

ADDING VALUE IN THE AGE OF AMENITIES WARS



**ENHANCING VALUE
THROUGH AMENITIES
& REHABS**



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Enhancing Value through Amenities & Rehabs

From helipads to breweries to concierge services that can just about read a resident's mind, amenities have been a hot topic in the apartment industry for years, and the bar just keeps getting higher. For apartment owners and operators who have neither the capital nor even the demand for these over-the-top features, there are plenty of ways to increase their communities' appeal through amenities, many of which are simple to implement and require little up-front investment. This report seeks to identify top amenities in their communities: nationwide and in 11 selected cities, at both the community and unit level, and which ones have the greatest impact on revenue. An analysis of major renovations and their effect on rent and occupancies is also included.

This NAA Research study included 43 unique amenities, added or upgraded from January 2014 to September 2016. The universe of survey responses totaled more than 100,000 units in 35 states.

At the property level, half of the top 10 amenities added or upgraded since 2014 involve bringing people together — the community aspect of apartment living that is a draw to so many apartment residents. Clubhouses and common areas for socializing made the top five, with swimming pools, outdoor kitchens and play areas also proving popular.

Fitness centers remain a must-have in any community. Other amenities related to health and wellness such as bike storage, walking/jogging paths and fitness classes did not make the top 10, but were still fairly prevalent among the survey respondents. Despite the importance of community-wide Wi-Fi to many residents, business centers still outweigh it in terms of what owners are offering. Pet-friendly amenities rounded out the top five and ranged from pet-washing stations to off-leash dog parks.





Community-Wide Amenities

In a recent study by **J Turner Research**, fitness and wellness-related amenities ranked at the top in terms of percentage of residents willing to pay more. In fact, fitness classes and walking trails were in J Turner's top three, but came in 16th and 13th place, respectively, in NAA's Research, highlighting a mismatch in what residents are willing to pay for versus what owners are actually providing.

Business centers scored second, and remain popular today, as shown in both case studies which appear later in the report.

FIGURE 1
PERCENT OF RESIDENTS
WILLING TO PAY
A PREMIUM

source: J Turner Research

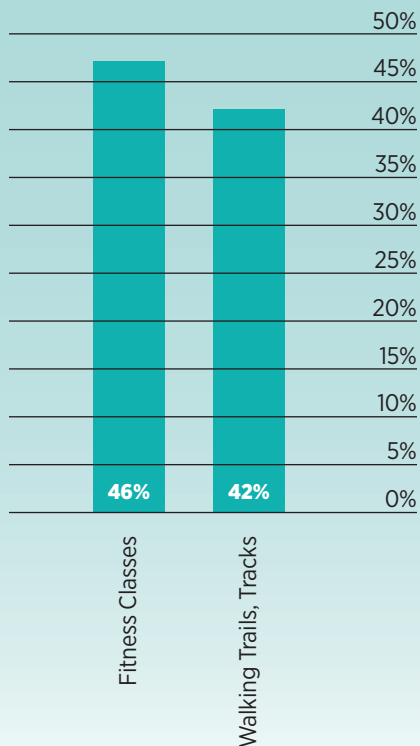


FIGURE 2
TOP COMMUNITY-WIDE AMENITIES
by Units Upgraded Since 2014

source: NAA Research

Fitness Center	12,574
Business Center	12,037
Clubhouse	11,250
Common Areas for Socializing	9,716
Pet-Friendly	8,942
Landscaping in Common Areas	8,555
Swimming Pool	8,492
Outdoor Kitchen	7,271
Playground or Play Area	6,668
Package Holding Area	6,651





Unit Amenities

At the individual residence level, washers and dryers were by far the most common feature that owners chose to add or upgrade, followed by high-end appliances and hardwood floors. Lighting, plumbing or electrical improvements and energy-efficient appliances were also near the top of the list.

Comparing the top unit amenities to the J Turner Research reveals residents willing to pay \$30 to \$75 more per month for granite countertops, a balcony and hardwood floors, respectively. The next section will focus on the actual value added by each amenity.

