

Suburban renewal: Old apartments become new again

Oct 27, 2016, 2:00pm EDT
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Owners of Class B apartments in the suburbs are investing tens of millions of dollars to put in new granite counters and stainless steel appliances in kitchens, installing swimming pools, constructing clubhouses and making sure prospective renters know their apartment communities are pet friendly.

It's an understatement to say these owners are on the defense.

For the first time in a generation, about 6,000 new apartment units are under construction or in the pipeline for the suburbs. All of those apartments are expected to be completed by 2020, according to CBRE Inc. data. By the first half of this year, 1,148 apartment units were completed and another 1,296 units were under construction. Even more have been approved by townships across the region and are in various stages. For example, Lower Merion signed off on 1,000 units and King of Prussia more than 2,000. Phoenixville has more than 1,000 units going through the approval process.

These existing apartment landlords, who bought and built apartments and have held onto them for decades, have long enjoyed their status as just about the only game around as suburban communities shunned the construction of new apartment communities for various reasons.

Race likely played a role, but there were also fears that multifamily projects would overly burden fire, police, schools and public works with an influx of new residents. Those views have changed as a result of the recession, when multifamily projects started to become the only commercial real estate projects that appealed to lenders.

A cultural shift also occurred. Apartment living is viewed differently than it was, say, 20 years ago. It's accepted and desired more than ever.

All of this has meant existing landlords of older properties, often referred to as Class B, are spending big to compete for residents.

"We're trying to look hip, nice and clean," said [Brian Paule](#), director of property management for Galman Group, a Jenkintown company that owns 40 communities totaling 8,000 apartments throughout the region. The real estate firm usually maintains a 94 percent occupancy rate though that could take a hit as more, newer units become available.

The company spent a little over \$3 million on upgrades including a new lobby, common areas and corridors, and exterior painting at one of its signature properties, Valley Forge Towers in King of Prussia. A private movie theater as well as a kids playroom were also built out and are free for residents.

“We did every floor so it has a very modern look and with artwork,” Paule said. “Every time we get a unit back, we renovate it with a modern look. We’re doing that at all of our properties and breathing new life into them. All indicators show that it is going to remain like this for a while and we want to stay current.”

Other improvements include adding tech lounges and business centers, doormen and free breakfast at some of Galman’s properties. As the renovations get done, Galman has nudged up rents, which helps offset some of the investment being made. A two-bedroom unit at Valley Forge runs \$1,700 to \$1,800 a month where before the upgrades it was \$1,500 a month.

“For that marketplace, it’s pretty darn good for us,” Paule said. “From where I sit, we like to say, all boats rise. We love all of the new apartments coming in. It has helped us get these higher rents.”

A lot of what Westover Cos. of King of Prussia owns was built in the 1970s. The company owns 60 complexes with 11,000 units across the region and typically has a low 4 percent vacancy rate on the portfolio.

While the company has always invested a substantial amount in upkeep, [Guntram J. Weissenberger](#), president of Westover, said it has accelerated renovating its properties and has earmarked about \$30 million to spend on these upgrades over the next several years. That has meant doling out \$5,000 to pretty-up a kitchen to spending upwards of \$25,000 a unit on other improvements. Westover has a handful of clubhouses under construction as well as incorporating fitness centers and pools into some of its communities.

So far, Westover has been able to increase rents steadily — in the 3 percent to 4 percent range — over the last several years but that may not be the case in the near future.

“The market has been healthy and a lot of the apartments haven’t come online yet so we haven’t seen the effect yet,” Weissenberger said. “In King of Prussia, where there are a lot of apartments coming online, I think the market will struggle for a while for all of us because that’s a big chunk of apartments for an area to absorb.”

Once Westover starts to sense the new inventory is hurting its occupancy, it will start running deals including concessions like a couple of months of free rent.

“It’s not how low do we go but how high they have to be,” Weissenberger said about attracting and retaining tenants. “Our focus remains the same. When times get tough, when the market gets tough, when the economy isn’t doing well and affects how much people make, it’s generally Class A that suffers the most. Hopefully, we attract a more stable resident.”

Class B apartments can be a challenge to renovate and sometimes limit what can be done to them because they were built in a different era, said Michael Markman, president at BET Investments. For example, many were designed with lower ceiling heights and galley kitchens, he said. As with the others, BET has launched a series of upgrades to its properties such as remodeling kitchens and bathrooms and building what has become an increasingly popular feature — the clubhouse that is furnished and has plenty of party space.

“When people come and visit, it’s a compelling feature,” Markman said. “It can take you from a B to a B-plus. We are also putting in other amenities such as pools. Some people will rent from you because you have a pool.”

BET saw a glimpse of the future when a Toll Brothers Inc. rental community called Parc recently opened in Plymouth Meeting. It drew some tenants from BET’s nearby apartment complex and vacancy crept up but only temporarily.

“Once Parc filled up, they came to us,” Markman said. “With Class B apartments, even if it’s a nice location, they will rent up. You just have to work harder.”

The king of Class B apartments locally, which has a growing national presence, is Morgan Properties. The King of Prussia company owns 140 apartment communities with more than 35,000 units in 10 states throughout the country. The company so far isn’t feeling the effects of new apartments hitting the market.

“Not everyone wants to rent Class A,” said Mitch Morgan, who started the company in 1985. Rents at Morgan’s properties are \$500 to \$700 lower than its Class A counterparts, which lets it capture a bigger segment of renters.

Even though the company isn’t feeling any ill effects from more competition, it’s evaluating its portfolio to determine what the market wants in its units and starting to make those renovations. The company is spending \$15 million this year above and beyond what it normally spends on its properties.

“We do the best \$7,000 kitchen,” Morgan said. “We’re in the kitchen and bathroom business. If you take B product but give it close to an A amenity, it gives us a competitive advantage.”

The abundance of construction concerns Morgan, who thinks developers are overbuilding in markets such as Center City and King of Prussia.

“I’ve never seen as much multifamily construction in my career,” he said. “I believe there will be distressed opportunities.”

Some apartment owners aren’t all that worried about the wave of new units and Marks & Co. is one of those landlords. Jim Marks, who runs the company, specializes in a niche area of owning properties mostly along Montgomery Avenue between Bala Cynwyd and Bryn Mawr. These well-established apartment properties are right at or within a short walking distance of Main Line railroad stops and shopping. On occasion a unit will come available but most often Marks’ 14 properties with 650 units stay occupied.

That doesn’t mean Marks rests on his laurels. He will spend to modernize kitchens, bathrooms, hallways and add washers and dryers, for example. Part of his philosophy is to also be mindful of the landscaping around his properties so they look appealing.

“We don’t really have a lot of competition,” Marks said. “Our tenants like us