



PE Tracks Down Multifamily Flooring Services



Home renovation. Stock-Asso/Shutterstock



Investors such as Rainier are picking up flooring companies that provide tenant turnover services to multifamily clients as high mortgage rates boost the rental market.



By Nikitha Sattiraju

August 17, 2023 03:15 PM

Flooring installation companies, particularly those servicing multifamily rental units, have become hot targets for private equity investors.

The market's recession resistance, fragmentation and recurring nature has sponsors chasing companies that install new floor coverings as frequently as a new tenant signs a lease.

The latest entrant to the market, **Rainier Partners LP** snapped up multifamily and commercial flooring business SCI Floor Covering Inc. in July.

"What we liked about this business is that very little of their revenue is tied to any new construction activity—the vast majority comes from recurring tenant turnover," said Rainier Managing Partner **Alex Rolfe**. "Flooring is a very cost-effective way to refresh the aesthetics of an apartment, it's not terribly invasive and it's needed fairly regularly,"

Rainier also considered the potential for 'disintermediation risk,' or the chance that a customer may do the service themselves. For flooring, property managers are typically not interested in managing a rolodex of potential contractors and prefer to outsource the service, Rolfe said.



Romulus, Mich.-based SCI manages a network of contractors that provide soft and hard surface flooring products and installation, predominantly for multifamily homes, followed by schools, hospitals and senior living centers with a small portion focused on office buildings.

SCI currently operates in and around Detroit, Grand Rapids, Mich. and Kansas City, Mo. The firm will initially look to expand contiguously through the Midwest via M&A.

While Rainier doesn't have any limitations on the size of add-ons, the targets are more likely to be under \$100 million in sales given the sector's fragmentation, Rolfe said.

Flooring's Aesthetics

"Install services in multifamily have all the hallmarks of what private equity wants — it's pretty asset light, you get paid relatively quickly and it has predictable revenue streams," said Aaron Toomey, managing director at investment bank **Anchor Peabody LLC**.

Flooring companies typically carry smaller inventories based on the type and volume of products their clients will need. Multifamily clients, unlike in the commercial world, have shorter payment timelines of 30 days or less.

And while flooring may not have the high frequency of more critical services such as HVAC, businesses in the category can still predict revenue based on how many properties they service and their tenant turnover rates, Toomey said.

Among other recent platform deals, Kansas City, Kan.-based **Great Range Capital** in March acquired **America's Best Carpet & Tile**, which provides flooring products and installation, cleaning, and repair services primarily to the family and multifamily rental properties.

Meanwhile, **Saw Mill Capital LLC** portfolio company **Rasa Floors** added-on multi-family flooring installation business Martin Greenbaum Co. Inc. in June. Saw Mill acquired Carrollton, Texas-based Rasa, which provides flooring repair, renovation and installation services in the multi-family market, in January 2022 for an undisclosed amount.

Flooring businesses in the multifamily installation space have captured valuation multiples in the high single-digit to low double-digit range, said Toomey.

Housing Market Shifts

Though the category struggled during the pandemic as people moved less, the run up in single-family home prices has benefited flooring companies over the past couple of years.

"Single family home buying became a little bit out of reach for a lot of people who would have been entry level homebuyers," said Toomey. "And the release valve that we've seen for that has been in multifamily and single family rental."

For instance, first-time buyers saw a 11.3% year-over-year increase in mortgage payments on a typical starter home valued at \$342,200 with a 10% down payment loan in the second quarter, according to a report from the **National Association of Realtors**.

Still, demand for single family homebuying hasn't completely evaporated and remains strong even as prices rise, as **recent data shows**.

But flooring businesses that provide tenant turnover services are poised to benefit from the record multifamily homes under construction, experts said.



While businesses that provide tenant turnover services may not immediately see the gains, they'll have a larger installed base in the future to service. Multifamily home starts hit a new high at **977,000 units** as of June.

"The market has some pretty long tails with the record amount of multifamily under construction right now," Toomey said.

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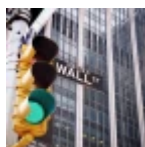
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