

Fiesta Park

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BH Properties recently renovated its affordable apartment community Fiesta Park. The community, located in Mesa, Ariz., was able to increase its occupancy by 40 percent. MHN looks at some of the stats of the successful property overhaul.



Give a brief description of the changes.

Stick to the basics when renovating properties within the B- to C classes. Investing in common areas typically brings

the most value to a community. By applying a fresh coat of paint to the exterior of all buildings, updating furnishings around the pool area and increasing outdoor lighting throughout the community, BH Properties was able to create a cleaner and more inviting environment, which attracted a new resident base to a once-troubled community.

The previous owner had found himself underwater on the loan and was not able to put more money back into the property. Units were stripped to repair others, resulting in a large number of down units and others in disrepair. We replaced missing appliances, upgraded light fixtures, resurfaced countertops and laid better flooring.

Why did you decide to renovate?

The keys to success with value-add plays are patience and a true understanding of the market. BH Properties identified Phoenix as a market that, although having been hit hard during the Great Recession, had the fundamentals for a strong economy with an improving business-class and large working-class population. As a result, there was a significant opportunity for the market to bounce back, making Phoenix a great investment opportunity.

The resident base had suffered in that as the economy was tanking the seller wasn't putting money back into the units. In order to generate tenancy, they were cutting rents and reducing underwriting standards.

Visually, there was an irrigation problem. First-floor units were below grade, which resulted in those units having moisture issues because of the irrigation and drainage issues. Railing along the second-story floor was decaying, stucco was falling off and the fencing was not good. The leasing office was hard to find and visually not inviting. A lot of clean up was involved in order to create a more desirable place to live.

What were some challenges associated with the renovation?

When located in the right market, underperforming Class B- to C properties have the potential to be repositioned and transformed into profitable investments.

The challenge for C-class apartments is that management can only charge so much for each unit. Market restrictions force owners to constantly try to balance improvements and the limited ability to increase rates to cover costs. With these restrictions, the investment goals are much different than with Class A properties where owners have an increased amount of flexibility as its tenant base will most likely pay the higher rate for upgraded amenities.

What are some positives that came about after the renovation?

After renovations were completed, BH Properties was able to increase occupancy from 50 percent at the time of sale to 90 percent within the first eight months of ownership. Then, with a stable tenant population, BH Properties was able also to increase rent by 24 percent, in line with the market recovery.

Property Snapshot

Date of original construction: February 1979

Date renovation started and date renovation completed: 2008 to 2010

Occupancy before and after renovation:

Occupancy increased from 50 percent at the time of sale to 90 percent within the first eight months of ownership.

Rent range before and after renovation:

Before: Average rents were \$473

After: Ranges from \$458 to \$980

Total cost of renovation: \$1.4 million

What is the hard construction cost per foot?

\$4,375 per door

What is the square footage of the buildings?

234,696 total

How many floors are there and how many units per floor? What is the total number of units?

Floors: 2; Total number of units: 320-unit

Describe the range of unit styles/sizes

One-bedroom, one-bath units range from 624 to 662 square feet, and two-bedroom, two-bath units range from 932 to 1,087 square feet.

What are the amenities and noteworthy features in common areas? Covered parking, landscaped courtyards, playground, barbecue grills, racquetball court, pool, laundry facility, 24-hour maintenance services

Who was involved on the renovation project team?

Owner: BH Properties

Developer: In-house

Financier: The cost of the capital improvements was self-funded

Builder: In-house

Architect: In-house