

Repositioning Apartments: A Wealth Building Strategy to be Proud of

(Part 2 of 4)



Terry Moore
CCIM

There are many ways to build legacy wealth. Wise investors select the strategy which

best fits their personality, capacity, and goals. This four-part series describes proven legacy wealth strategies.

This article is about Repositioning, and in my first piece, I covered Rehabilitation. The next columns will cover owning classic properties, and maintaining capital with low risk and no management. Contact me for a separate chart showing typical financial consequences after two years of each strategy. Read the *San Diego Daily Transcript* the remainder of the series.

Repositioning — Massive Upgrades Grow Equity and Serve Upscale Residents

Substantial improvements, \$12,000-\$20,000 per unit, shift the marketplace's perception of a property. The goal is to upgrade the property and raise rents 20% - 30% within two years.

Our county creates apartment households much faster than new apartments are being built. New construction can rent for 50% - 60% more than a 40 year old product. Repositioning bridges that gap. It is easier, and safer than new construction. And neighbors welcome it, unlike new construction.

Case study

Richard and Maria are past 50. Their

income is twice the county average. These prudent investors aim to serve higher income renters, and have \$600,000 for their acquisition. They will use \$425,000 for a down payment and \$175,000 for upgrades. They will decide which of these items below to include. (Think of the following list as a menu; you wouldn't eat it all in one meal.)

On the exterior, change the property name. Freshen the landscaping and paint the exterior: use two trim colors. If possible, enclose tuck-under parking and provide private patios.

On the inside, money creates value in kitchens and baths. Refinish the cabinets. Install new counter tops, mirrors, ceiling fans and vanities, and six panel doors. The kitchen and bath floors become tile, laminate, or solid plank vinyl. Closet organizers and mirrored closet doors frequently make sense. Install a washer/dryer combination if possible.

Repositioners need more cash than the average buyer. The conventional loan may be 70% - 75% of purchase price. This strategy takes another \$10,000 - \$20,000 per unit for upgrades. In other words, our repositioners may put cash of 35% - 40% of the total cost. When new residents are paying the higher rents, then the property might be refinanced. The investors may be able to recoup most of the extra funds used in the upgrade.

Good repositioning improves the entire community. Our region desperately needs refreshed housing stock and there are thousands of households who will pay for the right upgrades.

What does a smart renovator look for in a property?

First, the neighborhood has to be

good enough to draw and maintain even better residents. Renovation makes sense in the beach areas, plus Hillcrest, North Park, Poway, and Chula Vista. The economics have not yet been proven in working class zip codes.

The building should have some charm or potential. That may be easier than you would expect. Adding a sloped roof, fresh façade, upgrading landscaping and using current colors can significantly transform an older facility.

Focus on your target resident, not your own taste. Talk with college-educated young adults. How do they perceive the differences between original and new? Estimate the price new residents will pay for each additional improvement. Investors want income property for income.

Is this strategy for you?

It is not right for everyone. Most investors lack the combination of cash, courage, discernment, flexibility, and temperament to do it well. If this strategy is not for you, then focus on alternatives more appropriate for your success.

This strategy takes more mental and emotional work than a simple upgrade. Yet it offers excellent rewards. If repositioning appeals to you, then we should begin explicitly looking for those opportunities — and they are hard to find.

When we recognize one, you will need to act even faster than a typical investor. In your first project, you'll benefit from the skill and wisdom a great management firm and of a smart broker. Experienced guides reduce risk and increase the likelihood of a superb outcome.

Terry Moore, CCIM, part owner of **ACI Apartments**, has helped nearly 400 households build legacy wealth. All of his properties have been sold in better condition than when he bought them. Almost all were profitable. You can benefit from his experience. His calling is to help investors make the most important financial choices of their next decade. You can reach him at **TMoore1031@gmail**, **619-889-1031** or **SanDiegoApartmentBroker.com**