



Replacement reserves

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Stuff wears out. Apartment investors know that. So they budget for it, setting up a replacement reserve to take care of future capital costs. For most, this replacement reserve is fiction. They don't really set aside dollars. That's okay some of the time, but not all of the time.

What counts?

A typical replacement reserve budget includes the cost to replace appliances, water heaters, window coverings, carpeting, roof, and maybe a few other components. But that's about all. If investors budgeted for decks, parking lots, kitchen and bathroom cabinetry, windows, water lines, plumbing, and other property needs, the replacement reserve budget will easily exceed \$500 a unit, even for a new property.

The problem

So why don't investors budget enough? Alvin Arnold explains why in his *Real Estate Investors Deskbook*, essentially saying owners are often reluctant to use a complete schedule of capital components because the resulting reserve is depressingly high. That may feel good in the pocketbook now, but it hurts later, and ultimately costs money at the time of sale.

The solution

This article looks at the problem and comes up with a solution.

Most buyers' replacement reserve budgets we see are...

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