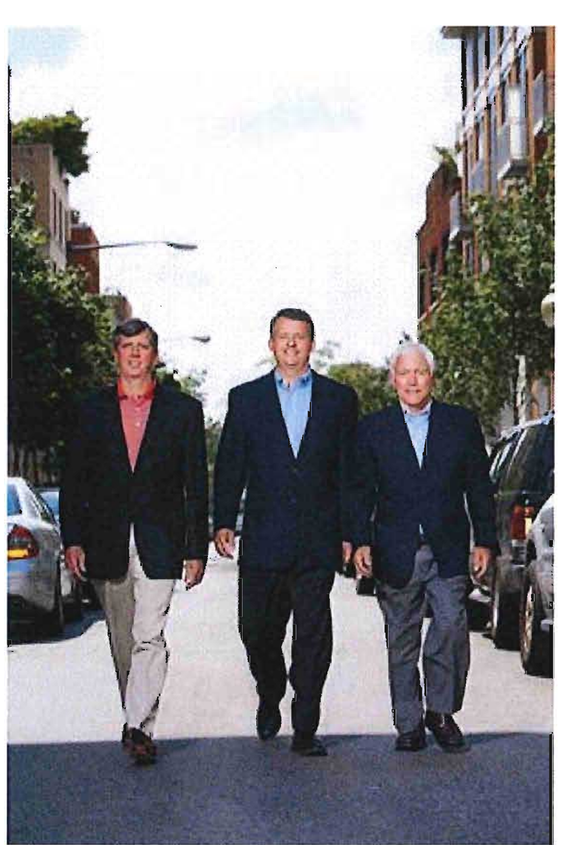
Ready to Launch

They are spin-offs.

By: Les Shaver



During the first week of January 2010, Jim Butz, CEO of McLean, Va.–based Jefferson Apartment Group (JAG), thought he'd just secured the landmark deal his upstart firm sorely needed. The Dumont was a failed, 559-unit luxury condo project near the hot Logan Circle neighborhood of Washington, D.C. However, when Butz woke up the day the deal was to be finalized, he found out that his all-cash bid of $165 million wasn't enough. Chicago-based REIT Equity Residential had swooped in with $167 million at the last minute and secured the property.

Butz was obviously disappointed with the outcome. But it reinforced a valuable lesson for the fledging multifamily company—it's hard to go head-to-head with institutional money and win.

So Butz used the Dumont experience as a turning point. Aware that the transaction signaled a hot D.C. market, he decided to shift his efforts to development, an area in which he has a great deal of experience, thanks to 12 years as the East Coast president of Dallas-based JPI, JAG's predecessor.

Credit: Cameron Davidson

From left to right: Richard Hausler, Principal, Insight Property Group; Jim Butz, President and CEO, Jefferson Apartment Group; and Greg Bonifield, Partner, Woodfield Investments

That ability to quickly shift strategy as the market adjusts is one of the key benefits of having a nimble, young firm. Today's market newcomers, however, are often spin-offs of larger predecessors, many of which were closed, consolidated, or otherwise taken out of commission in the

peak of the recent boom-and-bust cycle. And emerging to lead these companies is a new genre of entrepreneurial leaders with skills honed by some of the industry's best.

Starting Point

Consider these five tips when launching a new company in today's economy.

1. Take along a team you know.

If you're looking for common themes in the growth arcs of Jefferson Apartment Group (JAG), Insight Property Group, and Woodfield Investments, one thing becomes abundantly clear—the founders saw great value in bringing team members from their former firms along for the ride.

Rick Hausler and Mike Blum brought seven people from Kettler; Greg Lamb and Jim Butz brought 10 people from JPI; and Greg Bonifield and Mike Underwood brought along three people from their Summit days. "We had all gone through the ringer on a lot of deals together," Bonifield says. "We didn't have to re-create how we dealt with each other. We all also happen to truly enjoy each other's company, which is crucial for a partnership like ours to thrive as it has."

2. Stick with markets you understand.

Just as the founders at Woodfield, JAG, and Insight aren't straying far from their former colleagues, they're also staying close to their former footprints. Specifically, they're focusing on the same markets they scoured when they belonged to bigger enterprises.

JAG and Woodfield have an expanded radius, while Hausler actually bought some of the real estate he lived in as a child. "I've been in this area my whole life," Hausler says. "Most of [the Insight team] has worked in this area for several decades. You're looking for properties that are behind the trees, and you're looking for off-market properties."

