# Valleyfield Apartments: Bridgeville, PA

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**The Deal:**

- **Overview:** Valleyfield Apartments is a 78-unit (46,944 SF) one-story apartment complex located 20-minutes southwest of Pittsburgh, PA in Bridgeville. The 14-building property was built in 1985. Unit mix consists of Studio (9, 12%), One Bed/Bath (53, 68%), Two Bed/One Bath (12, 15%), and Two Bed/Two Bath (4, 5%). Currently 98.7% occupied.
- **Amenities:** Valleyfield has 199 surface parking spaces (2.6 per unit), outdoor picnic tables, and is close to outdoor recreational areas. All units have private entrances, most have private patios and additional storage spaces.
- **Strategy:** Invest in value-add property. Ability to rehab all 78 units, increasing rent by 12%. Perform previously delayed capex to immediately enhance exterior property appearance. Ability to convert onsite laundry to additional studio unit at a 54% discount to replacement cost. Exit at year 10, or after converted stabilization if market shifts.
- **Investment:** Purchase price assumption of $6.02m (7.5% entry on T12, 8% exit cap). $78,917 per unit, $128psf. Unlev IRR 8.8%. Lev IRR 11.5%. Exit cap increase of 50bps due to steady market fundamentals and age of property.

**Key Attributes:**

- **Tenant Retention:** The average tenant has occupied their apartment for 4.5 years (national average is 2.5 years) which provide stable rent income and reduced vacancy costs. This trend has continued despite above-market rent escalations.
- **Micro Location:** Property is close to ample green space including parks, trails, outdoor recreation. Local schools in the municipality are highly rated. The property is a 15-minute drive to Upper St Clair and Mt Lebanon, two of the best neighborhoods in the Greater Pittsburgh Area. Both areas are relatively high-income zip codes and are a likely source of workforce employment.

**Key Risks and Mitigants:**

- **High Supply in Submarket Region:** There are numerous similar apartment complexes in the area despite strong hyperlocal demand drivers. Comparable properties are offering concessions (one month free rent). If tenants are forced to move out at the end of the term for renovation, it is likely they will have many options for new accommodations. The average tenant has lived at the property for 4.5 years and may be unlikely to move back in after renovation.

  **Mitigant:** Comparable properties are working to renovate units and increase rents. Preserve portion of units (recommended 50%) in unrenovated condition, allowing local supply to stabilize before further unit improvements. Renovate remainder in Year 7. Offer moving allowance concession to current tenants if they want to move into a new, renovated apartment at Valleyfield.
- **Low Cost to Own:** The average local condo ($100k purchase, $700 mo/pmt), or house ($250k purchase, $1,750 mo/pmt) can be easily purchased by potential renters. Qualifying annual income is $28k/$70k for condo/house respectively, well below 1 mile radius average income and projected tenant average income.

  **Mitigant:** Market to tenants who would not be eligible for home purchase, i.e. with low credit scores, going through divorce, or relocating to the area. Consider leasing concessions for extended term lease agreements.
- **Diminished Rent Growth Potential:** Comparable properties have on average lower rent per square foot than Valleyfield ($1.26/sqft vs. $1.61/sqft, respectively) Continued aggressive rent hikes could drive out tenants to other units with lower rent.

  **Mitigant:** Increase service offering for tenants, such as the ability to pay rent on a credit card, adding on-site storage, or complimentary dog amenities. Increase perceived value of complex by updating exterior façade. Valleyfield units are smaller in square footage but contain similar amenities, and offers garden style apartments, partially justifying the discrepancy.

**Assumption Adjustments:**

- **Average Unit Rent:** Rent roll adjustment of in place market rent based on T3/T12 averages. Rent roll average increase of 1% compared to offering memorandum.
- **Unit Rehab and Capital Expenditures:** Deferred capital expenditures contribute to current dated appearance of property. Fully roof replacement, full-depth driveway repair, and exterior paint to be complete by Year 2. Unit rehab of kitchens and bathrooms contributes to 260bps lift in Lev IRR. Full project renovation completion projected by June 2025.

| **Property Characteristics** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Floors:** | 1 | **Year Finished:** | 1985 | **MF SF** | 46,944 | **Total Units:** | 78 |
| **Buildings:** | 14 | **% Occ:** | 98.7% | **Avg Rent/SF** | $1.61 | **Parking** | 199 spaces |

| **Rent Roll** | | | | | | |
|---|---|---|---|---|---|---|
| *Units* | *Unit Type* | *Size (SF)* | *Total SF* | *Rent (T3/T12)* | *Rent PSF* | *Total Base Rent* |
| Rentable Units | | | | | | |
| 11 | Studio | 288 | 3,168 | $885 | $3.07 | $95,580 |
| 53 | 1 Bedroom / 1 Bathroom | 576 | 44,352 | $933 | $1.62 | $593,388 |
| 12 | 2 Bedroom / 1 Bathroom | 864 | 14,668 | $1,096 | $1.27 | $157,824 |
| 4 | 2 Bedroom / 2 Bathroom | 864 | 4,320 | $1,128 | $1.31 | $54,144 |

