JAY HIEMENZ

Alliance Residential Co.

Jay Hiemenz, 56, has been pres./coo of Alliance Residential Co. (Phoenix) since 2014. Before then, he was cfo since co-founding the company in 2000. Earlier, he was cfo & managing director of capital markets at BRE Builders from 1997, when parent BRE Properties merged with the West region of Trammell Crow Residential; he was coo at Trammell Crow Residential Southwest from 1990. Alliance has a $20 billion portfolio of 117,000 units in 36 metropolitan markets throughout the West, Southwest, South-Central, Southeast, Mid-Atlantic, and Northeast.

In the following interview, Hiemenz discusses recent milestones and the outlook for business.

HBE: Describe today's Alliance Residential.
JH: We operate in four primary businesses: multifamily development, multifamily acquisition, active adult/senior housing, and multifamily property management.

We continue to be active in market rate multifamily developments and acquisitions under our Broadstone brand. In senior housing, last year we launched the Marvelle active adult/55+ brand as well as independent living, assisted living, and memory care under our Home brand.

Recently, we made a push into more affordable workforce housing development with our Prose apartments.

We are also continuing to grow our services business on the property management side.

HBE: How does the business break down?
JH: In dollars, our business is about 60% conventional multifamily, 25% senior housing, and 15% workforce housing.

HBE: What is the company's competitive advantage?
JH: With our vertical integration, we can source, title, build, and manage everything we do, and we bring lengthy experience to our expansive scale of 25 offices coast to coast. Our access to capital also distinguishes us, as does our diversification, which we've been able to scale up in the past few years. We are also conservative with risk in a business that is inevitably cyclical.

HBE: Where in the cycle is the multifamily market?
JH: By historical standards, we are late in the recovery cycle. However, slow growth in this recovery has resulted in a cycle that has sustained longer.

HBE: What are your thoughts on Lennar and Toll Brothers dipping their toes into the multifamily market?
JH: It hasn't been surprising, as the multifamily sector has been so strong that many are exploring entering it; time will tell if they're permanent players. They will need to identify how to best leverage their existing business and how far they want to go in terms of markets and growth. We are always interested in learning from others, especially those from a related business, as they look at the business from a different perspective.

HBE: How is the company operating differently based on lessons learned in recent years?
JH: We noted potential oversaturation in the luxury rental segment so, in the last three to four years, we have focused on diversifying within multifamily and other residential markets, like senior housing.

HBE: What have been the milestones over the past year?
JH: Two big psychological and financial milestones for us were crossing both the $1 billion mark in the senior pipeline and the 5,000 unit mark for workforce housing under development.

HBE: What project has Alliance completed this year that best reflects the current market desires?
JH: Picking just one is hard. Broadstone on Fifth, on the edge of downtown Fort Worth, offers proximity to the urban core and its amenities but at a lower price point, validating our thesis that a focus at the absolute top end of the market could be a vehicle for growth.

HBE: What is the revenue for the residential construction business?
JH: We have a pipeline of about 20,000 units totaling $5 billion in value. For construction volume, we will total about $2 billion this year across all production types. That will represent 8,000-9,000 units started.

HBE: How is the business performing to date?
JH: Business is exceeding our expectations. Our pivot to affordability has been well received.

We continue to find good risk-adjusted returns, and the fundamentals in our markets are good. We have been pleasantly surprised with the overall growth in the economy. We wondered if the dip in 2017 signaled the beginning of the end of the cycle, but absorption picked back up.

HBE: Where are the bright spots?
JH: In luxury multifamily, we see opportunities in Seattle, Orange County, Phoenix, Orlando, and Boston. In affordable multifamily, we are busy in Dallas, Houston, Austin, Atlanta, and the Carolinas. In senior housing, we have identified opportunities in all coastal markets, the West Coast in particular.

HBE: Where are the current headwinds?
JH: Our largest hurdle continues to be cost inflation caused by ongoing labor shortages and, more recently, tariffs, which are driving commodity pricing. In workforce projects, regulatory barriers have also posed a challenge.

HBE: How are the challenges being addressed?
JH: To combat the labor shortages, we have adjusted our expectations of timelines for conceiving and executing projects.

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To counter costs, we've been adjusting the mix of goods we use, though it's impossible to completely eradicate them.

HBE: How do you see the year finishing for Alliance?

JH: A great deal of liquidity remains in the market for the types of projects we are selling. We are still seeing plentiful capital for new projects and will continue to have a high level of start activity.

