

The ABCs of Class B to A Upgrades

A data-based approach can help determine whether a renovation is financially feasible, according to Rob Devlin and Ron Takaki of Gafcon.

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National ViewPoint

Communities across the country are dotted with mid-20th-century-era multifamily housing complexes that are not only showing their age but can also be out of compliance with safety regulations. Property owners are well-advised to weigh risks and gains, though, before renovating these properties to maximize potential, ensure code compliance and increase cash flow.

An initial financial and physical assessment of the complex should include rough order of magnitude cost estimates on anything from out-of-code balconies and railings to kitchen upgrades. This analysis can also predict market return on the renovation investment.

This critical information, missing from most major-scale renovation projects, will help property owners determine which upgrades and repairs will yield a return on investment in the form of rent increases, lower tenant turnover, reduced maintenance costs, lower utility costs for tenants and more.

A Southern California, 196-unit, multifamily property our firm is designing and building stands to realize a 30 percent revenue increase from the owner's \$30 million renovation investment. Understanding what to expect in advance and in great detail gave the owner pro forma clarity and detailed information to present to their ownership group.

In many cases, existing C- and B-level multifamily properties, with about 75 to 250 units, can be improved to a class level that achieves an optimal return on investment without substantial structural modifications or renovations.

That said, code compliance will be critical and has the potential to make or break a renovation project. Balcony or roof replacement, for example, can factor largely in an upgrade project.

Water intrusion, wood rot, inappropriate construction materials, out-of-date rail spacing and more could all amount to varying levels of financial impact to a renovation budget. It's best to know well in advance of committing to a project what the bottom line will look like.

DON'T FORGET SOFT SKILLS



Ron Takaki

Other issues that could come into play include zoning, historical structures, the Americans with Disabilities Act, fair-housing design requirements, fire sprinklers, parking requirements and more.

The firm or firms an owner hires to manage this assessment and renovation process should include professionals proficient in financial modeling, cost estimating, design, general contracting and construction management. Hiring one firm for everything, or a team of firms used to working together, can help ensure efficiency and less mistakes, saving property owners from paying for costly unexpected fixes.

An additional strategy of employing digital twin and cyber-building technologies can provide an owner with a virtual model of the property to help reduce risks by building the project in cyberspace before the project is built on the ground.

The data and collaboration generated by this connection between the physical asset and its virtual counterpart allow property owners more predictability in cost, schedule, quality and safety—benefits that last through the property's life cycle beyond construction.

Don't forget the soft skills, either. Chances are, the owner has tenants in place and hopes that many will remain with well-planned and executed construction. Open communication will be key for placating residents' concerns. If possible, make some of the most impactful renovations first so residents see the value in any inconvenience caused.

Working with an experienced firm that can develop a construction plan and schedule will help you communicate the renovation plan in advance so residents know what to expect in terms of timeline, noise, displacement or other impacts, as well as any benefits they can expect. This will also allow you to develop a marketing plan and website to highlight the changes and attract new tenants as well.

With a skilled assessment that results in a responsive and calculated renovation, an owner can reap the long-term rewards of moving a Class C or B multifamily property up to the next tier.

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