| **Assumptions & Projections (10-year hold)** | |
|---|---|
| Entry Cap Rate (T12 NOI) | 7.50% |
| Exit Cap Rate (10-year hold) | 8.00% |
| Unlev IRR | 8.8% |
| Lev IRR | 11.5% |
| Lev Equity Multiple | 3.15x |
| Lev Net Profit | $5.3m |
| Reassessed Annual Property Tax (Currently $88,952) | $116,511 |
| Mkt Rent, Other Income, OpEx, CapEx [Annual Growth %) | 3% |
| LTV, Interest Rate, Term | 60%,6.5%,10 Y |

| **Unit Rehab Overview** | | | |
|---|---|---|---|
| Unit Type | Rent Increase | New Mkt Rent | Total Cost |
| Studio | $75 | $960 | $43,200 |
| 1 Bd / 1 Ba | $100 | $1,033 | $318,000 |
| 2 Bd / 1 Ba | $125 | $1,221 | $96,000 |
| 2 Bd / 2 Ba | $200 | $1,328 | $40,000 |
| | | Total (PV $) | **$497,200** |
| | | Lev IRR (with and without rehab) | **11.4% vs 8.8%** |

**Unit Rehab Updated Market Rent Assumptions**

Four of the comparable properties have renovated units and are currently marketing availability online. Valleyfield is unique as it has studio units and lacks the micro market typical 1.5 bath, 2 bed product. This analysis uses weighted avg to compensate.

Average rent for renovated comparable 1 bed units is $1,090. $100 rent increase (rehab market rent of $1,033).

Average rent for renovated comparable 2 bed units is $1,417. $200 rent increase (rehab market rent of ($1,328).

New, after rehab pricing will create a competitive offering.

| Capital Expenditure Assumption Information | | | |
|---|---|---|---|
| Line Item | Work | Description | Cost (PV $) |
| Roof | Full Replacement Y1 | Aerial images show severe roof degradation. We recommend immediate replacement to preserve asset quality. 1.35x roof sqft estimate based on RSF due to low pitch angle. | $270,926 |
| Pavement | Full Depth Y1, then Period Seal Y6 | Driveway and parking lot replacement in Year 1 due to noticeable cracks and undulations. This will provide enhanced aesthetic to new, rehab priced, tenants. 350sqft parking space assumption with 1.5x markup. | $783,563/ $26,119 |
| Painting | Exterior Painting Y2 & Y7 | Siding and wood paneling paint after the roof has been replaced and a significant proportion of units have been rehabbed. | $62,400 |
| | | Total Cost | **$1,205,407** |

### Capital Expenditure Sensitivity

The assumption around capital expenditure and projected budget has significant implications to internal rate of return. Assuming market rent growth stagnates at annual rate of 3%, a CapEx spend 50% higher than projected would result in leveraged return of 9.5%, a 200bps decrease.

**Leveraged IRR decreases as capital expenditure goes over budget**

| | Capital Expenditure Spend | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| % over Budget | -17% | 0% | 24% | 45% | 66% | 87% | 107% | 128% |
| CapEx Spend | $1m | $1.2m | $1.5m | $1.75m | $2m | $2.25m | $2.5m | $2.75m |
| Market Rent Growth | | | | | | | | |
| -0.50% | -4.5% | -5.5% | -6.3% | -7.1% | -7.9% | -8.6% | -9.2% | -9.9% |
| 0.00% | -0.8% | -1.7% | -2.6% | -3.4% | -4.1% | -4.8% | -5.5% | -6.1% |
| 0.50% | 2.1% | 1.2% | 0.4% | -0.4% | -1.1% | -1.8% | -2.5% | -3.1% |
| 1.00% | 4.6% | 3.7% | 2.9% | 2.1% | 1.4% | 0.7% | 0.0% | -0.6% |
| 1.50% | 6.8% | 5.9% | 5.1% | 4.3% | 3.6% | 2.9% | 2.2% | 1.6% |
| 2.00% | 8.8% | 7.9% | 7.1% | 6.3% | 5.5% | 4.8% | 4.2% | 3.5% |
| 2.50% | 10.6% | 9.7% | 8.9% | 8.1% | 7.3% | 6.6% | 6.0% | 5.3% |
| 3.00% | 12.2% | **11.5%** | 10.5% | 9.7% | 9.0% | 8.3% | 7.6% | 7.0% |
| 3.50% | 13.8% | 12.9% | 12.1% | 11.3% | 10.5% | 9.8% | 9.1% | 8.5% |
| 4.00% | 15.3% | 14.4% | 13.5% | 12.7% | 12.0% | 11.3% | 10.6% | 9.9% |
| 4.50% | 16.7% | 15.8% | 14.9% | 14.1% | 13.4% | 12.6% | 12.0% | 11.3% |
| 5.00% | 18.0% | 17.1% | 16.2% | 15.4% | 14.7% | 14.0% | 13.3% | 12.6% |
| 5.50% | 19.3% | 18.4% | 17.5% | 16.7% | 15.9% | 15.2% | 14.5% | 13.9% |
| 6.00% | 20.5% | 19.6% | 18.7% | 17.9% | 17.1% | 16.4% | 15.7% | 15.1% |
| 6.50% | 21.7% | 20.8% | 19.9% | 19.1% | 18.3% | 17.6% | 16.9% | 16.2% |
| 7.00% | 22.8% | 21.9% | 21.0% | 20.2% | 19.5% | 18.7% | 18.0% | 17.4% |

*Model Assumption of Projected Lev IRR of 11.5% with $1,205,407 Capital Expenditure