FIGURE 3
PERCENT OF RESIDENTS
WILLING TO PAY
A PREMIUM

source: J Turner Research

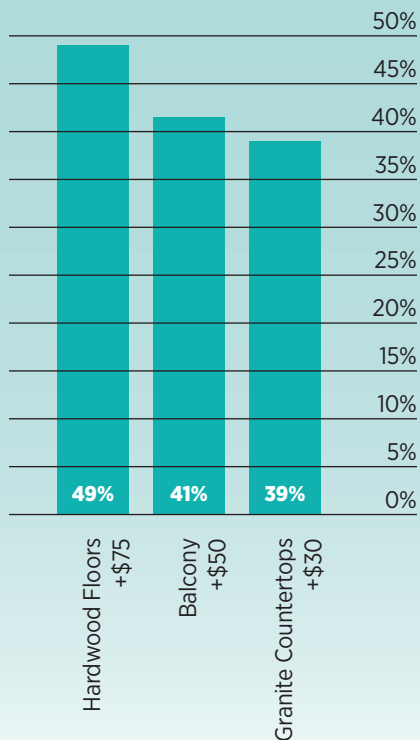


FIGURE 4
TOP UNIT-SPECIFIC AMENITIES
by Units Upgraded Since 2014

source: NAA Research

Washer/Dryer in Unit	9,386
High-End Kitchen Appliances	8,726
Hardwood Floors	7,976
Lighting, Plumbing, Electrical Upgrades	7,868
Energy-Efficient Appliances	6,738
High-End Kitchen Countertops	6,007
Ceiling Fans	4,747
Cable TV	3,138
Garbage Disposal	2,931
Patio, Balcony, Personal Outdoor Space	2,879





Amenities Value

Median cost information should be approached with careful consideration. Aside from location, which is one of the most important variables determining costs, upgrading an already-existing amenity versus adding a new one could have vastly different price tags. When ranked, clubhouse costs came out way ahead of other common area amenities. It's important to note that clubhouse features also vary widely, and could be anything from a rentable party space with few amenities to pool tables, large-screen televisions and fully built-out kitchens.

Overall, community-wide amenities garnered higher average rent increases of \$77 per unit compared to \$52 for unit-specific upgrades. Pet-friendly amenities had the greatest impact on rent increases, and with a relatively low cost to implement, clearly offer the best bang for the buck. Fitness centers, swimming pools, common areas for socializing and outdoor kitchens also played a role in adding value. Although business centers remain a commonplace amenity, ranking second during the past few years, they have little impact on rents and also fell farther down the cost scale among the survey respondents. Likewise, package-holding areas came at a relatively small price tag, but have become such an expected amenity that their value add is limited.

FIGURE 5
COMMUNITY REVENUE INFLUENCERS

source: NAA Research

■ Pet Friendly	17%
■ Fitness Center	13%
■ Swimming Pool	11%
■ Common Areas for Socializing	10%
■ Outdoor Kitchen	10%
■ Clubhouse	9%
■ Playground or Play Area	8%
■ Package Holding Area	8%
■ Business Center	8%
■ Landscaping Common Areas	6%

percent attributable to total rent increase

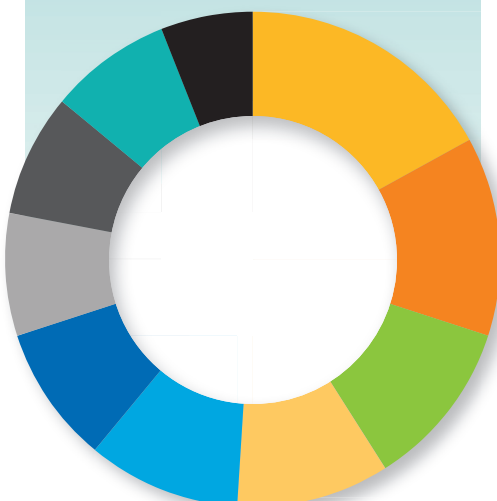


FIGURE 6
MEDIAN PRICE OF ADDED OR UPGRADED AMENITIES

source: NAA Research

Clubhouse	\$50,000
Fitness Center	\$28,500
Landscaping in Common Areas	\$25,000
Swimming Pool	\$25,000
Common Areas for Socializing	\$22,500
Outdoor Kitchen	\$20,000
Playground or Play Area	\$20,000
Business Center	\$13,500
Pet-Friendly	\$7,000
Package Holding Area	\$5,000



Of the individual unit amenities, the kitchen rules, being the location for half of the top 10 most-common amenities over the past several years. Appliances and hardwood floors carried the greatest costs among survey respondents, with ceiling fans and garbage disposals a low-cost, yet common upgrade.

Impacts on rent increases were nearly equally divided among energy-efficient appliances, high-end kitchen appliances and washers and dryers in the units, each attributable for 15 to 16 percent of revenue enhancement. With costs averaging almost 60 percent less than energy-efficient appliances, washers and dryers clearly offer the greatest return on investment.