HBE: How is the company addressing the market of individuals making more than $150,000?

JH: Overall, they are seeking a low-maintenance, lock & leave lifestyle, so we are capitalizing with conveniences produced by technology and innovation. Renting now carries less of a stigma, and millennials and baby boomers are more amenable to it. That development, paired with the move back to urban cores, is driving much of what we do at the upper end of the segment.

HBE: What are the goals for 2020?

JH: As long as the U.S. economy steadily grows, we will continue to ramp up our affordable housing segment. We will grow senior housing, which has good momentum, and stay active with our conventional multifamily segment.

HBE: What new markets will the company enter?

JH: While we're content with our overall market strategy, we are looking to take our workforce housing into North Florida, Orlando, Tampa, Phoenix, and Albuquerque. Our next target market for expanding senior housing is Boston.

HBE: What are the acquisition criteria?

JH: We are not a big allocator of capital in like core investing. When looking at acquisitions, we eye opportunities with a significant value-add component — where we can utilize our construction expertise to rehab or redevelop a property from 5,000 to 50,000 units, reposition it, and bring it as close to a new product as the market dictates. We're also looking for double-digit return on capital.

HBE: What is the outlook for the active adult segment?

JH: While we have had some senior housing in the past, our focus on the segment is still relatively new, and we are moving carefully while determining how deep the demand is. So far, the segment is performing well. The units have a longer leasing cycle, and once a site achieves a critical mass of residents, satisfaction and retention are excellent. We are considering a number of different projects and strategies, including more affordable active adult projects.

HBE: What is the company's strategy with the federally designated Opportunity Zones?

JH: We are actively investing in development projects in Opportunity Zones with investors who have raised Qualified Opportunity Funds. We had several locations in process before the zones were announced that turned out to be within the zones, and we are now under construction on those projects. We are actively looking for new sites in Opportunity Zones.

HBE: What are the expansion plans in the company's existing regions?

JH: We don't have concrete plans to enter another segment at this time, but we are always looking. For example, the co-living/rent-by-the-bed trend is interesting and may create opportunities as an affordable alternative for young professionals in expensive cities. We will continue using our scale to share our best practices across markets, play to our strengths, and look for new opportunities as we see them emerge.

HBE: Where will the fastest growth come from?

JH: Our workforce segment currently has the most momentum. It's a business we can continue to scale quickly.

HBE: Where are the opportunities to sustain longer term growth?

JH: Our diversification into senior and affordable housing enables us to smooth out the cyclicality of the luxury multifamily segment and build a sustainable business.

HBE: How are the tastes of multifamily residents evolving?

JH: In addition to preferring lock & leave efficiency and convenience, consumers don't want to spend time on maintenance.

We began a program last year to put smart home technology in all of our new developments, beginning with a baseline of HVAC, lighting, and security. That will provide a platform for additional capabilities going forward, regardless of what comes next in the pipeline.

HBE: How do Alliance's amenities address that evolution?

JH: A few years ago, we had projects that were not smart-home capable because they did not have Wi-Fi capability throughout the entire property. That experience taught us to future-proof our projects. Now, we take that view with regards to trends like electric vehicles or rideshare, providing charging capabilities or pick-up and drop-off locations. That will mean we won't have to retrofit buildings years from now.

HBE: San Francisco now has more wealthy renters than wealthy owners. How do you see this situation playing out across the country?

JH: This trend is being fueled by the lessening stigma with regards to renting and by urbanization. We are seeing it expand to similar markets with an urban core in metropolitan areas as well as in cities as small as Albuquerque.

HBE: What recent developments in the industry have you found interesting or surprising?

JH: I have been pleasantly surprised at the duration of the recovery. Early in the cycle we had slow growth, and some in our industry were bemoaning that the market didn't rocket back, but that steady growth set up a sustained recovery that we've now enjoyed for a significant amount of time. I have also been glad to see that there has not been a return to undisciplined lending practices.

HBE: Where are you currently devoting the majority of your time?

JH: Human resources takes up much of my time, like any company with a large business model. We are in a competitive labor environment; it's essential that we reward our best and most productive employees in order to retain them.

I also spend time mapping how we can position the company for the next three to five years, continue to boost our scale, and responsibly manage our balance sheet.

HBE: What is the likelihood of a federal tax deduction for renters?

JH: I find it unlikely. What is more likely is continuing pressure on further reducing or capping mortgage interest deduction for ownership.