

MULTIFAMILY PROPERTIES

Quarterly

Construction

Renovate & rebrand trend offers new way forward

Over the past five years, the Denver metro has become inundated with newly built luxury apartments. The new “micro-apartments” trend asks people to squeeze into units of under 500 square feet. If, like most of us, you’ve got an average income and an average amount of stuff, you’re looking for other options.

So are Denver metro developers. With the market straining to absorb luxury units, some forward-looking developers are starting to focus on renovating, rebranding and repositioning 1970s- and 1980s-era apartment buildings. By giving previously underperforming assets a new lease on life, they’re creating revenue opportunities. They’re also investing in neighborhoods that haven’t seen as much attention from developers.

Chicago-based Origin Investments has made the practice their central investment focus. It seeks out underperforming multifamily and office assets in 10 high-growth U.S. markets, buying, revamping and actively managing the properties. As Origin Associate Chris Neumann explained, “We look for opportunities to create value. We’re transforming these properties to attract a clientele that might not have considered the community prior to our ownership.”

The Fletcher Southlands, a 320-unit multifamily complex formerly known as the Advenir at Saddle Rock, is a representative project for the investment firm. Origin acquired the Aurora property off-market in 2018. Given the property’s “good bones” and location adjacent to the Southlands Mall and E-470, it was confident the property could deliver the returns Origin sought — typically targeted at 20% return on investment on the renovation costs.

Neumann and his on-site management team from Echelon Property Group oversaw a range of unit and common area renovations totaling more than \$4.5 million. Unit finishes



Doug Backman
Managing director,
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feature new appliances, countertops, cabinetry, faux-wood floors and fixtures to provide a bright, modern, upscale feel. They relocated the playground to build out a very large outdoor amenity area that includes fire pits, grill areas, a bocce ball court, turf areas

for yard games, a dog-washing station and a dog park. These amenities complement the outdoor pool, hot tub and sun deck, as well as the renovated fitness center and fully updated, state-of-the-art clubhouse.

Origin’s focus extends to actively managing the properties they renovate. Often, prior property managers can leave legacies of poor management and unhappy living experiences. Origin strives to create fresh, new experiences that result in residents feeling proud of where they live. Said Neumann, “We want to create an elevated resident experience at the property, which includes a higher level of service.” At the Fletcher Southlands, that includes monthly hosted events (e.g., summer pool parties, blues and brews, breakfast on-the-go, various other holiday-themed events throughout the year). As Neumann explained it, “These are ways we can thank our residents for calling the community their home.”

The results speak for themselves. The formerly Class B community is now comfortably Class A. The renovations have allowed Origin to achieve rent premiums of \$150 to \$200 per unit per month, which has met its 20% ROI threshold.

The Meadows at Town Center, a 104-unit multifamily complex in Thornton, offers another compelling example of the renovate-and-rebrand approach. Denver-based Central Development purchased the property, selling it

approximately five years later for 288% ROI.

As Central Development founder and principal Jeremy Records explained, the property, formerly known as Lamp-lighter Village, had struggled over the years. “Deferred maintenance had nearly run it into the ground. It didn’t have a good image. It was on the police radar. It was in disrepair and there were structural issues.” They knew it would be tough to change a perception that had been set for nearly 20 years.

Records and his team oversaw significant structural and aesthetic improvements at the property. Alongside necessary projects like fixing rotten floor joists, they renovated the lobby and upgraded all of the units. They undertook a major renovation of the stuck-in-the-’70s clubhouse (e.g., adding a pool table, TV, workout room, kitchen), creating a place where tenants would genuinely want to spend time, rather than a place they’d only go to turn in rent checks.

Central also focused strongly on changing the name and image of the property. “You can do all that stuff, but if people don’t know about it, when they drive by, they think it’s still the same old dumpy Class C apartment.” Along with new signage and landscaping, a targeted marketing campaign helped to make people aware that the property deserved a fresh look.

Again, the results clearly shows the strategy’s success. Central achieved near 100% occupancy and doubled the appraised value of the now Class B property, all while realizing higher rents. Records admits he was surprised by “the amount of upside there was.” The Meadows’ ROI far exceeded his initial expectations.

What advice do Neumann and Records have for other developers looking to try the renovate-and-rebrand strategy? Neumann recommends performing an in-depth market study prior to purchasing a property. “It’s important to understand where the

property stands relative to its competitive set.” Essentially, you need to be sure that an increased investment in the property can simultaneously be offset by an increase in rental rates necessary to provide the returns you seek. He also recommends being nimble and preparing for the unexpected with any construction projects, saying, “You don’t know what challenges you will face until you’re able to get into the property, pull back the walls, and work with local municipalities to execute the project as planned.”

Both Neumann and Records stress the critical importance of marketing for rebranding. Said Neumann, “While the physical rebranding is extremely important, we also place a high level of focus on the virtual rebranding of the property. We want residents, communities and neighborhoods to know that we aren’t the same owner/operator/manager that had been there previously.” Both Origin and Central use high-definition photos, websites and social media to showcase changes and help prospective residents imagine the lifestyle they can expect at the revamped properties. High-quality signage and brochures complete the picture. After all, nowadays, nearly 100% of prospective tenants first view a property online.

“It’s all about people’s perceptions. An apartment is somebody’s home; they want to feel good about that home,” said Records. At the Meadows, “The branding helped to create that sense of pride, and to create a community with an identity.” Overall, he explained, “If you don’t create that emotional tie to the tenant, you lose.”

As Denver metro area developers look for new, attainably priced opportunities, they too will be well-served to take a second look at all that aging apartment stock from the ‘70s and ‘80s. That “dumpy old Class C” complex could be your ticket to some surprising ROI. ▲