FIGURE 7
UNIT REVENUE INFLUENCERS

source: NAA Research

Energy-Efficient Appliances	16%
High-End Kitchen Appliances	16%
Washer/Dryer in Unit	15%
Hardwood Floors	12%
High-End Kitchen Countertops	11%
Lighting, Plumbing, Electrical Updates	9%
Ceiling Fans	6%
Patio, Balcony, Outdoor Space	6%
Garbage Disposal	5%
Cable TV	4%

percent attributable to total rent increase



FIGURE 8
AVERAGE COST OF ADDED OR UPGRADED AMENITY PER UNIT

source: NAA Research

Energy-Efficient Appliances	\$2,027
Hardwood Floors	\$1,406
High-End Kitchen Appliances	\$1,383
Lighting, Plumbing, Electrical Upgrades	\$1,025
High-End Kitchen Countertops	\$960
Washer/Dryer in Unit	\$835
Ceiling Fans	\$199
Garbage Disposal	\$111
Patio, Balcony, Personal Outdoor Space	**
Cable TV	**

** Cost observations statistically insignificant



Case Study #1

PROPERTY NAME: The Village on West Irving

PROPERTY MANAGER: Elmstone Group Property Management, LLC

NUMBER OF UNITS: 91

LOCATION: Irving, Texas

YEAR BUILT: 1974

YEAR AMENITIES ADDED/UPGRADED: 2015

AMENITIES ADDED OR UPGRADED: Ceiling fans, vinyl floors, high-end kitchen appliances, lighting, plumbing or electrical improvements, swimming pool, Wi-Fi community-wide

TOTAL COST OF RENOVATIONS/REHABS: \$239,000

AVERAGE RENT INCREASE ATTRIBUTABLE TO AMENITIES: \$51 per unit

RETURN ON INVESTMENT: 39%

OCCUPANCY RATE PRE-AMENITIES: 84%

OCCUPANCY RATE POST-AMENITIES: 96%

LESSONS LEARNED:

Screening is important.
Know your residents and stay in touch with them.

WHICH AMENITIES GARNERED THE MOST POSITIVE FEEDBACK FROM YOUR RESIDENTS?

The whole package: Floors, kitchen backsplash, tile, modern fixtures, granite vanity, granite countertops in deluxe units. And while not a new amenity, residents love the convenience of paying their rent online.

WHAT'S NEXT FOR AMENITIES?

Planning more deluxe units due to high demand; business center.

GIVING BACK TO THE COMMUNITY

Summer meal program. Providing lunch to the resident children during their school breaks.





Case Study #2

PROPERTY NAME:	Sanger Place
PROPERTY MANAGER:	Kettler Management
NUMBER OF UNITS:	182
LOCATION:	Lorton, Virginia
YEAR BUILT:	1999
YEAR AMENITIES ADDED/UPGRADED:	2014/2015
AMENITIES ADDED OR UPGRADED:	Clubhouse, fitness center upgrade, playground/play area, reserved parking
TOTAL COST OF RENOVATIONS/REHABS:	\$154,500 (including 16 full unit upgrades)
AVERAGE RENT INCREASE ATTRIBUTABLE TO AMENITIES:	\$55 per unit
RETURN ON INVESTMENT*:	37%
OCCUPANCY RATE PRE-AMENITIES:	88%
OCCUPANCY RATE POST-AMENITIES:	92%

LESSONS LEARNED:

In this competitive environment, it's important to keep your property updated. We're hoping to complete additional renovations over the next year or so.

WHICH AMENITIES GARNERED THE MOST POSITIVE FEEDBACK FROM YOUR RESIDENTS?

The playground was a welcome addition and while it's not a new amenity, the residents really appreciate the pool.

WHAT'S NEXT FOR AMENITIES?

Planning to add a business center.

MAKING A HOME INTO A COMMUNITY:

The pool parties are extremely popular, and offer residents a chance to socialize and get to know one another better.



*Weighted by full unit upgrades vs. community improvements.



City Analysis by Enodo Score

Although the information collected in the NAA survey revealed high-level amenity trends at the national level, survey research inherently has its limitations, not the least of which is lack of market coverage for some major metropolitan areas. In addition, the scope of upgrades can vary substantially between markets, and the materials used for certain upgrades cannot always be clearly articulated through a survey instrument. Also, much of the data gathered relies on participants' subjective opinions of which value-add amenities had the greatest impact — and these opinions may or may not be the true source of value as perceived by the residents actually renting these units.

To overcome some of these limitations, NAA worked with Enodo Score, a real estate predictive analytics company, to provide a more objective, data-driven assessment of which amenities deliver the highest return on investment in various markets. You can learn more about Enodo Score at

<http://enodoscore.com>.

NAA thought Enodo Score's insight would be particularly relevant to value-add investors, who rarely have an objective way to quantify the returns of various value adds before installing them. The figures on the following pages highlight Enodo Score's findings for 11 selected cities.

Some key take-aways from the city analysis include the notable differences in the popularity of amenities across different markets. What is most popular in one city may barely get noticed in another. For example, a fitness center commands different rent premiums in each market.

On a city-wide basis, building-level amenities tend to command higher rent premiums than unit-level amenities, which aligns with NAA's research. Highly amenitized buildings tend to be in prime downtown areas, where rents are typically higher.

