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7 questions with a Houston mixed-income housing developer

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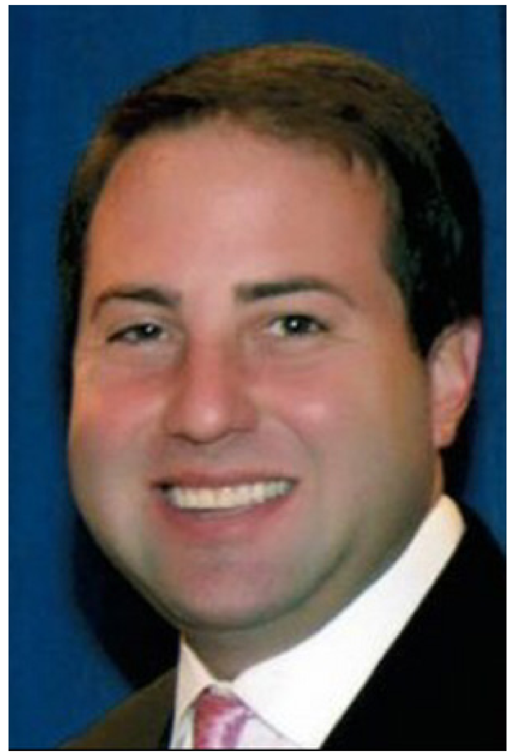

Lee Zieben is the founder of Zieben Group, a multifamily developer and owner in Houston.

Lee Zieben began his career as a homebuilder, following in his father's footsteps.

The son of Herbert Zieben — one of Houston's leading homebuilders during the 1970s — started developing gated patio and custom luxury homes in 2005. But after nearly a decade of building high-end homes, the Houston native forged his own path and founded Zieben Group, a multifamily developer specializing in affordable and mixed-income apartments.

"To me, it's an exciting challenge to be able to bring that luxury home background and thought process to affordable housing," Zieben said. "Believe it or not, a lot of the design details, finishes and amenities we did in our custom homes, we're doing that in our communities."

Zieben, who started his company in 2013, first developed the 160-unit Gulf Coast Arms, one of the first affordable LEED-Platinum energy-efficient workforce apartments in southern U.S. region. Today, Zieben is under construction on the $66 million Residences at Hardy Yards, a four-story, 350-unit apartment complex that officials said will be one of the first truly mixed-income housing projects in the city. Read more about Hardy Yards here.

Why did you decide to switch from building luxury homes to developing affordable housing?

I like to take on challenges and do things a little bit differently than everyone else. And I like to stand out doing that. There's a misnomer about affordable housing. A lot of people, when they hear the term "affordable housing," they think it's got to mean a Section 8 project with outdated designs. They don't know affordable housing can mean Class A properties where you can have a police officer living next door to a lawyer. Affordable can mean very nice housing. I want people to walk into our projects and say, "I can't believe it's affordable housing." I like to break the norms.

What kind of demand are you seeing for affordable and mixed-income housing?

There's high demand. On average, my properties have about 95 percent to 96 percent occupancy rates. We don't have trouble filling up my units and attracting investors. There are groups out there who want to diversify their portfolio with not just Class A, market-rate apartments. I believe my deals are always safer because when markets fall typically, demand for affordable housing increases. I've been fortunate enough to have strong partners and raise institutional capital from groups like JP Morgan and Greystone.

You're a multifamily developer, but you're also now acquiring apartments as well. What's your strategy there?

I started on the acquisition trail about a year and a half ago. Since then, I've acquired five apartment properties totaling roughly 1,300 units. I only try to develop one new project at a time, but while I'm developing apartments, the other side of my company is acquiring and repositioning older apartments. It takes so long to develop a new project with all the upfront due diligence. I can buy five income-producing properties in the time it takes to develop one. And it takes twice as long to develop an affordable project than a market-rate project. Acquisitions allow for much faster growth.

What's your acquisition portfolio like?

I have apartments in Houston, San Antonio, Nacogdoches and Little Rock, Arkansas. Right now, my assets are at $200 million-plus. I'm looking to grow by 1,000 to 1,500 units a year, mostly Class B- and C+ apartments. I have more properties under contract. I plan to expand to Louisiana, Oklahoma and Mississippi.

What kind of apartments are you looking to acquire?

Anything that's Class B- and C+ and affordable, with some kind of government restriction on them. For me, that means affordable housing and tax credit properties, not Section 8. Most people shy away from acquiring affordable housing because rents are controlled. Affordable is its own animal. There are lots of rules and regulations, so you have to understand compliance. And if someone wants to sell an affordable product, you have to be approved by the state or a local municipality. A lot of other developers don't want to mess with that.

How do you make money on your affordable apartments when rents are capped?

I've set up my own management company, ZG Property Management. I've got about 50 employees under Zieben Group developing new affordable apartments and I've got about 45 employees under ZG Property Management. We evaluate all the operating expenses in our Class B and C apartments. We make our plumbing and lighting more efficient, and we install security and better controls. We try to keep our rents to the maximum allowable rate under the affordable housing rules.

Why do you like to acquire affordable housing?

There are lots of upsides. The affordable apartment space is a niche on its own, so it's not as competitive. There's little competition so a lot of deals can be off market. Second, after affordability goes away — typically after 15 to 30 years — these apartments can become market rate. In the affordable space, lenders are also more forgiving on interest rates. Finally, I like giving working professionals a chance. I believe single parents, teachers, nurses, police officers and firefighters making $45,000 a year can live in an apartment home that's nice.

This interview has been edited for length and clarity.