3. Secure a substantial partner.

At JPI, Butz became used to having a big money partner at GE signing off on deals. At Summit, Bonifield only had to sell a deal to the REIT's investment committee to make acquisitions pencil out.

When they started JAG and Woodfield, both men had to make pitches to equity investors to get their initial deals started. They say the next step of growth is securing larger equity partners. "In order to be most efficient, we're going to try to work with a handful of equity partners and complete multiple deals with them," Butz says. "If we buy a deal with an institutional equity partner, we're more likely to get selected than a small developer with no single equity source."

4. Wait before you add.

There's a fine line between adding more people than your platform can support and missing out on talent. Those start-ups that weathered the Great Recession (and, in many cases, the real estate recessions of the early '90s and '80s) have taken a measured approach to adding talent. Hausler waited several quarters and had four projects in the pipeline before he began adding reinforcements.

Butz warns that you can't wait forever for good talent, though. "My biggest regret is not having gotten people to join us in a more timely manner," Butz says. "What we learned is that if you continue to wait, someone else will hire them if they're good."

5. Be nimble, be quick.

Washington, D.C., might just be the perfect petri dish for the up-and-coming company, particularly a multifamily developer. With its strong employment growth and supply shortage, the nation's capital was, for a while, the one place in the country where debt and equity were available to invest in apartments.

The downside? A horde of institutions, REITs, and other investors came in chasing assets as well. That meant the Hauslers of the world could only add units by finding off-market deals in close-in suburbs such as Rosslyn. Meanwhile, Bonifield had to shift his strategy to the Carolinas (before things got overheated in the recent boom), and Butz changed focus after losing the Dumont. "Where we can play on the acquisition side is more on opportunistic value-add or troubled assets," Butz says.

Multifamily Executive sat down with three of these entrepreneurs who are using the D.C. market as a base of operations—JAG's Butz; Rick Hausler, principal with Tysons Corner, Va.–based Insight Property Group; and Greg Bonifield, a partner with Arlington, Va.–based Woodfield Investments—to find out exactly where they came from, understand their business plans, and get a sneak peek into how they're competing in the Washington, D.C., region.

"What makes it impressive is that these guys are [making deals] in the most sought-after market in the country," says Doug Bibby, president of the D.C.–based National Multi Housing Council. "It's probably the toughest market in the United States from a competitive point of view. To come in and be able to do that is very impressive."

The Trailblazer

For seven years, Greg Bonifield served as vice president (the last three as Mid-Atlantic vice president) for Summit Properties, a former REIT based in Charlotte. When fellow REIT Houston-based Camden Property Trust acquired Summit in 2004, it didn't take long for Bonifield and fellow Summit senior vice president Mike Underwood to find a new direction in the form of Woodfield Investments. The duo brought with them a land deal in Cary, N.C. (which later became the Windsor at Tryon Village), and a company was born.

"When the merger with Camden occurred in early 2005, we were suddenly afforded the opportunity to pursue our long-held dream of starting our own multifamily development company," says Bonifield, who eventually brought on three additional ex-Summit staffers. "That is when the Woodfield enterprise was born."

Greg Bonifield

Credit: Cameron Davidson

Title: Partner
Age: 47
Company: Woodfield Investments
Location: Arlington, Va.
Founded: 2005
Units owned: 1,400
Units built in 2010: 500
Geographic footprint: East Coast from the Carolinas to Baltimore

Siena Park Arlington, Va. Opened: January 2010

That vision would, of course, require financial backing. At Summit, Bonifield simply had to make a case to the REIT's investment committee for a deal to become reality. With Woodfield, the game changed: He had to scramble to secure equity. Bonifield, a Texan whose career began on the

institutional side of the business at MetLife Real Estate in New York, also had a track record to sell. "We had built successful A and A-plus apartment communities, which is what the market is looking for," he says.

Woodfield soon began adding deals in its core markets of Washington, D.C., Charlotte, and Raleigh. When the market fell apart in 2008, it had six deals in the pipeline. Unlike a lot of other firms that were suddenly upside down, however, Woodfield was in good shape. "When the downturn occurred in 2008, not one of the six deals we had under construction was ever in jeopardy, [thanks to] our strict underwriting," Bonifield says.

Unfortunately, with the credit markets decimated, debt was hard to come by. Woodfield took an early turn to HUD's 221(d)(4), utilizing it on a land parcel purchased in Gaithersburg, Md., in 2009 (one of the few land transactions in the area that year). It also turned to the HUD program for two of its other projects—the Metro 808 in Charlotte and the Residences at Hidden Creek in Gaithersburg, Md.