A concierge was most prevalent, ranking in the top 10 for rent premiums in nine of the 11 cities included in the study, with Boston commanding the highest premium of approximately \$75 per unit per month. It also becomes apparent that amenities are valued far more in some markets, such as Boston and Miami with the highest rent premiums on average, over other markets like Seattle, Austin and Phoenix. Package delivery, which was found to add limited value at the national level in the NAA survey, rises to the top in the San Francisco market where very few properties currently offer it.

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FIGURE 9
FITNESS CENTER

source: Enodo Score

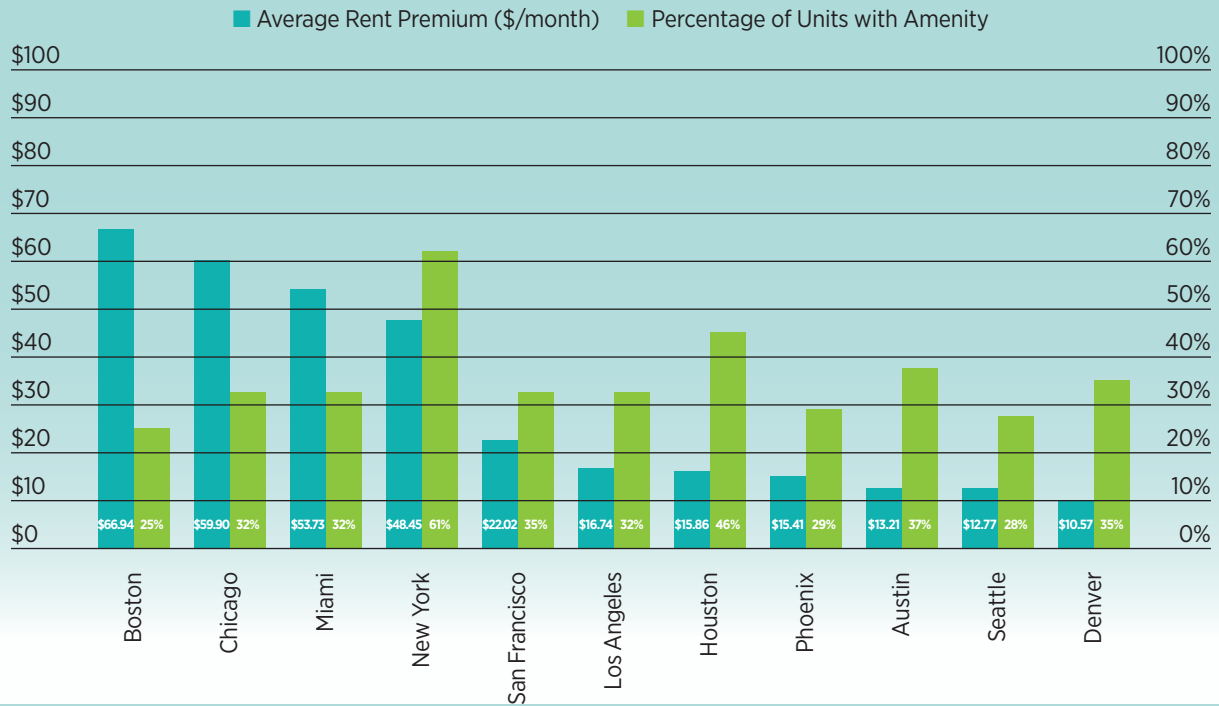
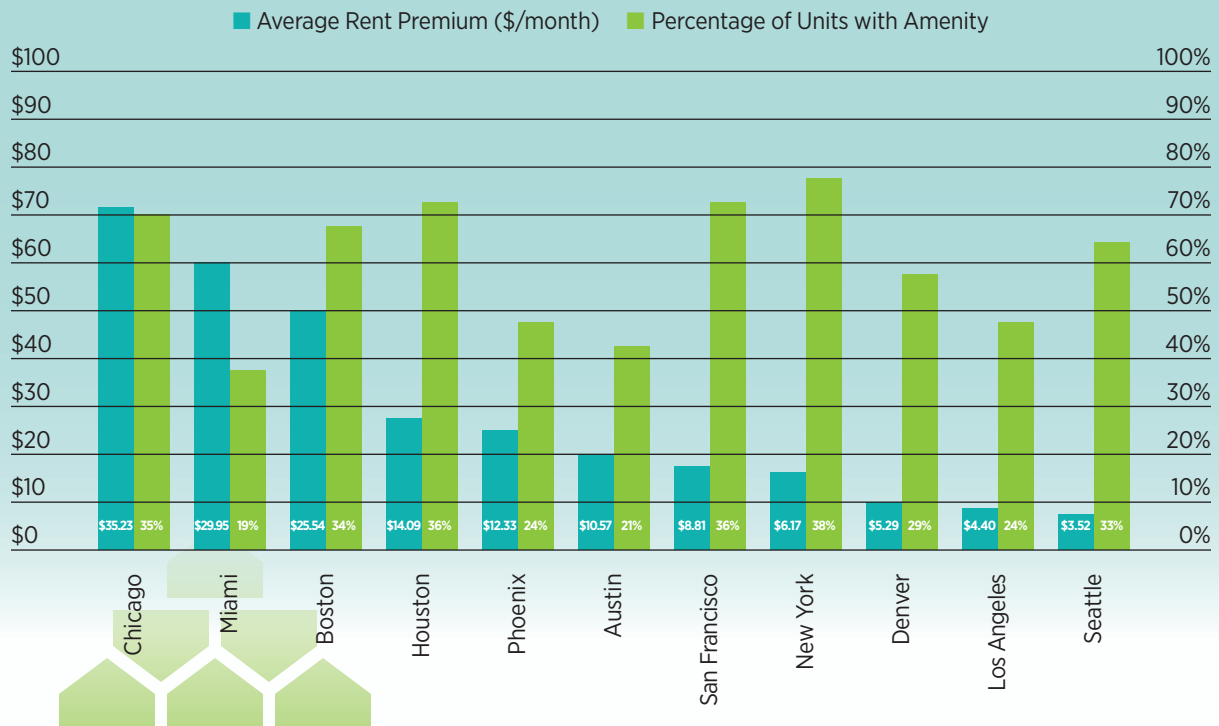


