



Aerie, NexMetro, and Iridius Achieve Major Milestones with Avilla Homes

Caroline Janjic • published in the September 2018 issue



Exterior design from Avilla Palm Valley in Goodyear and Avilla Premier in Plano, TX

History of Innovation

In the early 2010's, a group of Tucson-based developers and executives with an entrepreneurial spirit saw an opportunity to serve an unmet market demand for single-level luxury rental home neighborhoods. The first Avilla single family rentals were conceived of and developed by Roger Karber, founder of Aerie Development, in Tucson, AZ. NexMetro Communities was then formed in 2012 to expand the Avilla brand across the Sunbelt region. NexMetro's founders include Ken Abrahams, Marc Sandroff, Donald Diamond and G.S. Jaggi. Iridius Capital, a private real estate investment company, also founded by G.S. Jaggi, has been the primary equity partner on all Avilla Homes neighborhoods developed to date.

Hybrid Concept

Avilla Homes offer single level, detached homes in gated neighborhoods with private backyards, 10-foot ceilings and high-end interior finishes. Each Avilla neighborhood has a combination of 1, 2 and 3-bedroom homes and features resort style pools and landscaped recreation areas. Residents are attracted to living in a new home in secure, pet-friendly neighborhoods without the burden of home maintenance or a mortgage payment. These consumers, often millennials and baby boomers, value the freedom and flexibility a lease can bring with a single-family lifestyle.

Aerie Development Company

Aerie has developed a total of 7 Avilla Homes neighborhoods and over 800 homes in Tucson since 2011. Aerie also developed and sold the first two Avilla Homes neighborhoods with over 250 units in the Phoenix market. In the second quarter of 2018, Aerie sold the last of its seven Avilla Homes neighborhoods in Tucson, Avilla Sabino I and Avilla Sabino II, for a record setting price of \$231,169 on average per unit across both projects. Aerie may continue to develop similar neighborhoods in Tucson in the future.

Aerie Development is also in the process of developing Pima Canyon Luxury Rentals in Tucson, a luxury rental community that has features like high ceilings and luxury interiors but with attached units. The landmark location on Oracle and Orange Grove Roads demanded a higher density product than the typical single-story Avilla product. Lease-up and rent growth at Pima Canyon are on track to exceed projections. Construction is anticipated to be completed near the end of the year.

Aerie is also planning to break ground within a month on the highly anticipated Rendezvous Urban Flats, Tucson's first truly luxury urban multifamily development in downtown Tucson. Rendezvous will be adjacent to 1 South Church, Tucson's premier office tower and the most iconic contributor to downtown Tucson's skyline. With retail and restaurants on the first floor of Rendezvous and streetcar stops on all four corners, the 1 South Church and Rendezvous Urban Flats block will offer the very best live, work, play destinations that downtown Tucson has to offer. Iridius Capital is Aerie's equity partner in Pima Canyon Luxury Rentals and Rendezvous Urban Flats and also the primary equity partner in the 1 South Church office tower.

Nexmetro Communities

Headquartered in Phoenix, NexMetro is the developer of the Avilla luxury leased home brand and has locations in Phoenix, Dallas, Denver markets with plans to expand to Orlando in 2019. Despite its multifamily structure, the company's strategic growth ranks it among the top homebuilders in the Phoenix market, and the company has been recognized as one of the fastest growing builders by Professional Builder on its most recent Housing Giants ranking.

Under the leadership of current CEO Ken Abrahams and COO Josh Hartmann, NexMetro has more than 4,000 homes either completed, under construction or in pre-development. The architectural style of each Avilla Homes neighborhood is designed to reflect the architectural standards of the surrounding community.

All Avilla Homes sites are selected by targeting suburban areas with strong job and population growth. Proximity to major employers, transportation routes and retail and entertainment centers are also critical factors in site selection. RCLCO, an industry leading analytics company, supports NexMetro's new site selection decisions by analyzing the renter profiles at existing projects and the demographics in each new submarket.

In the second quarter of 2018, NexMetro sold its first three projects, all located in the Phoenix Metropolitan area, all achieving record prices per unit in their individual submarkets. All three projects were commanding rents well above their submarket averages and all had been stabilized within one year of construction completion.

Build-to-Rent Homes

In the past, companies like Aerie and NexMetro had to rely on both multifamily and single-family housing data and trends to drive their development decisions. Today, single-family rental homes and build-to-rent homes are being recognized as property classes of their own.

The early success of Avilla Homes and the strong sponsors behind Aerie Development and NexMetro Communities have been instrumental in attracting both debt and equity to new projects, giving both Aerie and NexMetro a competitive advantage over newer developers entering the market.

Market Outlook—Opportunity Lies Ahead

Industry experts expect residential rent growth to moderate slightly in the coming years from the historic increases that we've seen over the past several years but market fundamentals continue to indicate strong opportunity for the Avilla Homes product. The number of renting households continues its upward trajectory and inventory of single family homes for sale, especially entry level homes, is extremely low. Home prices are rising faster than income growth. Renting is simply a more affordable option than buying in most major metro areas across the country.

Iridius Capital continues to be committed to raising equity for Aerie Development and NexMetro's upcoming development projects. Some equity investors shy away from typical ground-up development deals because of the risk involved with land entitlements. Iridius Capital mitigates the entitlements risk for investors by raising capital for all development projects after all zoning approvals have been received.

The teams at Aerie Development, NexMetro Communities and Iridius Capital all continue to see growth opportunity in the luxury rental home market segment for the foreseeable future. They offset risk associated with market cycles by focusing on product differentiation and strategic, data driven site selection. Every decision is made with the goal of delivering value to residents and investors.

Caroline Janjic is the Chief Operating Officer of Iridius Capital. She joined the company in 2016 and oversees all daily operations of the company including investor relations, marketing, due diligence, compliance and accounting. Caroline has a Masters in Real Estate Development from the University of Arizona and serves as Vice Chair for ULI Southern Arizona. She can be reached at caroline@iridiuscapital.com.

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