In the past year, with the rental markets picking up, Woodfield is intensifying its development pace. It broke ground on the Residences at Hidden Creek in March 2011. By late summer, it will have another property breaking ground in Charleston, S.C., with assets planned in the next year in Charlotte; Durham, N.C.; Hyattsville, Md.; Rockville, Md.; and Alexandria, Va. "To pull off three deals in a market [Washington, D.C.] that's so competitive says a lot about their respect in the marketplace," says Chuck Travis, a principal at Housing Studio, a Charlotte-based architectural firm that has worked with Bonifield dating back to his Summit days.

The deals have also made equity providers stand up and take notice. In May, Woodfield inked a deal with Orlando-based CNL Macquarie Global Growth Trust, an unlisted REIT, on a 258-unit deal in Mount Pleasant, S.C. Bonifield says that the "universe" of options has expanded for Woodfield since the firm didn't have any missteps in the downturn.

Others agree. "They're very well thought of among the equity people," says Rohit Anand, a principal at the Tysons Corner, Va., office of KTGY, an architecture firm that works with both Bonifield and Hausler. "It seems like they have a lot of equity people lining up to venture with them on their products."

Despite this interest in growth, Bonifield doesn't have plans to push beyond his current team. "Through our philosophy of leveraging third-party consultants for everything from construction management to back-office functions, our current team of partners can effectively manage 10 to 12 large deals through the entire project cycle," Bonifield says. "At Summit, everybody worked in small teams to develop a project from inception through stabilization. Our experiences there prepared us to take on large projects through all phases of the development cycle."

The Veteran

Rick Hausler didn't need to ride out another real estate cycle. After a stint in the Justice Department following law school, the D.C. real estate veteran and Harvard University grad got his start in real estate with the famed Til Hazel (a 20-year D.C. zoning practitioner) before joining up with Bob Kettler in 1986. At McLean, Va.–based Kettler, Hausler headed up the acquisition and development of apartment properties totaling approximately 9,000 units. In fact, today he still owns a stake in the firm and its deals.

Richard Hausler

Credit: Cameron Davidson

Title: Principal
Age: 60
Company: Insight Property Group
Location: Tysons Corner, Va.

With a prominent career under his belt, Hausler retired in 2009, leaving Kettler to pursue other interests (namely, serving on the board of Virginia's Workhouse Arts Center in Fairfax). Within months, Hausler realized he couldn't ditch the real estate itch. He and fellow Kettler alum Mike Blum believed that well-located older apartments in need of repositioning would be a good play for the D.C. metro, which was being overrun by new development plans.

So Hausler and Blum launched Insight Property Group, only months after Hausler retired, quickly scooping up two projects

originally built in the 1950s—1200 North Rolfe St. Apartments, a 42-unit property, and the 33-unit Rosslyn Vista apartments, both of which are located along Arlington's Metrorail Orange Line just outside the D.C. metro. Insight plans to tear down and rebuild Rolfe St. this summer and Rosslyn Vista in mid-2012.

Founded: 2009
Units owned: 1,212
Units built/bought in 2010: 422
Geographic footprint: Washington, D.C., and metro from Fredericksburg, Va., to Baltimore

What stands out to most observers about the Insight transactions is that neither deal was marketed. "One of the things I'm impressed with is not only does Insight execute, but they have an ability to turn up off-market deals based on the team's connections and creativity," says Laurence "Laurey" Millspaugh, president of Bethesda, Md.–based Buvermo Investments, Hausler's equity partner in the Rolfe St. deal.

Credit: Courtesy KTGY

Huntington Metro Alexandria, Va. Opening: Early 2014

Since those first two deals, Hausler and Blum have unearthed development sites in Silver Spring, Md. (a former post office) and Fairfax County, Va. (an almost vacant plot on the Route 1 corridor), as well as four former low-income housing tax credit (LIHTC) deals in the greater D.C. area (two in Quantico, Va., and two in Fredericksburg, Va.) totaling 512 units.

Hausler says these former LIHTC properties (which still have income requirements) also boast military demand, which makes them extremely stable. "The defining characteristic of everything we do is that it falls within the gravitational attraction of the Washington, D.C., employment market," Hausler says.

What's more, the Insight team lined up private and institutional equity from multiple sources for these deals. "Rick is very well-respected in the industry," Anand of KTGY says. "There is that credibility factor."

