

VALUE-ADD OWNERS CAPITALIZE ON RETURNS

Buyers of value-add properties will execute several renovation strategies to maximize an asset's ROI. Look for a growing number of property owners to implement a value-add "light" approach to rehab projects. The strategy focuses on conducting necessary improvements only and entails an upgrade investment of less than \$1K to \$6K/unit. Typical improvements include the addition of one common area amenity, renovation of kitchens and baths or repainting the property. These upgrades will allow owners to raise move-in rents by \$50 to \$100. Developments that undergo light rehab will tend to be Class B assets.

Real Capital Solutions doles out around \$4.5K/unit for renovations. Roughly \$3K/unit will be allocated for interior upgrades to kitchens and baths. The addition of washers and dryers into each unit will also be common. Exterior renovations, which total \$1.5K/unit, include repainting, new asphalt striping for the parking lots and moderate improvements to the clubhouse. **McCann Realty** spends an average of \$2K to \$3K/unit when completing value-add light upgrades. The company acquires Class B to B+ assets that will be less than 10 years old. Investments for one specific upgrade range from \$500 to \$1K/unit, which include the addition of a fitness center or grilling area. **MG Properties Group** will also complete light rehabs to properties it acquires.

Other value-add buyers will invest \$8K to \$11K/unit towards a comprehensive rehab of a property, which will include significant interior and exterior upgrades. These renovation projects could be valued at \$20K/unit if a property's mechanical systems, roofs or plumbing needs to be repaired or replaced. Communities that receive a broad makeover will typically be Class B- and C assets.

Pendo Investments devotes \$7K to \$10K/unit toward interior and exterior renovations, with the expectation of increasing asking rents by 15% to 25%. An interior upgrade package ranges from \$4.5K to \$8K/unit and includes the installation of faux wood vinyl flooring and granite countertops, along with a two-tone paint job. This type of flooring drives down the company's replacement costs. The countertops and flooring also drive incremental rent dollars more than other upgrades. Exterior rehab work conducted by Pendo, **Federal Capital Partners** and **SBV Communities** will be similar to that of light rehab projects. SBV looks to invest more than \$10K/unit for comprehensive property renovations. Federal Capital will contribute around \$2.5M/community and raise rents by 2% to 5%.

Other value-add owners likely to pull the trigger on full-on renovations include **Mid-America Apartment Communities**, **Waterton Associates**, **The Bascom Group** and **Robbins Property Associates**. McCann will undertake complete rehabs and allocate \$10K/unit, with the goal of increasing rents by \$100 to \$140.

Owners opting for comprehensive upgrades include a number of opportunistic investors that aim to acquire, rehab, stabilize and sell a property within a 12- to 24-month window. **Trion Properties** will acquire 50%-occupied properties in markets such as Fresno, Calif., and spend \$6K/unit to install ceramic countertops and higher end fixtures. Around \$2K/unit will go towards landscape and stucco improvements. The firm will dispose of properties once 90% occupancy is achieved.