

An in depth analysis of all aspects of pipe work restoration.

Part 2

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The economy side of pipe work projects

The Costs

The costs for a pipe work restoration project vary a lot because of several aspects, for example the projects extent, the timing for the purchasing process, and because of which renovation method is chosen.

Why should you not always choose the simplest extent?

The reasons why it sometimes, or even most of the time, is better to carry out the more extensive renovation are several. Among other things, certain measures are well paid in form of rent increases. Another reason can be that if you add something which under normal conditions is not reason enough for increasing the rent, but together with the other measures the tenant union can acknowledge a larger rent increase; if the measure is strongly requested by the tenants themselves. A third reason can be aspects such as cost savings in the operational running of the business in the future.

The Principle

The principle is very easy. You have to restore and renovate bad pipes, sewage pipes, bathrooms, and kitchens; to finance that you would like to raise the rents. The rise of the rents should be adequate enough so that it will be a worthwhile business to renovate the pipe work together with the bathrooms and kitchens. The business in itself is the main reason that the extent of a pipe work restoration normally includes so much more than just the pipes, sewage pipes, kitchens and bathrooms. To get the best outcome of the restoration project you will have to raise the

standard of the apartment. Normally the bathroom will be equipped with:

- Tiles on both the walls and floor.
- Towel drier.
- New sink and toilet
- New bathroom cabinet with razor socket
- An exclusive shower wall

Due to the same reason, you will upgrade the kitchen because the pipes for the water and sewage should be changed even there.

The extent in the kitchen is normally:

- New kitchen
- New stove (normally with glass top.).
- New fridge and freezer
- New extractor fan
- New floor (normally tiles)
- Painting the walls

Together with the renovation of the kitchen and bathroom, it is pretty normal to renovate the electrical installation as well so that it will fulfill the standards according to the regulations.

As you can imagine, the hall will be very messy during a pipe work renovation project. Therefore it has seemed to be a good investment to renovate the hall as well.

The reason is that the contractors do not have to spend time protecting the old floor and walls during the renovation, and therefore they can work a little bit faster. The tenants Union is normally quite positive to raising the rents a little bit extra if the hall is also renovated.

- New floor and painting the walls.
- Security door.

To improve the economical outcome of the project, it is normal to install a security door. Normally installing security doors has a return of around 12 percent.

Income

Because of the regulated renting system in Sweden, it is important to act in accordance with that. It means that you are not allowed to have rents higher than the municipality have for an equivalent apartment. The level of the average rents can change a lot from one municipality to another. In some cities there is a big difference between renovated buildings and non

renovated buildings, and in other cities there is almost no difference.

That means that in the cities with a small difference, it is very hard to get an acceptable return from a pipe work restoration; similarly, it is quite simple to get an acceptable return in the cities with big difference in comparable rent.

It is possible to go around this rule but it requires that the “market rent” is higher. What you have to do is to raise the standard to a level higher than the apartments owned by the municipality. One example can be to install spotlights in the ceiling in the bathroom. Or maybe a Jacuzzi could make enough difference between the municipality owned apartments.

The valuation of a real estate

A real estate will be valued from its operating surplus and yield which will change according to risk, possibilities and location. The fact that a real estate has a higher value after a renovation is pretty clear, one because its operating surplus will rise due to higher incomes but also because of lower costs.

It is reasonable that the costs for operating costs and maintenance will be reduced by 30 to 40 SEK per square meter after a pipe work restoration, if it includes both new bathrooms and kitchens. Of course, the savings depends on the extent of the renovations, but a part of the saving is the reduced costs for water due to new taps and new toilets which consume much less water than the older models. The savings in maintenance is as a result of reduced costs for water damage, broken toilets, kitchens and more.

In some projects, the windows will also be replaced, and that will also reduce the costs for heating.

Most likely a newly renovated real estate should be valued with a lower yield. This can seem strange, but the fact is that real estate without any renovation needs should attract more interest and more potential buyers in the market than real estate which has to be renovated in the near future.

According to one of the bigger valuation companies in Sweden, the yield could be up to 0.25% lower for a newly renovated real estate compared with real estate with a need for a major renovation. Or of course, the net renovation should have a 0.25% higher yield. It depends on how you look at it.

Examples of pipe work renovation projects

I will present two real pipe work renovation projects. I will also describe and explain why they were carried out as they were according to extensiveness and return.

Project Assessorerna

Number of apartments	31 + 2 premises
Living space	1,825 sqm
Rents before the project	1,683,909 SEK (922 SEK/sqm)
Rents after the project	2,190,000 SEK (1,200 SEK/sqm)
Cost for the project	11,700,000 SEK
Reduced running costs	58,400 SEK (32 SEK/sqm)
Return	4.8 %

The extent:

Installations:

Replacement of all water and sewage pipes in the building.

Bathrooms:

Total renovation of all the bathrooms.

Kitchens:

New kitchens, freezers, fridges, stoves, fans, new floors and painting of the walls and roof.

Hall:

Security doors and tiles on the floor.

Electrical installations:

Replacement of all electrical installations..

Roof::

Renovation.

Description of the project

The building which was built in 1938 had problems with poor water and sewage pipes, bathrooms, kitchens, the electrical installations, and a leaking roof. Therefore, every year we had a certain amount of moisture damage. Security doors were installed because it gave us a good return, and the new electrical installations were made because of a major need and requirements from the government.

The Project Krokodilen/Maneten

Number of apartments	28
Living space	1,579 + 616 sqm
Rents before the project	1,203,000 SEK (762 SEK/sqm)
Rents after the project	1,707,250 SEK (1,081 SEK/sqm)
Cost for the project	10,500,000 SEK
Reduced running costs	50,528 SEK (32 SEK/sqm)
Return	5.3 %

The extent:

Installations:

New water pipes and new/relining of sewage pipes to all bathrooms and kitchens.

Bathrooms

Total renovation of all bathrooms

Kitchens:

New kitchens, freezers, fridges, stoves, fans, new floors and painting of walls and roof.

Hall:

Security doors.

Electrical installations

Replacement of electrical installations in the apartments.

Description of the project

The buildings which were built in 1955 and 1960 had problems with poor water and sewage pipes, bathrooms, kitchens, the electric installations and a leaking roof. Therefore, every year we had a certain amount of moisture damage. Security doors were installed because it gave us a good return and the new electrical installations were made because of a major need and requirements from the government.

Other methods

The projects above are rather traditional. Other solutions which can be utilized for the bathrooms are the "room in room" method. A new method of handling the water pipes is to reline even them; this is a new method which means that you do not have to replace the water pipes. That can surely be a good alternative for some projects.

Summary

Is the need for a pipe work restoration a threat or a possibility?

Most likely it is for the most part it is more a threat than a possibility, because it is rather hard to get an acceptable return in that type of project.

However, there are definitely cases where it is a possibility; but then it is very important that you have access to capital and can raise the rent by at least 250 SEK per square meter.

To choose the right method for every project is difficult because you can never say that one method always is better than another. Therefore, you must check the price for all methods for every project. The reason is of course that it is not only the different type of buildings, it is also the competition between the different contractors which is important to make a conclusion.