NOT-SO-EXTREME MAKEOVERS

BY JEFFREY LEE
A couple of years ago, UDR completed a substantial number of full kitchen and bath rehabilitations. The renovations, which included new cabinets, appliances and other updated finishes, were relatively lucrative, helping to pull in rent hikes north of $100 per month. But the cost was steep. In 2008, a repositioning cost $10,000 to $12,000 per unit, in addition to revenue lost by taking the apartments offline for a week to complete the work. These days, UDR orders few full rehabs, says Jerry Davis, UDR’s Senior Vice President of Property Operations.

He says today’s renter is more price-conscious, and might be willing to settle for a less expensive apartment without brand new cabinets. Instead, UDR outfits some of its apartments with new kitchen appliance packages, which start as low as $1,100. Appliances are a cost-effective alternative to full renovations and they can still achieve rent upgrades of $40 to $50 per month, Davis says. Plus, the time needed to replace appliances is far shorter than the full week that is required to tear down and replace cabinets and touch-up new finishes.

Freshening an apartment with a new appliance package works particularly well on higher-end, urban communities where rent levels are at least $1,500, Davis says. This approach makes even more sense if the appliances in a building are aging (at least 15 years old), a property is competing in a submarket against new lease-ups or if the owner just wants the building to stand out.

“If there’s a well-located property and the site staff can prove they will get a return on investment, we will look property by property at doing an appliance package,” Davis says. “We’ll test it on four or five apartments. If the staff proves they can get a return, we approve the program.”

UDR, a public REIT that owns 45,000 apartments, has secured monthly rent increases of up to $50 per month on higher-end apartments where it has installed a stainless steel appliance package, which can cost $2,000 to $2,500. A base package, with black appliances and a refrigerator with a Satina finish (similar to a stainless steel look), can cost as little as $1,100 to $1,500. With an initial investment that is affordable, even a small bump in rents provides an attractive ROI.

“Upgrades Make Impact

Davis says two other appliance trends could have an impact on an apartment management firm’s next purchase:
• **Energy Star.** Apartment companies that install appliances that aren’t Energy Star-rated may soon find themselves behind the times. “I definitely think most of the industry is moving to getting Energy Star,” Davis says. “The demographic coming into the renter pool in the next five to 10 years is more focused on the environment than prior generations have been.” The fact that Energy Star-rated appliances generally carry a price premium of less than 10 percent make it an easier move, although, Davis notes, “it’s hard to find a direct correlation to green products and higher rent.” To get the most leasing benefit from Energy Star, he suggests that owners train their staffs to sell the benefits.

• **Quality sells.** Apartments with upgraded appliances, such as glass-top ranges, double-door refrigerators with water dispensers, or higher-end finishes such as stainless steel, are more likely to fetch rent premiums than those with Energy Star. “You just don’t see those features at all communities,” Davis says. “Those make a big difference.”

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