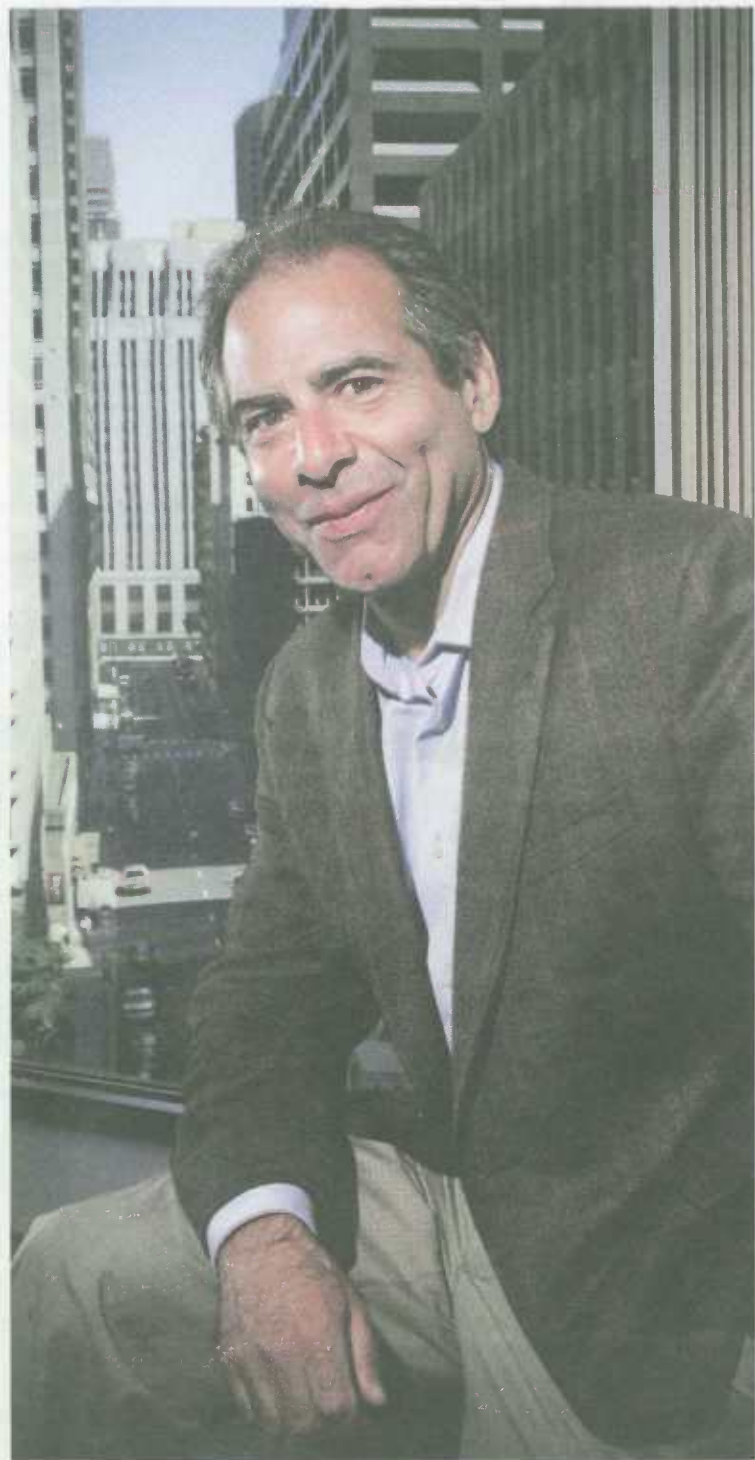


## EXECUTIVE PROFILE

# PROFITS IN REGULATION



## Schochet's Henken grows in affordable housing niche

By George Donnelly | gdonnelly@bizjournals.com

To understand the success of the Schochet Companies, one needs to know a little about the arcane, highly regulated world of affordable housing. It's a niche of the real estate industry ruled by the U.S. Department of Housing and Urban Development, along with layers of paperwork and programs like Section 8.

Most traditional real estate developers glance at the tangled bureaucracy and head for the exit. Where's the profit in being regulated?

But Schochet President Rick Henken can attest that there's plenty of money to be made in affordable housing. He oversees a growing portfolio of properties — the majority in the affordable housing space — that was started over 40 years ago by his father-in-law, Jay Schochet, who is now chairman.

The Schochet Companies owns or manages some 3,500 apartments along with a scattering of commercial properties, and employs 160 people. Henken continues to hunt for investment opportunities, offering as a calling card the company's track record in the acquisition of complex deals and management of a wide portfolio of properties.

Among Henken's competitive advantages is an ability to swim in a sea of bureaucratic complexity, an indispensable skill in affordable housing. But his experience as a management consultant also has suited him well as he has steered the company toward a more market-oriented mentality.

Almost 50 years ago, the federal government created a unique business opportunity: build af-

fordable housing under HUD's Section 8 subsidy. Thus, Jay Schochet and many others erected buildings across the country for low-income residents. It was perhaps the least sexiest segment in the real estate industry, shedding tax credits for investors. Owners, in turn, were guaranteed rents that would allow a distribution equal to 10 percent of the equity in the project, frozen for a certain duration.

As Henken began to get involved with the company, Section 8 buildings were beginning to outlive their affordability restrictions, which commonly expired after 30 or 40 years. An "expiring use" crisis was at hand. HUD, eager to preserve affordable housing, allowed developers to raise rents to market levels, with the federal government making up the difference.

The change in the regulations created both a challenge and opportunity for Henken, who saw great financial promise in acquiring buildings whose affordability restrictions were expiring. But the company also had to

adapt to seize the opportunity. Minus market incentives, the culture at affordable housing companies can mirror the bureaucracies they deal with, Henken said. But in a market-rate world, expense management and customer service takes on a new meaning. "If we can make the project better, so market rents are higher, we can generate more cash flow for ourselves and our investors," Henken said.

The next step was to convince investors who normally wouldn't touch affordable housing to see the potential that guaranteed rents, no vacancies, waiting lists, and annual cost of living increases presented when compared to conventional market-rate deals. "If you buy a deal that's got a Section 8 markup to market contract you're buying a government bond with a real estate equity kicker," Henken said. "And lo and behold, I got that to resonate."

He raised \$30 million in private equity between 2006 through 2010, and subsequently bought five properties, including Symphony Towers, across from the Christian Science Center, keeping them as affordable housing.

"When it comes to our affordable assets, we're affordable housing guys," says Henken, who, among many civic endeavors, is president of the Catholic Schools Foundation Inner City Scholarship Fund.

### RICHARD "RICK" HENKEN

Title: President, the Schochet Companies

Age: 54

Education: Bachelor's and master's degrees, economics and psychology, Tufts University, 1980-1981; Master of Science, management, with concentrations in marketing and finance, from the Sloan School of Management at MIT, 1987

Residence: Dover

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