

## EPISODE 1431

[INTRODUCTION]

**Michael Zaransky (MZ):** Today's renter is looking for a high-end, communal work experience. They look at the apartment as more than just a place to sleep. They look at it as somewhere to live and to work and to play.

**Whitney Sewell (WS):** This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. I'm back today with our guest, Michael Zaransky. He's the founder and managing partner of MZ Capital Partners. He specializes in ground-up construction. We're going to dive back into a topic today around ground-up construction that you need to know about. I mean, if you're considering building any kind of residential property, you need to know about amenities, right? What's going to work, what's not going to work and why? Michael is going to dive into that today and how they see that, and how some amenities have helped them to lease up projects very fast.

[INTERVIEW]

**WS:** Michael, welcome back, you've provided so much information and helped us, myself and the listeners just thinking through getting started in the development space and things we need to know. No doubt, we're better prepared now just after the last two segments that you've helped us with. But, we want to jump into a few other details and I know that amenities play such a large piece in maybe the community or the type of project or who your tenants are going to be. And so let's jump into some of those things. What's most in demand for today that you're seeing or how you even determine that?

**MZ:** Yes, thank you. Today's renter is looking for a high-end, communal work experience. They look at the apartment as more than just a place to sleep. They look at it as somewhere to live and to work and to play. And more and more, especially today in the remote work or hybrid work environment, which seems to be taking a permanent place, people spend a lot of time in

the apartment community they're in. They make the selection of that community to fit those needs. We build communities largely in suburban areas around metropolitan areas. And we like to build communities that have standalone clubhouses that house our management and leasing office and also our maintenance staff, but also within those spaces, common areas that people want to use.

**MZ:** Because of today's environment, we add amenities of work-from-home private suites that are usable and reservable. A door can be closed, a glass door, and someone can have a live zoom call, for example within those rooms. And then also within those clubhouses, areas for collaboration on work, co-working areas where people can work together during the day. We provide in those areas, the highest possible speed internet, one gig minimum, fiber optic, as a fast internet connection makes all the difference in the world. Everybody uses them and we provide that free of charge in our common areas to our residents.

**MZ:** And then, of course, we have the play areas as well. We have pool tables, we have places for gaming where residents can meet each other and collaborate. One of the most successful play areas and gathering places that we've developed as a trademark is a large on-the-wall Scrabble board with magnetic pieces and we find residents liked to play Scrabble and sit, you know, especially in the evenings maybe over a beer and have a Scrabble game and meet their fellow residents. Although we provide in the apartments very high-end deluxe kitchens, we also provide in our clubhouse, a demonstration kitchen that residents can use and rent out for private parties or events themselves. And we also have resident events on a monthly basis in that gathering space. People like those.

**MZ:** And also in today's environment, outdoor spaces, fire pits in the evening, hammocks in the right community for kind of relaxing and chilling out outside or firepit to make s'mores and on a Friday night, hang out with fellow residents, very attractive in the right community and in the right market. We also do outdoor resort-style swimming pools that have gazebos and cabanas and fitness center on the interior of the clubhouse, of the quality of a club-level fitness center with interactive exercise availabilities such as Peloton where we pay for the subscription or the Mirror because we find that that's an amenity that allows our residents to give up outside gym

memberships, and do their physical fitness on site included in their rent at no extra charge. And we make those areas those common areas that I discussed accessible to residents 24/7. Because in today's world, people have different schedules and they either work out or work at all hours. And those areas never close.

**MZ:** The other amenity that's become a given is a very large area that's controlled with lock boxes. And that's for an Amazon drop-off where the Amazon driver could actually put something in an area, put it in a numbered box and send a text message to a resident that their Amazon delivery is in box number 17 with a code for them to open it and retrieve their box. Those are some of the amenities outside of the units that are in demand today and give us the wow factor when somebody tours a property, what makes them want to sign a lease.

**WS:** Love that. I love it. And even thinking about the wow factor. What is going to do that and what are people looking for? You know, you talked about numerous things; I've never heard of the large magnetic Scrabble board, by the way. It's one of the most popular ones. That's interesting. I may mention that to our team as well. That's, that's neat. But you talked about something that we know, but we don't talk about very often, like the club-level fitness center, and how that allows tenants to say give up a club membership somewhere else. You're creating this space that they're paying for somewhere else. And so I think immediately as you know, if I was renting still, if that is important to me, I can immediately, you know, justify maybe even paying a little more for rent, right? Because I can see oh, well, I have this right here, there's no need for me to pay that \$100 membership, or whatever it may be per month.

**MZ:** Right. So you have a combination of, you know, the calculations like \$100 for that. There are some residents who, more and more, are 1099 workers where they're entrepreneurs or working on their own, and many of them will rent or will work or other office share space on a monthly basis. They can eliminate that and use our on-site clubhouse, it's another monthly expense they can eliminate and makes a huge difference in the overall calculation of supporting someone who can afford monthly rent.

**WS:** Yeah, that's incredible. And yeah, I was thinking about the Amazon drop boxes had been an issue, I know, for years now, right? You know, as Amazon has taken off. And that's been so important. But what about, how does this help you to lease up faster? Or does it? Or do you all focus on, say, Class A projects, and have very high-end projects every time? Is that kind of your focus, your niche? Or may there are projects where it's like, you know what, we may not be able to justify these amenities at this project. How do you all think through that? And then just, you know, how does that affect leasing?