FIGURE 10
WASHER/DRYER IN UNIT

source: Enodo Score





The Enodo Score data also reveals opportunities for owners to add a valuable amenity in a market that is not yet saturated with them, such as lounges in Miami or online portals in Denver. It truly highlights the local nature and nuances of real estate, not only down to the city, but to submarket and micro-market levels. The final section of the report takes a brief look beyond amenities into larger-scale renovations and rehabs.

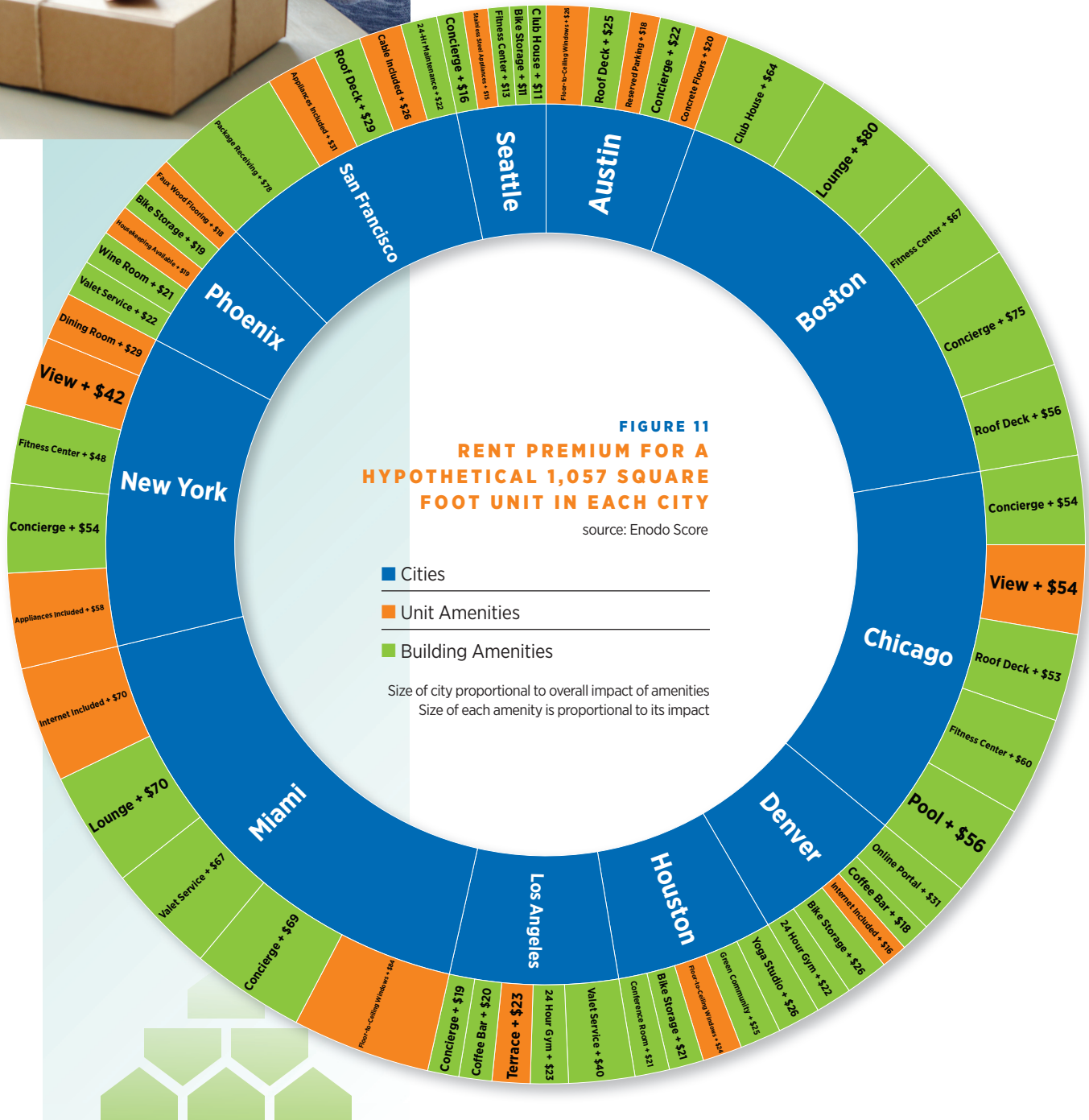


FIGURE 12
AUSTIN, TEXAS

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
Floor-to-Ceiling Windows	5%	\$26.44
Roof Deck	7%	\$24.65
Concierge	8%	\$22.03
Concrete Floors	9%	\$20.25
Reserved Parking	10%	\$17.61

FIGURE 13
BOSTON, MASSACHUSETTS

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
Lounge	16%	\$80.15
Concierge	22%	\$74.87
24-Hour Fitness Center	25%	\$66.93
Club House	15%	\$64.30
Roof Deck	20%	\$56.38

FIGURE 14
CHICAGO, ILLINOIS

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
24-Hour Fitness Center	32%	\$59.89
Pool	28%	\$56.37
Concierge	27%	\$53.73
View	42%	\$53.70
Roof Deck	26%	\$52.85

FIGURE 15
DENVER, COLORADO

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
Online Management Portal	8%	\$30.82
Bike Storage	18%	\$25.54
24-Hour Fitness Center	13%	\$22.04
Coffee Bar	13%	\$18.49
Internet Included	8%	\$15.85

FIGURE 16
HOUSTON, TEXAS

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
Yoga Studio	10%	\$26.43
Green Community/LEED	5%	\$24.66
Floor-to-Ceiling Windows	6%	\$23.78
Bike Storage	8%	\$21.14
Conference Room	16%	\$21.13

FIGURE 17
LOS ANGELES, CALIFORNIA

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
Valet Service	9%	\$39.64
24-Hour Fitness Center	6%	\$22.91
Balcony/Terrace	5%	\$22.89
Coffee Bar	5%	\$20.26
Concierge	15%	\$19.37





FIGURE 18
MIAMI, FLORIDA

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
Floor-to-Ceiling Windows	7%	\$83.68
Lounge	9%	\$70.47
Internet Included	5%	\$69.59
Concierge	17%	\$68.70
