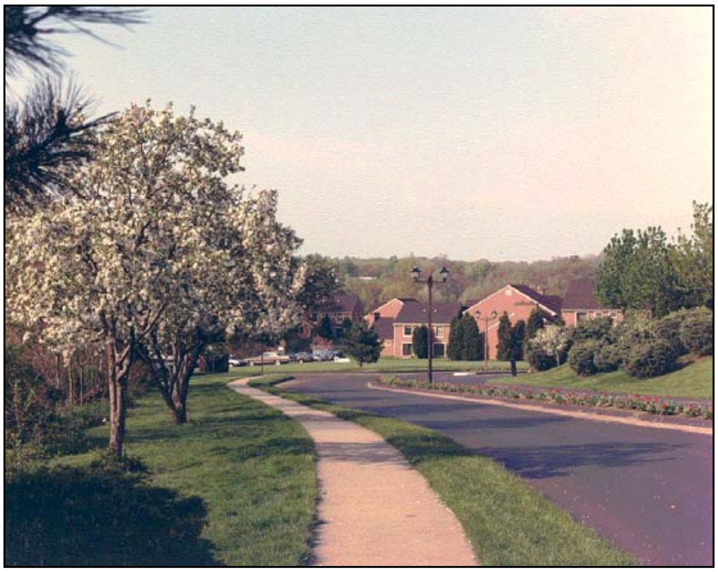
Arbor on the Farmington

Windsor, Connecticut



In May, 1984, an affiliate of Arbor Development Company purchased a 432 unit brick apartment complex located on the Farmington River, in Windsor, CT, about ten miles north of Hartford. The property was built in the early seventies, and consisted of one and two bedroom apartment units. It was a unique property. All the units were either two story townhouses, or on-grade single family units – which resulted in units having their own front and back doors, with direct access to a large, rolling site, and many with direct views of the river. It also had both an outdoor and indoor swimming pools.

Nevertheless, the property was run-down. It was owned by the bank that had initially financed the construction, it had extensive vacancies (nearly 20%), and there was a great deal of deferred maintenance. There had been serious problems with crime and vandalism at the property in the past few years.

After assessing the situation, Mr. Carman and the Arbor group concluded that it represented a substantial opportunity. The deteriorated condition of the property and its poor reputation in the community meant that it could be acquired for a reasonable price (about $30,500 per unit, or $13,500,000). The unique quality of the site and the buildings themselves suggested that if the condition and reputation could be changed, it could be possible to achieve a dramatic increase in value.

The initial financing consisted of a first mortgage of $12,500,000, a second mortgage of $5,000,000, and equity from 120 individual investors in the amount of $7,500,000. The equity payments were staged, and as they were received were used to pay-down the second mortgage. The equity partners were obtained from across the country through Paine Webber, pursuant to an agreement with the Boston Financial Group, Mr. Carman's former employer. Mr. Carman was the sole managing general partner of the Partnership, responsible for all operations.

The Arbor plan was to carry out an extensive renovation program over a fifteen-month period. The work would be done on an apartment-by-apartment basis, working in the 80 vacant units, and then, as they were completed, renting out at higher rents to new (or in some cases, returning) tenants. The interior work consisted of bathroom tile and tub repairs, new floor coverings, lighting, upgraded kitchens, new appliances, energy-efficient sliding glass doors, weatherproofing and insulation upgrades, and new paint.

Outside, the trim on all the units was painted. The community room, the leasing areas, and both swimming pools were extensively redone and improved. Landscaping was upgraded, interior drives and parking areas were repaired, and sidewalks were repaired and replaced.

Needless to say, the logistics of managing the property, the renovations, the turnover, and the new rent-ups were complex. A database was developed to monitor and control the renovation work. Management procedures were put in place to ensure that empty apartments were renovated and turned over as quickly as possible. At the end of 15 months, all the work had been completed, and occupancy was brought to over 95%. As apartments continued to turn over, rents were increased. Despite the personal difficulty for the tenants, all of whom were asked to leave their apartments during the renovation phase, no significant incidents or friction developed. All media and press coverage carried a positive spin.

Within three years the Net Operating Income of the property had been increased from approximately $950,000 on acquisition to $1,950,000. In 1988 the property was sold to a condo converter for a price of approximately $85,000 per unit.