

How Apartment Renovations Can Improve ROI

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Opportunities for creating good return on investment (ROI) through apartment renovations still exist. As rents become more competitive and apartment inventory approaches its peak in the second half of 2017, the case for rehabilitating older communities in some markets may be strengthening. When done right, a modest upgrade of a 20- or 30-year-old apartment property can offer residents a lower price point than new builds. Meanwhile, the investment is lower and turnaround time to market much quicker. New opportunities abound as the migration to the suburbs by younger apartment renters continues. At the last National Multifamily Housing Council Research Forum in Texas, RCLCO Managing Director Adam Ducker noted that 71 percent of households under age 35 in the top 50 metros live in the suburbs. The figure is slightly higher in Sunbelt metros. Age of an apartment property and local demographics are key drivers that determine whether or not an older property is a good investment, particularly in an suburban market. The idea is to spend a few thousand dollars per apartment without pricing rents out of the demographic.

Individual rental units may require \$5,000 to \$6,000 each in modest upgrades of appliances, flooring, lighting, paint, and some hardware. Because the work only takes the apartment off the rent roll for a couple of weeks at most, the amount of lost rent is minimal. Apartment renovations for older properties do take extra consideration, though. The older the property, the more the window closes on opportunity to bring it up to current standards. Greater investment of money and time such as installing cabinets and countertops and rerouting plumbing to create washer/dryer connections that previously weren't there can get dicey. Even lower ceilings can be a turnoff. However, if the apartment community can draw from prospects in surrounding areas who have the income to support the increased rent, such investments may make sense. The three keys to a successful rehab revolves around what the market demands, knowing demographics, and testing the product before it is launched. Finally, having a good designer doesn't hurt either.