**MZ:** Yeah, we do focus on high-end projects. We are, however, in certain markets, able to adjust our rent levels by the unit sizes themselves. As an example, there are certain markets where we've developed a very successful project where there are a lot of millennial singles. I would say people living on their own, who want to live in a certain area where rents are very, very high, and want to live alone. They can't afford a traditional apartment or don't want a roommate. And we've provided a studio or one-bedroom convertible apartment, in a very high-end environment with the amenities that I've discussed. It's just a little bit smaller in square footage than the typical unit with an all-in rent that's a few \$100 below than the market rate for a one-bedroom convertible, or studio. Some of the industry call them micro-units but they're really not that tiny studio, but say 600 square feet, still a decent size, or one bedroom convertible that's say 700 square feet. And because of the smaller unit size, we are able to deliver a product that for an all-in rental price is a lower price level, even though the rent per square foot is relatively high, which gives us a yield on it that justifies the new construction costs.

**WS:** Okay, that is great food for thought, as well, as we think through even the price per square foot and you know, different ways to calculate. Hey, what should we include? What should we not? What makes it worth it? How much can we lease a project for? Do you have an example of maybe, you know, something that's leased up quickly because of maybe the amenities? Or would you know that or I don't know, I was just trying to think through for the listener and myself to think through maybe a specific project that you have recently had or how it was leased up quickly because of the amenities.

**MZ:** Sure. Yeah, we recently developed in the last year, a project in Naperville, Illinois, which is a suburb of Chicago. It's a very hot suburb, lot of jobs in the area. It's in a county called DuPage County, a very fast-growing area. It's a killer downtown with the Riverwalk and restaurants and bar scene. It's a suburban Chicago town, but it's an example. They've got an Apple store in the downtown market which kind of describes the demographic they're going after. Rents in that suburb are very high. We built a project in that area similar to what I described, with one-bedroom convertibles and studio apartments geared towards millennials, and single people working in the area.

**MZ:** We had projected an 18-month lease-up of a property which is typical and kind of the industry norm and the amount of time that a lender would underwrite for a 112-unit community, which is what this was. And we provided the amenities that I described. We leased the property to 100% occupancy in 90 days. That number surprised me. It made my friends and colleagues in the multifamily business kind of raise their eyebrows thinking that can't be true, I must be making this up. But it was true. And in the process of that 90-day lease up because the philosophy was so great, the amenities were so cool for the community that we're going into and the market was so deep in terms of demand, we actually did rent increases four times during that 90-day initial lease-up from the first lease to the last lease that we signed.

**WS:** Wow. So, rent increases four times within 90 days. Is that right?

**MZ:** Yes.

**WS:** So was it, I mean, you think it was mostly because of the demand in the market at that time?

**MZ:** Yeah, we did our homework, saw that there was a niche there, that there was unmet demand, occupancies that other apartment complexes in the vicinity were very, very tight. Rents were rising, several communities had a wait list for one-bedroom and studio apartments that told us that there were a lot of people living alone that want to live there. So, we knew

there'd been demand but we didn't think it would be that robust. But if we would have built 200 units there, we would have been (unintelligible).

**WS:** Any other ways that you think that you all helped to make that happen? I know a lot of it was just demand, but was it amenities? Anything else that was like just drawing people to this project?

**MZ:** Marketing is key. When we do a new development, we launch a pre-leasing campaign before the community's actually ready. About 90 days out, we get our website up and going. We get ourselves listed on various sites like apartments.com and rent.com. And do really high-end, good renderings because the project isn't complete. And renderings both the interiors of apartments and what the amenity spaces are going to look like. And we do virtual tours during the construction phase so someone can see and, you know, poke around and see what it really looks like. And we allow them to apply online and make a reservation for an apartment. We also have an exceptional team that was developed over the years, leasing professionals that are very good at following up and creating a sense of urgency with prospects and getting them to sign leases.

**WS:** It seems like it should go without saying, right? But it needs to be said like following up is key. It's the same with investors and just business in general. I mean, almost all the time, but it's like it's not thought about enough. We were thinking about leasing up an apartment building.

**MZ:** Yeah. Key, absolutely key, the follow-up with the prospects and staying up front.

**WS:** Yeah. So is that the plan moving forward? Like we're going to develop, you know, just class A projects? Obviously, we're going to talk about submarkets in just a moment, but you know, as far as amenities, is that the business plan moving forward? I mean, we're developing class A projects and we're gonna have as many high-end amenities as possible.

**MZ:** That's what we're sticking to. It seems to be a winning formula for us. It's working. And with today's construction costs, higher rents are demanded. So, we want to stay in that space, and don't want to grapple with how to build with today's construction costs or lower rent levels.

**WS:** Yeah. All right, Michael. Well, this has been great too, just diving into amenities and how that's helped you all lease so fast. That's so valuable as well when you do it for 90 days. That's so much faster than most would expect. No doubt there's a lot of value in that. So, thank you again. We're gonna jump to another segment though on just submarkets and diving into the criteria that you all look at when selecting a place that you're going to fit a multifamily project. Thanks again, Michael.

**MZ:** Thank you.

[END OF INTERVIEW]

[OUTRO]

**Whitney Sewell:** Thank you for being with us again today, I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about the Real Estate Syndication Show and how they can also build wealth in real estate. You can also go to [LifeBridgeCapital.com](https://LifeBridgeCapital.com) and start investing today.

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