Valet Services	16%	\$66.94

FIGURE 19
NEW YORK, NEW YORK

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
All Appliances Included	84%	\$58.14
Concierge	68%	\$53.75
24-Hour Fitness Center	61%	\$48.45
View	67%	\$42.28
Dining Room	47%	\$29.07

FIGURE 20
PHOENIX, ARIZONA

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
Valet Service	5%	\$22.02
Wine Room	5%	\$21.15
Housekeeping Available	5%	\$19.38
Bike Storage	7%	\$18.50
Faux Wood Flooring	5%	\$17.62

FIGURE 21
SAN FRANCISCO, CALIFORNIA

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
Package Receiving	6%	\$78.39
All Appliances Included	71%	\$30.83
Roof Deck	28%	\$29.08
Cable Included	12%	\$26.42
24-Hour Fitness Center	5%	\$22.01

FIGURE 22
SEATTLE, WASHINGTON

Amenity Frequency and Avg. Premium (\$/unit/month)

source: Enodo Score

Amenity	Frequency	Avg. Rent Premium
Concierge	13%	\$15.86
Stainless Steel Appliances	38%	\$14.97
24-Hour Fitness Center	28%	\$13.21
Bike Storage	19%	\$11.45
Club House	23%	\$10.57





Major Renovations

Data availability for larger-scale apartment property renovations or rehabs are far more robust than data for one-off amenity upgrades. Across the U.S., Axiometrics counted more than 2,400 properties containing 654,000 units that underwent some type of renovation between 2014 and Q3 2016. More than 30 percent of the properties had rehabs that were significant enough to upgrade their classifications, as defined by **Axiometrics**.¹

Post-renovation effective rents averaged increases of 8 percent. Class C properties were able to push rents 11.8 percent, Class B, 7.6 percent and Class A, about 3.0 percent. Even so, a property with a pre-renovation classification of C that was upgraded to B averaged rents of \$919 per unit after renovations, \$880 less per month than their Class A counterparts. While owners of older properties can increase rents to help finance renovations that make their homes more competitive and attractive to residents, these properties are still able to maintain affordability, broadly speaking.

