

## **10 Strategies for Apartment Profits in 2009 and Beyond** **by Patrick S. Simons**

Before we get to the strategies, I'm going to throw out some time-tested adages. 1) Real estate is cyclical, 2) Buy low – sell high, 3) Go against the grain, 4) Make lemonade out of lemons. Do more than survive – THRIVE!

There's a lot of wisdom in these sayings that we can apply to the apartment industry right now. The cyclical nature of real estate has been well established over more than five decades; the market goes up, goes down, and rises up again. Significant profits are made primarily by those who buy assets before they rise in price. Those low buys are usually the result of going against the prevailing psyche of the time, and a belief that there are opportunities in even the most challenging market to make profits out of distressed situations. So, each one of the strategies here relate to one or more of these proven maxims.

### **1. Analyze Markets**

As the flurry of activity during the recent boom times has eased up, take the time to focus some of your resources on understanding the economic fundamentals driving your markets. This may be done either through internal staff or external consultants.

Either way, your end goal should be a good understanding which markets will have the best chance to rebound first and with the most vigor. This analysis will be the best foundation for determining how you manage your current pipeline, staffing, and business pursuits as well as enabling you to map out a strategic plan to take advantage of the next few years.

### **2. Plan**

It takes time to generate the right new deals in the right locations from the right sellers. Don't get caught flat footed when market gyrations create new opportunities – anticipate them.

Take the analysis you complete as discussed in the previous tip, and create a strategic plan identifying targeted geography and other deal parameters, anticipated timelines, likely staffing needs, and capital requirements. As with the analytical stage, an outside consultant can help you create near-term and long-range business plans.

### **3. Network**

The best deals, those diamonds in the rough and needles in the haystack, are rarely found by waiting for a broker to call. Once you have a plan outlining your targets, start getting the word out. Identify and contact anyone and everyone who either now controls, or in the future is likely to control, real property that will fit your plan.

You'll probably find that it's now a lot easier to get the attention of many of these people than it was two or three years ago. This effort will enable you to get ahead of the curve in generating new deal flow prior to market recovery.

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#### **4. Expand**

Your analysis may find that some markets you had previously thought about entering, but were perhaps priced out of, are getting more affordable. Or maybe you've always wanted to enter some new markets but were constrained by the challenges we all had during the boom times of finding competent and qualified personnel.

If your analysis forecasts recovery in your targeted expansion market(s) in a certain number of months, you can then calculate backwards as to when you should hire, and that's the next tip.

#### **5.Hire**

The conventional wisdom right now is to cut overhead and run for cover. Certainly, it makes sense to trim the fat in an organization when work slows, but now is the time when you can really pick and choose talent. And that talent may be open to any number of arrangements including consulting work, temporary assignments, or a slow ramp up to full-time employment.

Depending on your organization and strategic plan, it may make sense to trim the payroll in lower-skill positions while snapping up some senior-level executives who are currently on the street. These skill players are probably eager to get back into motion, even if their first assignments for you are initially "beneath their pay grade."

Either way, remember the hiring process takes time. So make sure you plan ahead for it to ensure you have a solid team in place when your markets do recover.

#### **6. Cash**

The fact is that, while there are many contributors to the commercial real estate slowdown, the primary driver has been a profound lack of capital. Therefore, it stands to reason that the best acquisition deals will soon be had by buyers who *have* cash to purchase from sellers who *need* cash. So, to take advantage of the best deals of the future, raise cash.

I know it's easier said than done in this environment, but just a few strategies are: a) gather commitments from existing investors to provide new capital for new distressed opportunities; b) look at your entire portfolio for refinancing opportunities to either pull out equity or enhance your existing unsecured credit line(s); and c) identify new investors, especially foreign funds with currency exchange rate advantages.

#### **7. Operations**

Expenses are not to be overlooked during a downturn. All of your expenditures should be thoroughly reviewed, both at the corporate level and those at your operating properties. It may make sense to bring in a third party to comb through your operating expenses, and identify opportunities for savings.

Such savings may be particularly evident in service contracts like landscaping, pool service, and other maintenance activities due to the new oversupply of labor created by

the down cycle. On the flip side, look for areas to enhance income through adding services at your properties, sub-metering utilities, instituting a RUBS system, or implementing revenue enhancement software.

In addition to the extra cash flow, remember that every dollar per-month you cut in property operating expenses translates into \$200 of property value at a 6% cap or nearly \$350 of additional amortizing debt at 6.25%.

## **8. Negotiate**

At the risk of offending my fellow service providers, during the boom times, contractors, vendors, and consultants got used to property owners and developers taking just about any proposal without questioning the pricing, the delivery schedule, or the skill level of personnel committed to the assignment. And the owners and developers were usually just happy to be fit into the service provider's jammed schedule at all.

Times, of course, have changed. We're back to the days in which service providers will work to get your business. So, brush off your negotiating skills. Now, you certainly don't want to take an arrogant approach or squeeze the service provider to the point that he or she is not making a fair living. But you should question the fee structure, the schedule, and most especially, which personnel will be working on your assignments.

## **9. Time Deliveries**

Much like planning your hiring based on the anticipated timing of market recovery, construction start dates should be timed as well. This goes for renovations of existing apartment properties as well as new construction.

If your market analysis forecasts that your market will recover in 12 to 18 months, and if the construction schedule is anticipated to be 12 months, the ideal start date is about six months from now. And, if you still have architectural work to get permit-ready, it may be best to get that going (or keep it going) right away so you'll be able to start construction in six months.

That way, your units will hit the market when demand is rising, vacancies are contracting, and rents are growing.

## **10. Build**

Even if you've never built new units before, it may make sense to think about it over the next 12 to 18 months. It's a new day with contractors. With the slowdown in work, not only are labor costs more reasonable, but the quality of work is noticeably better. Unlike during the recent few years, you now don't need to settle for a rag-tag team of lower-skilled laborers, sometimes questionable quality, and multiple rounds of re-work. If you don't have the expertise in-house, a third-party consultant can help you formulate a plan to develop new units.

To wrap it all up, two big picture tips:

- **Plan** – Each market will eventually recover based on its underlying fundamental

economics. Don't get stuck in today's bad news. Instead, forecast the recovery, and plan for it.

- **Act** – With sound market knowledge, make sure you steadily execute your plan to not only survive but *thrive*!

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