



## Best Practices: Asset Repositioning



By Phil Renzi |  
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**Strategic design transformations that improve multifamily financial performance, energy efficiency and livability.**

With the United States continuing to face a housing crisis in terms of both affordability and supply, development plans for new construction projects generate buzz and excitement. But what about the housing stock that already exists? Every year, developers, owners and architects quietly upgrade tens of thousands of older affordable apartments, making them more livable and increasing their longevity and operational efficiency. This work is critical for today's rapidly evolving market. In order to meet the pressing nationwide need for rental housing, it will be essential to invest more resources into this impactful, highly sustainable and cost-effective practice known variously as moderate rehabilitation or asset repositioning.

For developers and owner-operators, there are worthwhile financial benefits to renovating and stabilizing these aging yet promising properties, including Section 8 housing, whether they already own them or decide to add them to their asset portfolios. Relative to new construction, these benefits include lower overall project costs, shorter construction timeframes and much higher rates of return on investment—in part because of affordable housing tax credits and sustainability incentive programs. There are other reasons for prioritizing the rehabilitation of existing assets, too: As regulations and building codes push for greater sustainability and carbon reduction in the building industry, renovating an existing structure will always be the greener solution.

As architects and advisors engaged in asset repositioning efforts across varied markets, The Architectural Team (TAT), expects this trend will accelerate in the post-pandemic world. It is therefore even more critical for developers and owner-operators to understand best practices and the most effective and efficient design solutions

## 1. Stabilizing the Property

With a comprehensive and strategic approach, it's possible to transform building assets and make them operationally sound for the 15- to 20-year life cycle of many affordable housing tax credits. For this reason, the first step in any asset repositioning and rehabilitation project is to focus on stabilization. The goal is to identify significant and recurring issues and resolve them immediately, so the owner does not have to keep investing in repairs. This is especially important because project teams only have access to tax credits on the aforementioned cycles. For this reason, upfront strategic investments ensure that the property is stable for the duration of the current cycle.

Project teams should begin the stabilization process by getting familiar with the site and buildings. This means bringing in engineers to assess the property and interviewing building managers, staff and residents to identify ongoing challenges or known areas where deferred maintenance presents challenges. For instance, are there sanitary lines that are corroded or frequently back up? Are there outdated mechanical systems that continue to break down and need to be replaced rather than repaired? The answers may depend on the age of the property, but certain problems such as water damage tend to be the most common issues.

In all cases, asking these questions at an early stage is vital to develop a baseline understanding of what the property needs to become and remain

operationally viable. This will minimize replacement reserve costs and free up cash for other uses.

## 2. Planning the Renovation Work

Once baseline stabilization needs are understood, project teams must decide how to schedule the renovation work. Any rehabilitation entails a certain level of disruption for residents; in many cases, depending on the scope of work and the way it is planned and phased, it's possible to minimize intrusions on residents and adjacent properties.

For example, in projects where the building remains occupied during renovation, project teams can schedule work blocks. Portions of a certain number of units will be rehabilitated on a given day, and the designated group of residents can leave in the morning for a common area or place of work and return in the evening to new kitchens and new lighting, for example. The following week, the same residents leave for a day again, and then return to new bathrooms. On the intervening days, a different group of residents will have their homes renovated. Phasing and staggering work in these blocks can be a highly effective strategy.

If a property is unoccupied at the time of rehabilitation, there are opportunities to carry out renovations without the need for staggering work on given unit blocks. In this case, an entire floor of a high-rise or a large portion of a walk-up building might be redone over a four-week period. When that floor is finished, the first group of residents can move in while work proceeds to another section of the building. This strategy is well suited to larger properties, but it also requires intense coordination between housing authorities, owner groups, contractors and the architect.

## 3. Rehabilitation Boosts Performance and Bottom Lines

Developers and owner-operators may also wonder how much to invest in energy efficiency and related improvements to building systems. In fact, upgrading these systems is one of the most effective and valuable rehabilitation strategies. Improvements to the building envelope and mechanical systems can help owners qualify for sustainability certifications and tax deductions, providing worthwhile utility and operational cost savings. And as housing agencies across the country ramp up efforts to promote energy efficiency, operations costs will continue to drop, ultimately freeing up capital for a greater array of resident services.

Equally noteworthy, these efficiency upgrades make properties more comfortable and livable for residents. With these diverse benefits in mind, developers and owner-operators should consider replacing outdated heating and air conditioning systems and hot water systems, along with roofs and windows, as part of any asset repositioning project. Depending on the market, project teams may also find incentives for incorporating renewable energy elements such as roof-mounted solar arrays.

Within individual units, upgrades to plumbing, lighting fixtures and other appliances are an equally valuable means of improving energy efficiency and overall usage. For a project in New York state involving the rehabilitation of 14 low-rise apartment buildings, TAT is outfitting several structures with rooftop solar panels, in addition to unit upgrades comprising efficient plumbing fixtures, LED lighting and Energy Star appliances. The finished renovation will create a desirable community that is more attractive and more cost-effective to operate.

#### 4. Improving Properties to Create Community Assets

In addition to operational benefits, it's important to recognize that meaningful improvements to the resident experience can help to attract and retain residents. Turning struggling properties into income-producing assets can also contribute to the vitality and character of their neighborhoods. New exterior coatings or façade recladding are both straightforward and highly effective measures for transforming the character of a multifamily community, and they can also help reduce the stigma of older affordable housing. Creating a renewed sense of pride and place can have mental health and related well-being benefits for residents of the property and also aids public perception. In some cases, we have seen an entire community's property value improve thanks to well-designed renovations at large-scale multifamily developments.

It is also critical to invest in upgrades to landscaping and the public realm surrounding the property. A better and more welcoming landscape encourages residents to spend time outdoors and connect with their community. In conjunction with façade improvements, enticing landscaping can also help the community fit more cohesively into the surrounding neighborhood fabric. Developers and owner-operators should take the same approach to interior common areas, redesigning and expanding them to create amenity spaces that can double as venues for important resident-focused programming, including day care, job training and social services.

On a recent New Jersey project, for example, TAT transformed an 18-unit, low-rise apartment building into a highly desirable residential community. The project team reclad every building with larger windows and a new color palette. Residents now benefit from LED lighting and Energy Star appliances, job training at the new community center, recreation at a playground in view of nearly 200 new trees and improved landscaping that enhances the surrounding neighborhood. The renovations opened the door for Low-Income Housing Tax Credit (LIHTC) funding, which means that residents' rents actually decreased, a clear indication of how these rehabilitation strategies benefit the owner and occupants alike.

Ultimately, a successful asset repositioning project is an argument for the diverse benefits of good housing and for the value of rehabilitating rather than throwing away. Renovating existing affordable housing developments to ensure safety and functionality is a critical step in the process of addressing housing shortages in a sustainable way. And yet, it also instills a sense of pride and joy for residents and reinforces the idea that well-designed, efficient and comfortable homes are accessible for everyone.

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