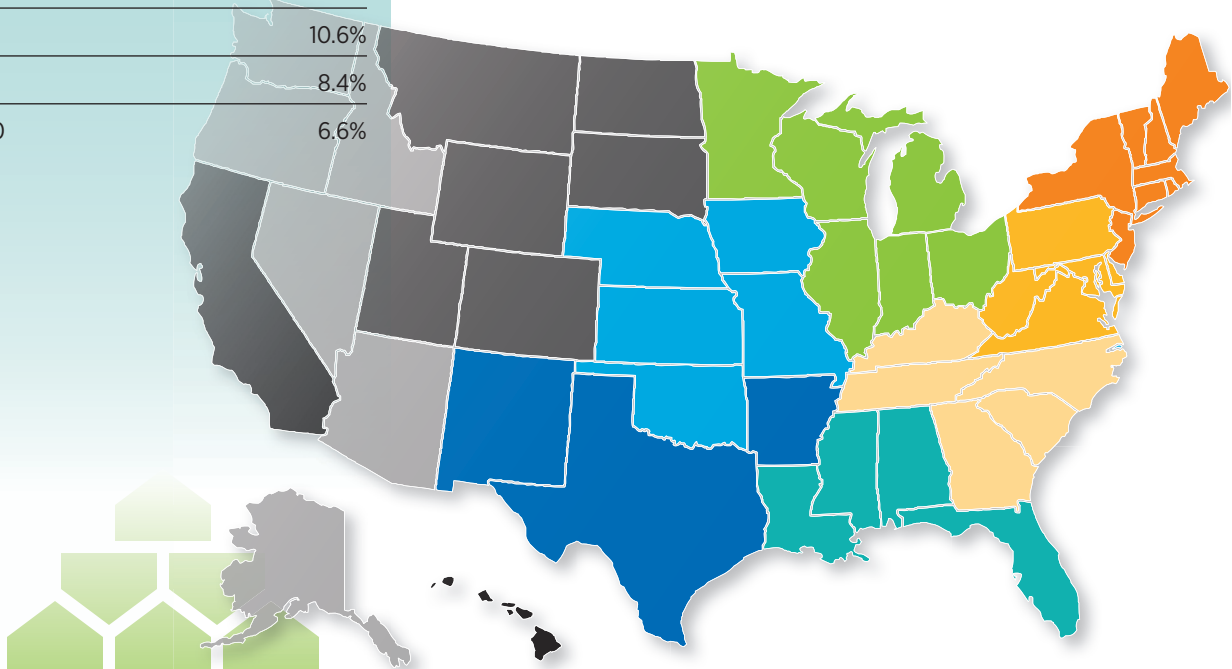
On average, occupancy rates in renovated properties increased by 0.55 percentage points in just three months, and an additional 1.15 percentage points six months after renovations were completed.

¹ Axiometrics defines Class A as those properties in the top 20 percent in effective rents in a market; Class B, middle 60 percent; and Class C, bottom 20 percent.

FIGURE 23
EFFECTIVE RENT
PERCENTAGE CHANGE
POST RENOVATION

source: Axiometrics, Inc., NAA Research

1	4.8%
2	6.7%
3	4.9%
4	9.0%
5	2.8%
6	7.7%
7	14.3%
8	10.6%
9	8.4%
10	6.6%





Data from NAA's Annual Income & Expenses Survey show a steady run-up in capital expenditures since 2011, with owners spending approximately \$1,200 on average per unit in 2015. For purposes of the survey, capital expenditures are defined as monies spent on items such as asphalt/parking, concrete, masonry, water heaters, range/cooktop/ovens, dishwashers, glass, blinds/draperies, sidewalks/curbing, vinyl, pool, new carpet, washers/dryers, club amenities, fitness equipment, etc. During the past five years, apartment owners have increased spending by an average of 13 percent annually, adjusted for inflation. As the apartment market landscape becomes more competitive and new product comes on line, owners are reinvesting profits to keep their properties attractive to prospective residents.

FIGURE 24
RENOVATION IMPACTS ON OCCUPANCY

source: Axiometrics, NAA Research

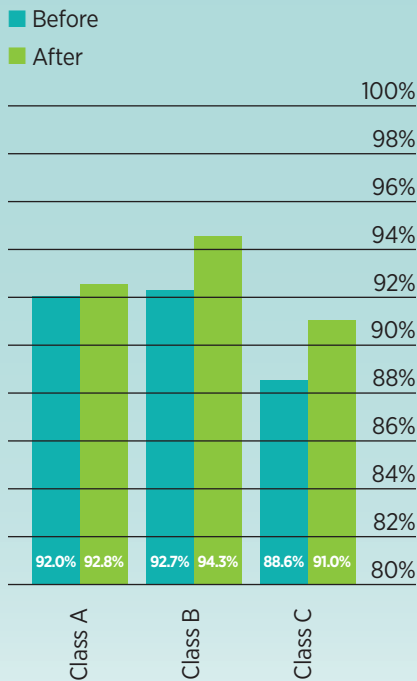


FIGURE 25
CAPITAL EXPENDITURES PER UNIT

source: NAA Income & Expenses Survey adjusted for inflation

2015	\$1,181
2014	\$1,091
2013	\$976
2012	\$895
2011	\$797
2010	\$654





Conclusion

Major renovations clearly have greater impacts on rents and occupancy levels, and the research provided in this report breaks this down further, focusing on the value of individual apartment amenities. While the extravagant ones make the news, there's value to be gained in even the simplest of amenities such as washers and dryers in units, and providing pet-friendly environments.

