ASLAND CAPITAL: FINDING OPPORTUNITIES IN UNDERVALUED COMMUNITIES

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Shortly after graduating from Princeton University with a bachelor's degree in engineering, James Simmons landed a job at General Electric. During the early part of his career, he took advantage of the global conglomerate's management training program, learning leadership lessons from storied executive Jack Welch. Simmons took those lessons and eventually pivoted to the world of real estate investing.

The entrepreneurial result of that pivot came three decades later when he formed New York City-based Asland Capital Partners. Founded in 2019, the firm is a leading owner and operator of multifamily, mixed-use and retail assets focused on value-add real estate within reemerging submarkets of the top 20 cities in the USA. Under Simmons' leadership, the firm has completed or is currently developing six transactions with a total development cost of over $1 billion.

Asland focuses on reemerging submarkets – areas that may have been depopulated in the sixties and seventies as residents left urban environs for the suburbs and, as a result, became bereft of investment dollars and experienced rising crime. For these urban areas to entice residents back, infrastructure investments must first be made, and city services must be ensured. "We have to do the basic blocking and tackling of taking out the trash, cleaning the streets, and making these cities safer," explains Simmons. "We also must invest in our schools and cultural institutions."

Demographic shifts and reductions in crime and other quality of life metrics in cities like New York, Washington D.C., Boston, Chicago, San Francisco, and others have led to improvements – and lucrative real estate deals – after similar investments. "We like to be a part of that growth and a part of that improvement but in a way in which we are not displacing individuals," Simmons says. "So, when we acquire an asset, our business model almost always includes investment and upgrading the physical aspects of the building but not in such a way that rents are increased so that those individuals can no longer afford to live in that building."

BUILDING A TRACK RECORD

After completing GE's management training program and earning a master's degree in engineering at Virginia Tech, Simmons began considering a career transition into finance. After sending out some feelers, he was recruited by Bankers Trust. While at BT, Simmons became interested in working for the banking giant's trading desk. "I asked how one gets to the trading desk. It turns out there was a program you had to get into, but they only took MBAs," he recalls. "So I applied to business schools and ended up matriculating to Kellogg at Northwestern University. All with my eyes set on returning to Wall Street, which I was fortunate enough to do post-graduation."

With his MBA fresh in hand, Simmons landed a position at Salomon Smith Barney and remained there through its merger with Citigroup in the late 1990s. He later improved his executive leadership skills as President & CEO of the Upper Manhattan Empowerment Zone, an economic development organization that enticed former President William Clinton's Foundation to open its offices on West 125th Street during his tenure. Simmons also gained valuable real estate experience at this time. "We did almost all of the large developments in Upper Manhattan," he recalls. "That was my introduction to real estate and understanding that you really cannot change the nature or face of any neighborhood unless you control the real estate."

Upper Manhattan possesses one of the world's highest concentrations of public housing, with much of the multifamily housing owned by individuals rather than institutions. These individuals are multigenerational real estate owners whose families purchased the properties decades ago and passed them down. A defined business model was taught from generation to generation as to how to own, finance and manage these assets – buy them, spend as little as possible on the asset, never sell, and refinance over time.

With this model, the asset owners benefited from tax-free refinance dollars while living off the cash flow in the interim years. "That business model sort of led to what you had – assets that are disinvested over a long period," Simmons explains. "And both from an infrastructure and physical appearance, they begin to resemble public housing, even though they're not. "

So, Simmons devised a business model predicated on convincing long-term owners, specifically individuals and families, to sell these properties. The sale prices would be high enough to entice sellers but attractive from an investment perspective as they would be well below replacement costs (what it cost to build today). "Further, if we invested in capital improvements, there are people willing and able to pay market rent. But not for an undermanaged or underinvested asset," he explains. "Serving individuals who wanted to live in neighborhoods such as Harlem but couldn't find suitable housing alternatives would provide us with a viable business plan and competitive advantage."

PROVING THE STRATEGY

While the model seemed sound, it was untested. As a result, Simmons decided to take the strategy with him to the next step in his career – Apollo Real Estate Advisors. "I joined Apollo, really not with a defined role, other than to try to execute on the business plan that I had dreamt up during my time at the empowerment zone," he recalls.

Apollo began buying smaller buildings in the Bronx before moving into Manhattan, in each case, investing capital in improving the properties and working with law enforcement and local organizations to help remove the criminal element, illegal subletting and other issues that often plagued those areas. "We eventually attracted the 22-year-old college graduates who have their first job and looking for a decent, affordable apartment to be close to where the jobs are."

Between his 10 years at Apollo and seven years at Ares Management, Simmons continued investing in that same manner across the United States. He estimated investing approximately $1.25 billion of equity over those years across various funds, separate accounts, and special purpose vehicles with the same investment strategy. This proved his strategy and brought back retail options to the neighborhoods.

His team generated hefty returns for the firm, but Simmons looked for more. "I did not think I would ever be able to be the CEO of Ares. They had built a firm. There was infrastructure in place. Some people had been there for a long time," he says. "So, I looked at the landscape and said, 'I could knock the cover off the ball until I'm blue in the face. But that perch is not going to be open to me personally.' And so you go, and you build your own perch."

Simmons drew inspiration from a few entrepreneurs in his network – many of whom lead firms with high-performing funds. “I remember having conversations with Ronald Blaylock, James Reynolds and Christopher Williams – individuals who were trained within traditional finance and who struck out on their own and created their own terms,” he recalls. “I looked up to them and wanted to follow their footsteps.”

Determined to launch his own firm, Simmons approached his investment team. “I told them if we can continue to invest in a way in which we have over these many years and continue to do the good things that we have done over time, then we should do that,” he recounts. “And if you’re willing to take a risk and believe that we can raise money to deploy, then I’m willing to take the risk too.”

Fortunately, Simmons and the team brought their track record with them, which was a huge win when looking to attract investment capital. “I ended up being able to attract capital from the StepStone Group, our first investor. But when I left Ares, I had nothing but the shirt on my back, as my grandparents would say.”

REVITALIZING NEIGHBORHOODS

One of the young firm’s first transactions was the 2019 acquisition of Heritage at Old Town in Alexandria, VA, a 244-unit, 136,800 square-foot campus. A mixed-income asset in a diverse neighborhood, the Asland team acquired it to improve the property so the market rate units could achieve market-rate rents. The opportunity and issue were that the market rate units were underperforming with federally subsidized affordable and market-rate units all in one complex.

The original plan was to improve it and provide some of the amenities that market rate renters would expect, converting some of the below-market rents to market. The firm’s investment was moderately successful at first. But there still remained groups of young people from outside the complex spending time on the premises which sometimes led to conflicts. Simmons then set up meetings with the Alexandria Police Department to inform them of the complaints.

As a result of those conversations, the city established a task force to discover how to keep Heritage residents feeling safe and identify ways to incentivize the long-term preservation and expansion of the units to alleviate the city’s lack of affordable housing. Those conversations led to Asland receiving approval to expand the property to 750 units and 140 affordable units, for which construction is set to begin later this year. “We took an asset that was under-invested, invested substantial capital and improved it,” Simmons explains. “We also created a redevelopment opportunity whereby those residents can move into a brand-new class A plus building, with all the amenities that one might expect, like a pool and a gym.”

While this will be a long-term project, Simmons and his team have a clear vision that includes an investment to transform a nearby park into a showpiece for the city. “When the final phases are done, you’re going to have a brand-new neighborhood,” he promises. “And the people who will benefit from it are the people who are there today.”