

# TURNING POINT INVESTMENTS, LLC.

## CASE STUDY: ARCH STREET VILLAGE (BERKELEY, CA)

### The Asset

Turning Point Investments ("TPI") acquired 1850 & 1862 Arch Street in Berkeley, CA in September 2019 for \$8,400,000. Constructed in the 1920's, the asset features 20 units and 12 on-site parking spaces. Located on a tree-lined street just one-half block from the UC Berkeley ("Cal") campus, the asset caters to Cal students ( $\pm 45,000$  students and  $\pm 23,000$  staff) and Berkeley professionals alike.



### The Opportunity

The units in both properties are significantly larger than would be constructed today. This presented the opportunity to create value by renovating units and adding bedrooms within the footprint of each unit. For example: converting a 1-bed/1-bath unit into a 3-bed/1-bath unit increases potential monthly rent by  $\pm \$3,000/\text{mo}$  (a 125% increase).

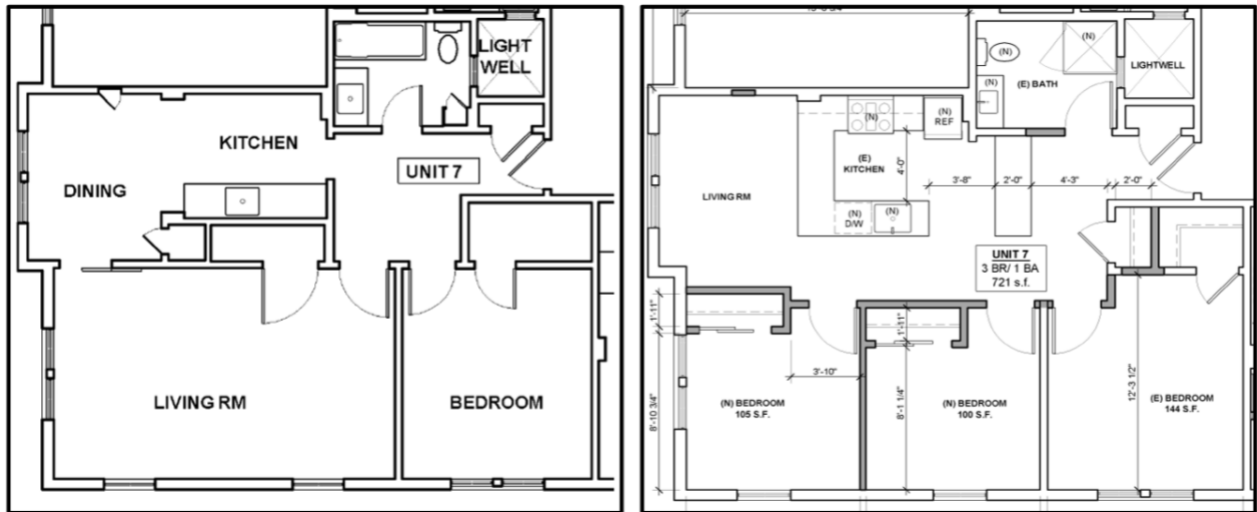


Figure 1: BEFORE and AFTER of 1850 Arch #7, which we converted from a 1-bed/1-bath to a 3-bed/1-bath

The right to add bedrooms necessitated the grant of a Conditional Use Permit from Berkeley's strict Zoning Adjustments Board. Upon acquisition, TPI engaged consultant Rhoades Planning, and with its help we were successful in securing the Conditional Use Permit early 2021.

## Pandemic and Response



Figure 2: Furnished Unit

During the 16-month period between acquisition and grant of the Use Permit, the Covid pandemic forced Cal to shutter its doors. This resulted in an exodus from the project. We were loath to re-lease the units "as-is" at suppressed (Covid) rates to potentially very long-term tenants, yet equally reluctant to sit on vacancy awaiting grant of the Use Permit.

Faced with this quandary, TPI elected to [furnish the vacant units and list them on Airbnb](#).

Our rationale was threefold:

- 1) This strategy would allow us to keep the asset fully leased to a string of short-term tenants, thus avoiding long term rent-protected leases which would preclude unit renovations
- 2) This approach would allow us to recapture and renovate each unit *at our discretion* to align with peak leasing season once the Use Permit were to be secured
- 3) We had noted that demand for short-term furnished housing in Berkeley (uniquely) had remained robust throughout the pandemic, due in part to Cal's ongoing research studies, laboratories, etc.

In addition to creating value through [unit renovations and bedroom additions](#), TPI made significant investments including a new electrical system, updated heating systems, and voluntary seismic reinforcements. All common areas have received new, contemporary finishes including paint, carpet, and lighting. These modernizing investments have not only enhanced the long-term durability and operational efficiency of the asset but have also dramatically improved the aesthetic, allowing us to achieve market rents on-par with other top-tier properties in the market.

## Result

TPI's pivot towards a short term/furnished rental strategy proved sage. Each of the Airbnb tenants vacated on cue, allowing us to map our own renovation schedule. By Q4 '22, we had

renovated 11 units (relative to the 7 we had anticipated by this point in time). Further, achieved rents are approximately 8% above our apples-to-apples underwritten rents, a



Figure 3: Typical BEFORE and AFTER Finishes

testament to the resiliency of the rental market for high quality Cal-adjacent product.

### Summary

By pivoting to a short-term furnished unit model, we turned a potential catastrophe (the pandemic and resulting untimely exodus from the project) into a coup. Each of the furnished units has indeed vacated, been renovated with bedrooms added, and leased at today's higher lease rates. The renovated units are modern, spacious, and comfortable, despite the increased bedroom density.

While we are pleased to have renovated 11 units – ahead of proforma timing *and* proforma rental rates - there remains the opportunity to significantly increase the value of the asset in the years to come. Most notably, four of the remaining units are leased by very long-term tenants paying rent-controlled rates far below market. As these units may turn over time, rental income (and asset value) is expected to increase significantly.

For further information on Turning Point Investments, LLC. and our future projects, please don't hesitate to contact us. We are actively searching for other compelling real estate investment opportunities, and for fellow investors to join us.

Sincerely,

Kind Regards,

A handwritten signature in black ink, appearing to read 'Riccardo Gale', is placed over a light gray rectangular background.

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