The city-level analyses highlight the variance among cities in not only which amenities are already prevalent, but what's considered valuable as measured by rent premiums. From an owner's standpoint, having this knowledge before making costly and potentially risky investments is invaluable.

With more than 51 percent of all rental housing stock built before 1980 and new supply on the rise, it's imperative that apartment property owners remain competitive, keeping buildings, outdoor spaces and individual residences up to date. Demographic and lifestyle trends that have favored apartment living in recent years show no signs of reversing themselves. Providing a wide range of amenity choices at all price points results in a win-win for both owners and residents.

Appendix: Methodology, Sources & Acknowledgements

The Amenity survey was open to NAA members and non-members during the summer of 2016. Data was collected on more than 100,000 units in 35 states. Top 10 community and residence amenities were based on total number of units upgraded or added since January 1, 2014. Average cost and rent increases were calculated for these units. Where data was more volatile, median calculations were used and are thus noted. Return on investment calculations for case studies used an average useful life of seven years, with the exception of full unit upgrades of 20 years.

Enodo Score's online platform and methodology are described in detail below.

Axiometrics provided property address, location, classification, unit counts, renovation start and completion dates and monthly occupancy and rental data for all properties in their proprietary database which underwent renovations between January 1, 2014 and August 31, 2016.

J Turner Research, "The Next Gen Apartment," September 2016.

Yardi Matrix was utilized for ad hoc property-level information to fill in some data gaps.

NAA especially wishes to thank its members and other survey respondents, who took the time and effort to complete the survey and contributed detailed, confidential financial information on their properties.

Enodo Score

Enodo Score's platform utilizes a series of machine learning algorithms to quantify the impact of more than 200 different amenities and more than 3,500 different demographic and economic variables on rent, occupancy and risk-adjusted returns for apartment properties throughout the U.S. The platform allows value-add investors and developers to simply toggle parameters such as "Has Granite Countertops" at the unit level or "Has Rooftop Deck" at the building level, and instantly see the impact on rent based on the specific location and unit mix of the subject property — and it does this with a very high degree of accuracy. According to Enodo Score's Chief Technology Officer, Marc Rutzen:

"The beta version of Enodo Score was able to predict market rents as a function of location, unit mix, and unit and building amenities, with approximately 93 percent accuracy."

Enodo Score Results

Enodo Score analyzed amenities data across more than 6.5 million units, focusing on the Top 30 most populous cities throughout the U.S., to determine which amenities command the highest rent premiums and how common each of these amenities are. Presented in this study are the results for selected major cities.

Two things are important to note about these results:

1. The incremental values of these amenities are calculated with respect to the average amenities package for a hypothetical apartment in one of the top 30 most populous cities. Therefore, if a property has an above-average amenities package,

the incremental impact of these amenities will likely be lower for that property (e.g., Class A property in heart of downtown). If you have a below average amenities package, the incremental impact will likely be larger (e.g., Class B property 20 minutes from downtown).

2. When looking at amenity values on a city-wide basis, it is actually possible for an amenity to have a statistically negative impact on rent. For example, an amenity such as a carport might only be present in more suburban apartments, where rents are much lower. It might therefore appear, in looking at the market as a whole, that properties with a carport generate less rent.

Impact for Specific Buildings

Although it is interesting to look at the popularity of amenities on a city-wide basis, it is really more informative and helpful to look at the impact for specific properties and neighborhoods. The amenities that are most valued for a Class A property in Chicago's Loop Neighborhood, for example, oftentimes are very different from the amenities that are most valued for a Class B property in Logan Square.

According to Enodo Score's Lead Data Scientist, Nicolas Lassaux, Enodo Score's platform actually takes into account the incremental impact of adding or removing amenities on any particular building, given the characteristics of both the building and its neighborhood:

“Based on the specific amenities a property has and the neighborhood within which it is located, our algorithm is able to predict the impact of adding or removing amenities for that specific property. We account for the demographic and economic differences between neighborhoods through clustering algorithms, then allow the user to examine the impact of adding or removing amenities to properties within each cluster.”

To learn more about Enodo Score, visit: <http://beta.enodoscore.com>

For more information on NAA Research contact Paula Munger: pmunger@naahq.org

