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Maximizing value in a changing market

September 18, 2007 - Connecticut

As the pendulum swings back to a market more reliant on working the fundamentals, many investors need to reevaluate their assets' exit or recapitulation strategies. With rising CAP rates, tighter loan underwriting and increasing interest rates, investors must refocus on cash flow with an eye to creating value. Maximizing rents via capital infusion and better management of expenses can yield terrific results. Remember, every dollar going to the net operating income equals roughly \$12.50 in equity in a market that values properties at an 8 CAP. Since I have limited space, I will throw out a few ideas to get you thinking about your residential properties.

It's hard to find ways to reduce the cost of operations but the results can be startling. To start, take a good look at your itemized expenses and try to benchmark your costs against the market. The following is not an exhaustive list but a reminder of where expenses can be easily trimmed. To start, make sure you utilize energy efficient lighting in all common areas and exterior lighting. Some lighting in the common areas, such as laundry rooms can be put on tenant controlled timers. Add insulation to your boiler and pipes. Reduce your water consumption by replacing or requiring your tenants to use low flow shower heads and change or replace the screens on faucet aerators. If you don't already have low flow toilets, try putting a brick in the tank. Re-evaluate your advertising expenses and utilize the free sites on the web. Consider buying your electricity from a deregulated reseller. Renegotiate with your tenant screening company for a lower rate. Re-bid your insurance or ask the underwriter what you need to do to reduce your premiums. Each of these expenses tend to creep up as time goes on, so reducing these and other costs will provide more funds that can go to improvements.

Investing in "low cost, high impact" improvements can yield 30+% returns on the cash invested. When you do the math, if an investment of \$1,000 yields \$300 in additional income, then you have increased your property's value by \$3,750. That is a return on investment of 375%. Not bad. Some of the items that can yield quicker unit turns and/or higher rents on vacant apartments include: refinishing hardwood floors, new doorknobs, light plates, light fixtures, re-grouting bathroom tiles, adding blinds and replacing appliances. These items should be done before the units are viewed by prospective tenants. Since first impressions are so important, don't forget to take a fresh look at the common areas, especially the entrance and lobby. On a property I own, a trip to Home Depot to replace some exterior entrance lights, new artificial trees from a website and wall art from Target recently yielded a fresh look for under \$300. A spanking new coat of paint is always a good idea—add some color. Believe me, your current and prospective tenants will appreciate the effort. Remember what Ralph Waldo Emerson said "Money is of no value; it cannot spend itself. All depends on the skill of the spender."

Changing markets require investors to take a fresh look at their portfolios. By reducing operating costs and improving their properties, investors can take advantage of a changing market and

position themselves to benefit during the ebb and flow of the current markets.

Neal Lorberbaum is the principal of Peryn Realty, LLC, Westport, Conn. Peryn Realty is an opportunistic real estate investor that enhances real property throughout Connecticut's emerging markets via capital infusion, repositioning strategies and hands-on management.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540