



July 23, 2013

Multifamily Market: Making 'Cents' of Renovations

By Paul Daneshrad, president & CEO,
StarPoint Properties | Commentary



Multifamily renovations will become increasingly popular as the market fundamentals remain or improve says Daneshrad.

As **multifamily** continues to maintain its popularity as an investment, property managers and investors are taking advantage of multifamily acquisitions and rehabilitations. While there are a number of factors that have created the boom in multifamily, the bottom line is that growing demand and low supply in some markets make multifamily renovation a smart move.

The key to making it work is remembering the fundamentals. As investors and property managers weigh market factors and consider an investment in apartment renovations, there are three important fundamentals to remember:

- **Financial benefits.** Interest rate suppression by the federal government is keeping cap rates low, making multifamily renovation a key investment opportunity in the current market. The capitalized value of the increase in rent that can be achieved from renovations is highly accretive. In the right market, and with the right property, we have seen capitalized returns exceed 250%.
- **Property location.** Many investors or property managers struggle to identify the right properties for rehabilitation. The key is finding a property that has the right demographic, competitive profile and fundamentals to bring in higher rents. By nature, older properties—built in 1970s or 1980s—are more likely to benefit from a renovation and yield higher rents as well as properties in markets with low supply. In addition, looking for those properties with significantly lower rents than their neighbors is a key fundamental.
- **Demographic catering.** Possibly the most important key to multifamily renovations is tailoring to the demographics and unique cultural aspects of the area. For example, when renovating an apartment in an affluent community, consider resort-style amenities such as a driving range and luxury swimming pools. By the same token, rehabilitations in a college town may require up-to-date technology along with multiple bedrooms to allow for roommates. Finally, allow the unique culture of any given area to dictate the façade and décor of your renovation. Amenities and an ambiance will make or break the success of any renovation, depending on the demographic and the geographical market. The key is to remember who your customer is.

Multifamily renovations will become increasingly popular as the market fundamentals remain or improve. All things considered, multifamily renovations are a perfect financial opportunity, but the right approach must be taken. The 2014 outlook for multifamily investing is strong and should continue to thrive.