

Wood Partners Discusses Executive Changes, Evolving Strategy

Atlanta-based firm welcomes new CEO Ryan Dearborn, COO Joe Keough.



Ryan Dearborn

has an MBA from the University of North Carolina and a tenure at Trammell Crow Residential on his resume. When Wood started Wood Partners in 1998, Dearborn joined him. Dearborn started as CFO with Wood and then launched the company's West division, opening development offices in Houston, Phoenix, and Southern and Northern California.

Keough, who began his career as a consultant, received his MBA at Harvard University. He worked for a couple of real estate companies in Atlanta before becoming COO at Atlanta-based Fuqua Capital. He arrived at Wood Partners as CFO in 2008.

The two move into their new roles at a pivotal time at Wood Partners, which is ramping up its asset management and property management activities. But the company could get even busier soon with plans to kick off a number of new developments this year. Dearborn and Keough took some time to chat with *Multifamily Executive* senior editor Les Shaver about their new roles and their plans for Wood Partners.

MFE: How did these changes come about?

DEARBORN: It actually goes back to 2005 when we were doing some succession planning, and Leonard was thinking about his retirement, and Jerry would be taking his spot. They asked if I wanted to be considered for the CEO slot after Jerry retired, and I said I would absolutely want

Changes are afoot at Atlanta-based Wood Partners.

Jerry Durkin will be moving up to the chairman role (and stay on the board of directors), while Ryan Dearborn will become the firm's new CEO. Additionally, CFO Joe Keough will be adding the COO title to his business card.

Both Dearborn and Keough are well-equipped for their new roles. Like many notable real estate developers, Dearborn

to be considered. It's been unofficially part of our succession planning for a long time. The timing of it was probably a little quicker than any of us had originally anticipated. That was largely due to a couple of reasons. One is that Jim Simpson, who is one of the founders of the company, decided late last year that he was going to retire. He gave a one-year notice of his retirement. That will happen in October of this year. As Jerry thought through that, and we went through the downturn of the economy, he thought it would be a good time for him [to] step back as well.

Jerry is not retiring, however. He is going to remain as our chairman and still be very active in our company trying to raise money and find deals for us. So it was a good time to make that transition happen, while we're going through the downturn and we're doing less at this point. We're hoping to see things improve in the next couple of years. CB Richard Ellis, which is on our board of directors, approved the change of CEO officially about three weeks ago.

MFE: What are your goals as CEO?

DEARBORN: We just had this happen last week, so we're starting to work on some of the changes that we want to make. I'd say generically that one of my primary goals is to change the attitudes of our developers. We've been playing defense for the past two years. It's time for us to start getting back on offense and thinking about, as the economy improves, where our opportunities lie. Supply and demand drivers are such that development may be coming back sooner than a lot of people think.

We're also diversifying into the acquisitions and property management arenas. We want to make sure that gets successfully launched, which will help us be a more diversified platform. Also, affordable workforce housing is an initiative that we've been pushing for over the past year-and-a-half. It's something that we've always had as a part of our company, and it's meant to take us through some of these downturns and help us retain construction staff, and obviously there's a tremendous need for affordable housing across the country.

MFE: Are you expecting to break ground this year?

DEARBORN: We have pretty modest development goals for 2010. We expect to start two deals in Boston, one in Denver, one in Oakland, one in Atlanta, and two or three workforce housing developments in the Carolinas and Texas. I think the demand will be out there. There's not a whole lot of supply being built. There was very little last year, and I think there will be very little in 2010. As the Echo Boomers are coming into the market, the demand is certainly going to be there. As the economy improves, hopefully we'll have people who are living together split up and rent two apartments instead of one.

MFE: Do you have the equity and debt lined up on those deals?

DEARBORN: We're getting a little more traction on the equity side than we are on the debt side. We have a commitment of equity from CB Richard Ellis of \$100 million to do development, which will help us get through this period. They think it's a good time to invest strategically. The debt side is the big challenge right now. We're working with our friends at Holiday Fenoglio Fowler and Grandbridge Real Estate Capital and other places to try and secure

debt. We're starting to see a little more traction in that regard, but it's tough. Our equity investors have to be prepared to invest more equity to induce a lender to come in or even consider doing 100 percent equity.

The debt side is certainly more challenging than the equity side. Having said that, we are getting deals done. We are sourcing debt from three different sources. The HUD program [FHA 221(d)(4)] is very attractive, and we're doing several deals with that program. We're also doing a deal with a traditional bank, which is one of the first deals that we've sourced from a traditional lender in a long time. The third group is insurance companies. Slowly but surely, we're seeing insurance companies come back and offer competitive debt products, which are backed by more equity than we saw in the prior cycle. But given how land and construction deals have fallen, these are costs we can selectively get to pencil out.

MFE: How are discussions going with your banks in regards to more troublesome projects?

DEARBORN: Wood Partners has been more conservative in how we finance our business. And so, fortunately, we don't as many troubled legacy assets as some others may have. We pulled away from condos at the right time. The ones that we did were generally non-recourse. We did not take on a lot of land inventory. As a result, we have very few land loans in our portfolio. The rest of our deals are easily covering their debt. It's a question of when can you refinance or sell the asset and move on. Generally speaking, we're in good shape, but we've been playing as much defense as anybody.

KEOUGH: Our balance sheet was better structured to start with than most because of higher



Joe Keough

equity on average than our competitors and we did not bank land as a rule—with the exception of a few deals where there was a construction loan that fell out when the capital markets crashed. Overall, 95 percent of our balance sheet is operating properties, generating cash, keeping interest current, and amortizing the loan beyond that. Given this, we've had much success extending loans with minimal to no pay downs.

MFE: What happened to the land where the construction loans did fall off?

KEOUGH: We have three or four land parcels and are working through those in the form of extensions. We're looking to place two of them in production in the next 12 months. It's a combination of extending and putting them into production as soon as possible.

MFE: Switching over to property management, how is the transition into that business going?

KEOUGH: We brought on Mike Hefley, who was the former COO at Gables. He did a tremendous job very quickly of transitioning into the organization three or four months ago. He's doing a great job with two things. One, he is building up our asset management

capabilities. We're holding on to more assets for longer than we thought we would. Mike's doing a very good job of having a portfolio-wide, controlled asset management capability, as we look to manage our portfolio of nearly 15,000 units. In parallel, he's ramping up our property management company. We have three assets that we're managing internally. We plan to ramp up to 10 assets by the end of the year. We're looking to do this in geographic regions that are fairly tight for operational scale/efficiency reasons. We'll have five in Texas and five in the Carolinas up and running by the end of the year. Over time, we'll add to that portfolio as needed.

MFE: With the rise in investor and buyer interest, would you be willing to sell some of the assets you're keeping?

DEARBORN: Absolutely. We've seen cap rates fall dramatically over the past three to five months. Its making places such as Phoenix or Atlanta look a whole lot more attractive than they did a year ago. We will certainly look to sell some assets this year. We have a few properties listed with brokers that we're going to take out and test the market with. We're pretty optimistic. We have a property in Phoenix where we had an unsolicited offer from a different group every week to buy the property at cap rates that were like they were in the heyday.

MFE: On the other side, has this slowed down your plans to buy?

DEARBORN: We have looked at some Class A acquisitions but have felt that's not really our best asset target. I think we bring a lot more to the table in the B and C space. As we have refined that strategy and target product, those cap rates in the B and C space have not fallen quite as much and there's not that frothiness that is on the A side. I would be apprehensive to chase Class A deals today, especially given what we bring to the table. We would have to go out and find a third-party equity source to do it, and that acquisition market is just too efficient today.

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