

Section VII: Economic Benefits through Alternatives

Modernization, rehabilitation, improvement, and conversion of structure are considerations for many property owners in the Happy Hills area.

Many apartments at PROPERTY still have the original appliances. While they are functional, the older appliances are not attractive, and new appliances brighten an apartment and give it a fresh feel. New appliances can be purchased at the cost of \$453.85 per refrigerator, \$283.33 per stove, and \$209.00 per dishwasher. Apartments with all three new appliances can be offered as a “New Appliance Package” with an upcharge of \$75 per month. If completed in three vacant apartments per month, a monthly expense of \$2,980.47 will lead to an additional annual income of \$2,700.00 for every three apartments completed. The payback for each three units turned is less than 14 months. A bid sheet from Home Depot Supply with calculations for each package is **Exhibit U**. This **modernization** will also save time and money on appliance repairs.

PROPERTY is 21 years old. At the time of its construction, PROPERTY was considered to be the premier apartment community in the submarket. As times and trends have changed, PROPERTY has seen the neighborhood around it change, as well. With this change, the demographic of the community has changed and begun to attract a lower-income clientele. In order to recapture PROPERTY’s mid-eighties dominance, the most important measure to take is refurbishing the exterior of the community. One major step toward this would be a complete changing of the exterior patios.

When touring the community, the exterior structures are a constant objection. While many people love the inside of the apartments, they have trouble moving past what they have seen outside. The cedar siding ages in various colors and is maintenance-heavy in keeping up appearances. But replacing siding would not be effective. A better plan would be to enhance the appearance of the many patios.

There are three different styles of patios at PROPERTY. The difference styles look chaotic and none is in good condition. Instead of simply painting the structures, rebuilding is advised. The pricing for demolition of existing structure and construction of new patio stacks range in price from approximately \$4,000 to over \$12,000. Bids for this work are also a part of **Exhibit U**. By estimating the expense in the mid-range of \$8,000, the capture of just two additional leases in a year would bring sufficient income to payback the expense. Performing this exterior **rehabilitation** will lead to fewer objections, more leases as well as the opportunity to compete in the future at higher rent levels.

PROPERTY is well amenitized and **improvements** are not necessary. Comparable properties offer access gates which are not necessary for PROPERTY’s success. Individual intrusion alarms could be added, but without capital investment. There would be no significant change in the property’s performance to warrant the expense of an additional improvement. The resident profile will rise as the modernization and rehabilitation projects are completed.

Many apartment communities are currently **converting** to condominiums. In order for this to be a feasible course of action for PROPERTY, a complete rehabilitation of the community would be necessary, including demolition and reconstruction of all existing patios, stairs, cedar siding, and roofs. The cost of these repairs is estimated to be approximately \$3 – \$3.5 million, and is therefore a cost-prohibitive option at this time.

In summary, two alternatives provide significant upside to the property value – modernization and rehabilitation. The alternative with the most significant impact in terms of building traffic and potential new leases is rehabilitation in the form of reconstructed patios. That being said, I recommend that, as that project begins, a sampling of the new appliance package described under modernization be completed and a “test” be performed to prove that sufficient increased rents to justify the expense can be achieved. This lowers the risk of such a program, yet still directly benefits the property. If the necessary rent levels can be achieved, then the program should also go forward. The rehabilitation program replacing patios must be completed nonetheless.

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