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Risky business: Kohner turns ruins into profit centers

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[Back](#)

Some people may call Jon Pyzyk a gambling man. But those familiar with his renovations of dilapidated apartment complexes say they're anything but a risk after he's done with them.

As president of St. Louis-based Kohner Properties Inc., Pyzyk has transformed nearly 10,000 decrepit apartments in about 15 years and often, the neighborhoods where they're located – we're turned around as a result.

Raleigh will soon be the latest beneficiary of Pyzyk's formula of using renovation, signage and marketing to reposition distressed and functionally obsolete multi-family residential properties.

The real estate investment and management firm is investing \$5 million to renovate the Villages at Harrison Creek, which consists of 380 units in three condemned apartment communities on Jackson in Raleigh.

Kohner Properties – which bought the Raleigh properties for \$2 million at foreclosure in February after city inspectors condemned them late last year – manages more than \$200 million in assets in Missouri, Kansas, Texas, Arkansas, Illinois, Kentucky and Ohio.

And it's management that Pyzyk says is key to making the projects a success.

"Everybody snickers when we buy these," Pyzyk says. "Nobody really believes you'll be able to maintain those apartments over the years. But Kohner has always looked for opportunities to reposition distressed properties. We look at ourselves as not property owners, but property managers. It's the property managing part that maintains the properties."

Through renovations like the one under way for the Raleigh properties, Kohner has demonstrated that strategic acquisition, smart redevelopment and rigorous management can transform marginal properties into attractive residence environments with reliable long term revenue streams. The Raleigh project is similar to other developments Kohner has completed, including a St. Louis property that Pyzyk bought at foreclosure from the department of Housing and Urban Development.

Bristol Place, a 100-unit residential complex in St. Louis, underwent a \$1.5 million renovation and, as with numerous other apartment properties Kohner owns and/or manages, Bristol Place enforces a strict set of tenant rules to preserve the property's desirability and maintain a high occupancy rate.

"He's taken some very, very difficult properties with not good histories and really turned them around through rehabilitation and improved management," says John Sousi with the St. Louis HUD office. "He's turned them into, if not community assets then certainly not community liabilities. He does deal with property that is on the fringes, but he seems to pull it off time after time."

By ensuring that the renovation work is high-quality and by putting a strong emphasis on managing the properties and strictly screening tenants, Pyzyk manages to turn investments in what are often considered marginal properties into positive assets in the neighborhoods where they're found, Sousi says.

"Turning the properties around has definitely had a positive impact on those areas," he says.

Because tenant rents at Kohner's properties aren't subsidized with government funds, tenants who qualify are job-holding, creditworthy individuals, Pyzyk says.



Villages at Harrison Creek are currently condemned.



Artist's rendering shows renovated properties.

Once completed by Thanksgiving, the Villages at Harrison Creek will be priced at \$395 for a one-bedroom and \$450 for a two-bedroom apartment.

“There are no subsidies,” he says. “That helps because people who are receiving government subsidies are usually people who are unemployed. Most of the crime in a neighborhood stems from apartment complexes in that neighborhood. We’re not worried about people getting in to harm our residents. We’re concerned with who we rent to.”

By using a strict tenant screening process, the company ensures that its properties maintain a safe and stable environment where residents can enjoy a high quality of living at affordable prices, he says.

I don’t care how bad the neighborhood is, if you go in there and really intensely maintain that property and are obsessed with the screening process and you hold people responsible for the rules and you only lease to working people worth good credit, it’s really possible not only to maintain the property over time, it’s also possible to improve the neighborhood,” Pyzyk says.

The Raleigh properties have been vacant for years, after plans to convert them into the Jackson Avenue Affordable Housing Project fell by the wayside as a non-profit organization created and sponsored by the Christian Methodist Episcopal Church – which leased the property – defaulted on revenue bonds issued to rehabilitate the properties by the Health, Educational and Housing Facility Board of the Shelby County.

Since 1997, the properties have fallen into deep disrepair, with occupancy plummeting following several fires, vandalism and the appearance of graffiti.

In addition to rebuilding the units with new exteriors, roofs, windows and doors, all of the Raleigh units are receiving new, energy efficient HVAC units, new carpeting, kitchen counters, cabinets, stoves, refrigerators, dishwasher, disposals and fixtures.

Kohner is also adding new laundry facilities, landscaped grounds, outdoor picnic areas and a repaired swimming pool.

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