

## When renovations go in, value goes up

Rehabbing worn or outdated kitchens and baths lets you compete more successfully with nearby properties, leading to higher occupancy rates and more income. By William Cracraft

### ADVICE FROM THE PROS

"If you are just getting started and are doing a major rehab, you can have a lot of headaches unless you get a really good contractor, and the better they are, the more they cost."

- Developer Clyde Turner

"Watch your budget. Do your due diligence. There are always hidden things that you don't know about," like needing to bring plumbing or electrical up to code. Even a drip from a sweating pipe can cause mold to develop in a humid climate, so take advantage of the new techniques and technologies that eliminate or diminish the opportunity for mold growth.

- Developer Don Werner

Don't hire unlicensed, inexpensive labor. "Try to find someone who has a history and a license, who knows what they are doing, has the personnel, can affix a price to the job and give an accurate schedule."

- Charco Construction  
President Chuck Swimmer

Remodel, renovate, rehabilitate: No matter how the terms are defined, savvy developers reap a better class of tenants, higher rents and better resale prices by automatically upgrading critical areas in vacant rental units.

"There are two things most renters look at when they walk into an apartment, the kitchen space and the bathroom space," said Don Werner, who currently owns 112 units in the Denver area. "If the bathroom space is grungy ... they're not interested in it. If the kitchen space is old and dated [and] you open the cabinets and there are visible stains where oil has dropped on the shelves, that's unappealing."

Mold, Werner acknowledges, is a big issue in damp climates. "We have 10% humidity here, so mold is not a big issue unless you have something that is staying constantly wet." In high-humidity areas, though, developers should take advantage of remodeling to look for broken grout and other signs of mold, do proper clean-up, and install water barriers to prevent reoccurrences, he suggested.

Across the country, Clyde Turner, who owns about 35 units in the Norfolk Va., area, renovates almost every unit he buys as soon as he can. "Each time someone moves out, you

have to do somewhat of a renovation. People really ... want a newer look," he said.

Both Werner and Turner paint and lay down new vinyl flooring in kitchens and baths, then move on to problem areas. "When I get into replacing kitchen cabinets, countertops and updating electrical, that gets to be more than your typical make-ready," said Werner, a retired mechanical engineer who started with six units in 1995.

### Dated countertops

"What spurs me into those types of activities are dated countertops, like the tangerine countertop that I just replaced. I need to get rid of those dated colors and styling and bring in something a resident would think is fresh and worthy of paying a high price for," he added.

Werner's goal is to do the right amount of remodeling so an apartment, "looks and feels like a brand new home or one of the A-class properties ... down the street. If they are getting \$1,000 for a two-bedroom, I want to be just a notch below \$1,000 for a two-bedroom because I don't have the business center [they do]. I push [rents] as hard as I can," he explained.

"If I can get a \$75 per month increase in rent, it is worth it to spend \$3,000 or \$4,000 [per unit] on the remodeling. I'll spend \$2,000 if I can get \$50 more in rent. Because I tend to

CONTINUED ON PAGE 72

Continued from page 10

that affected oil production."

Gables Residential Trust went on a tear this session after the company said that it had agreed to be acquired by a private equity group helmed by ING Clarion Partners. The deal in total is worth about \$2.8 billion, including the assumption of debt. The partnership will pay \$43.50 for each share of Gables, which was a 14% premium on its closing price the day before the transaction was announced. Gables' directors have approved the deal, and the final nod is expected by the end of the third quarter, pending approval by shareholders. Gables ended at 43.31, a jump of 7.41 points, or 20.64%. Gables was our top dollar and percentage gainer.

## Top gainers/losers

from 5/13/05 to 6/15/05

Top \$ Gainer	Gables Residential	7.41
Top \$ Loser	Associated Estates Realty Corp.	-0.54
Top % Gainer	Gables Residential	20.64%
Top % Loser	Associated Estates Realty Corp.	-5.60%

Source: Trade Trends, Inc.

Another good performance was posted by AvalonBay, which was up 7.12 points this session, a gain of 9.65%. The company declared a second quarter dividend of 71 cents per common share to shareholders of record as of June 30. It is payable on July 15, 2005. AvalonBay closed at 80.90.

Camden Property Trust rose on an upgrade from UBS. The investment firm upped Camden's rating to "neu-

tral" from "reduce." Camden increased 5.17 points, or 10.26%, to end the session at 55.55.

Only one of our stocks failed to rise this session: Associated Estates Realty Corp. It was our top dollar and percentage loser this session. Neither the company nor analysts offered a ready explanation for the drop in its stock price. ■

- Margot Crabtree

## LEARNING CURVE

Continued from page 34

flip through properties ... I can more readily recapture my investment in a property like that," he said.

Turner said he spends more on his remodels, but then he seeks out distressed properties. His per-unit remodels run about \$15,000 per unit. Although Turner usually raises rents on renovated units, he is less focused on maximizing rents. "You don't really get much more because you renovated, you are just presenting a nice solid product. You can get a better clientele if it looks really nice," he said.

### Renovate, fill and sell

Aside from attracting good tenants and maximizing rent, remodels are a fine way to create equity. Both Turner and Werner keep an eye out for worn-out buildings in the right neighborhoods because they know they can renovate, fill up and sell them at a healthy profit.

In the long run, that profit depends on many factors, and Turner said his profit on each building "varies tremendously. I've made \$2,000 and I've made \$200,000. Location, location, location is always key," he said.

Werner netted \$500,000 on one 1950s building recently. Renovating the 24-unit building cost \$6,250 per unit.

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- Clyde Turner, developer

"We closed on it in June, and we had it filled up in November. The construction took us 60 days. I bought it for \$1.2 million, sold it for \$1.9 million, and I spent [just] \$200,000" on renovations and other costs, he stated.

The nuts and bolts of the renovation followed Werner's established pattern. "I go with a vinyl flooring that has a marble or rock-type of look to it. It has a texture, it has a feel," and the higher cost is negligible in apartment-sized kitchens, he said. Werner installs granite countertops of 12" by 12" tiles. "It is a great look when it is finished, and it gives you the chance to advertise granite kitchen countertops," he said, adding that the tiles are cheaper than slab granite.

Turner follows a similar pattern, but he typically installs Formica countertops and pays special attention to bathroom vanities, flooring and faucets. Werner puts in low-flow toilets because he pays for water. Energy costs are passed on to tenants either directly or indirectly, so both men choose kitchen appliances based on price.

Although many developers do at least some of their own renovations, contractors and subcontractors abound.

Charco Construction, in business for 40 years in San Diego, does a couple hundred multifamily remodels yearly. Chuck Swimmer, president and founder of Charco, estimated that a high-quality remodel ranges from \$10,000 to \$30,000 per unit.

When Charco estimators bid a job, they put in a flat cost for appliances and fixtures. The company sets fees for installing appliances, cabinet work, painting, flooring, countertops and so on, allowing developers to select what they need to have done and see associated costs, said Swimmer.

In the end, a good remodel is a sweet way to increase income or get a building ready for sale, and Werner was pleased with the results of his latest building rehab. "I'm looking for another one just like that to do because it was fun," he remarked. ■