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Behind the deal: How Twelve Twelve switched from luxury apartments to condos



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[Ray Hensler](#) has brought me up 23 stories, to the penthouse condos atop the high-rise he's building in the Gulch, to insist that this really wasn't his plan.

U.S. Bank and JP Morgan originally agreed to finance what's called Twelve Twelve on the premise that the units would be luxury apartments. The loan language prohibits converting those apartments to condos for sale.

Yet that is exactly what Hensler did at the start of this year. He believes the switch already has succeeded — signaling the arrival of permanent residents, not short-time renters, who will have more disposable income than even the Gulch, one of Nashville's most vibrant urban growth spots, has become accustomed to seeing.

High-rises with condos are not new to Nashville; Hensler himself has built them before (Midtown's The Adelia).

But Hensler is certain that the way Twelve Twelve played out means he's well outpaced any competition because his lenders agreed to switch to condos. There are 286 condos, about a quarter of which have been reserved since Hensler began selling them in January.

"The prospect of any real competition is two or three years away, at the earliest," Hensler said. "Meanwhile, there's no inventory in the market, and people continue to want to live in Nashville."

[Slideshow: Inside Twelve Twelve](#)

Hensler said he had a difficult time finding investors who would back the roughly \$80 million development, even as luxury apartments.

"A whole lot of institutional investors could not get comfortable with the cost per door," Hensler said.

"The flip side is, if you break through that gate, there's very little competition because it's so incredibly hard to get those deals done. No one can sneak up on us now," Hensler said. "There are no existing projects on the board that are going to do it."

At the time he closed his loan, Hensler said he thought market data made the case for doing condos and not apartments. He said he had discussions with his lenders about that possibility, but he held off pressing the point.

Around the end of last year, updated numbers, including the growing price-per-square-foot of units inside the Adelia were fetching, pushed Hensler to make the pitch. The lenders agreed with Hensler's plan to open a sales office, to demonstrate the demand Hensler saw.

In the first month, \$25 million worth of condos were reserved; prospective buyers had to put down 10 percent. Today, that tally is nearing \$60 million, Hensler said. Today, all of the building's penthouse units are sold out. To see what kinds of buyers snatched them up, [check out this story](#).

Even still, he often thinks about what would have happened, had he stuck with making the units luxury apartments.

"Part of me really wants to open as apartments. Frankly, part of me wants to demonstrate what we can get on rent," Hensler said. "But fourth quarter (2013), we saw prices get to a level where it was hard not to seriously consider converting it."

Adam covers commercial real estate and manufacturing.