As Insight bulks up, Hausler is adding staff. He boasts an organizational structure similar to Woodfield's, with eight staffers and a preference for adding people he knows. "We looked around at people who we thought were the best we had ever worked with in the business," Hausler says. "One of the great pleasures of working on a little start-up is choosing people you really like to work with."

These days, though, with the additions of both property and people, Hausler insists that Insight has moved beyond the "start-up" phase. He has a solid stream of nonrecourse debt through regional and money center banks (with banks getting more competitive) and has assembled a strong, core group of local equity providers. "We seem to see a fairly large share of the activity that's going on," he says. "We have all of the business that we need to stay busy. People call us."

So it's no surprise that Hausler says he's working on about a dozen more deals, all located in the greater D.C. region. He definitely isn't spending what he thought would be his leisurely years on the beach or golf course. "It stopped being retirement in 2009," he says.

The Changemaker

Jim Butz

If at first you can't spin off, then try, try again. That's what Jim Butz learned after the market crashed in 2008. Butz had helped build JPI into one of the most formidable development engines in the country. "Jim was a senior partner at JPI and very experienced as a developer—he's very highly regarded in the field," Bibby says.

In 2007, Butz penned a deal with JPI to purchase the division he ran, JPI East, with GE Capital providing an equity commitment of $350 million. Then, the financial markets collapsed in the fall of 2008, GE stopped investing in real estate, and the deal fell apart.

Instead of starting his own group, Butz found himself helping an overleveraged JPI wind down its business. In early 2009,

the partners at JPI came back to Butz, asking if he was still interested in buying JPI East. He and colleague Greg Lamb, a JPI executive vice president and regional managing partner, began shopping for a Wall Street equity source to make the deal happen. That was no easy task at the time.

But as luck would have it, Butz found himself in early 2009 having dinner with Chip Akridge, founder and chairman of Akridge, a commercial developer, manager, and owner based in Washington, D.C. "Chip Akridge and his partners were looking for ways to diversify from a large office portfolio," Butz says. "They agreed to help us fund the buy-out of JPI East."

Credit: Cameron Davidson

Title: President and CEO
Age: 49
Company: Jefferson Apartment Group (JAG)
Location: McLean, Va.
Founded: 2009
Units owned: 1,071
Units built/bought in 2010: 1,071
Geographic footprint: East Coast from Florida to Boston

Butz and Lamb left JPI in June 2009, taking along 10 colleagues from the company. In July, the Jefferson Apartment Group (JAG) launched. By then, the recession was in full force, so JAG wasn't able to take any existing apartments into the new venture. Instead, it went about sorting through JPI East's office space and employees, closing down JPI East's offices in Florida and Atlanta and downsizing its operations in Washington, D.C., and Boston.

Credit: Courtesy HOK

14 W Washington, D.C. Opening: Summer 2012

Finally, JAG took a look at a couple of JPI's existing pre-development deals. One of the deals was Jefferson at West Chester, a 231-unit property in the Philadelphia area. With backing from Boston-based AEW Capital Management, a real estate investment services company, JAG broke ground in August 2010. At that same time, the firm found Boston-based Rockpoint Group, a global real estate investment management firm, and closed a $350 million venture to build and buy apartments between D.C. and Boston.

After losing The Dumont, Butz made development his target: JAG started three construction deals in 2010, plans another three this year, and another three in the first quarter of 2012. It also scooped up a 400-unit distressed deal from former New York–based global financial services firm Lehman Bros. in the Bethesda, Md., area.

JAG, which isn't planning on expanding beyond the East Coast, is also dipping its toes back into Boston and Florida. The company's growth path is aggressive, according to Butz. For the next two years, the firm expects to start roughly 2,000 units and acquire another 1,000. The goal is to be a full-service multifamily operation with acquisition, construction, development, and property management all in-house in the Mid-Atlantic.

"In 2010, we hit our business plan almost to the penny," Butz says. "The 2011 and 2012 business plan is more aggressive than we would have expected because of the economy picking up and our ability to team with good equity partners."

The question is, after coming out of a shop that got ahead of itself before the downturn hit, is Butz risking growing too fast? Absolutely not, Butz asserts, adding that the company model is to purchase land ready to be developed and not take entitlement risks. It also employs conservative underwriting. "We're not financially engineering any of our deals," Butz says. "We're putting in 35 percent of the nonrecourse equity so we can hold these."