MULTI-HOUSING NEWS MHN

What's Next

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By Christopher Hosford, Contributing Editor

The apartment industry is coming up with a number of creative ways to do business despite adverse market conditions. Multi-Housing News asked four leaders to assess best practices, as well as the opportunities that lie ahead.

Leo Horey, executive vice president AvalonBay Communities

AvalonBay Communities is a leading REIT and property management company with communities located in high barrier-to-entry markets in Northern and Southern Calif., the Northeast, Mid-Atlantic, Midwest and Pacific Northwest. The Alexandria, Va.-based company manages more than 50,000 units.

What, if anything, did AvalonBay do to set itself up for the economic downturn?

We have a bias toward high occupancy. If the market shifts, you can't keep it artificially high, but we entered the downturn with high occupancies of about 96.5 percent. We also tried to keep our percentage of furnished apartment homes around 3 percent, instead of the high single digits we had during the last downturn, which didn't work out very well for us. This has protected us as executives started cutting back on contract workers and consultants w ho typically take these units.

We also went into the downturn with a low number of month-to-month leases, perhaps 3 percent to 4 percent. Of course those residents can give you notice and move out, but they pay us a fee for this flexibility, and we haven't suffered from unexpected move-outs.

We've also managed lease expirations very carefully. Our expirations typically run about 20 percent in the first quarter, 28 percent in the second, about 32 percent in the third quarter, and 20 percent in the fourth, so we know that when someone shows up looking for an apartment in the summer, that's when the expirations will occur.

What has been your response to the recession?

We've reset our occupancy targets based on what's going on in the individual submarkets. Yes, we've targeted 96.5 percent in a healthy economy, but if a particular market is 93.5 percent, we don't hold to our norm because that would cause us to disproportionately reduce rents. However, I've asked our operation executives to set occupancy targets slightly higher than the local market.

We also are watching closing ratios very closely, which in our experience is about 30 percent. If the closing ratio drops to 20 percent in a changing market, that means our rents are too high, and we'll bring them down. During more robust or steady times, these factors aren't as big an issue, but today you want to ensure that your properties are making changes quickly, to stay in touch with the market.

Michael Kaplan, CEO, Kaplan Management Co.

Kaplan Management owns, manages and develops communities in Ark.; the Dallas/Forth Worth area; Houston; Mesa, Ariz.; Santa Fe, N.M.; and Austin, Texas. The company, currently managing about 4,700 units, is based in Houston.

What's your focus during a soft

market?

The fundamentals. You have to listen to your residents and provide them with the best service you can. That's more important in a soft market than a strong one, because these days are less forgiving. Keeping your residents happy in any market is basic, of course, but if you consistently apply that concept, it seems to help a lot in reducing turnover.

How are your communities coping with residents in financial difficulties?

You have to be flexible in today's market, and work with your residents within fair housing guidelines. We might suggest they consider one of our other more moderately priced properties, or that they go from a two-bedroom to a one-bedroom unit so they don't breach their contract.

More than ever it's important to demonstrate that you care. In Mesa, Ariz., we just finished a program where we offered five units with one year zero rent to returning injured veterans. So, one, we're doing something really good, and two, if you're in a market where you're going to run a vacancy, why not put that vacancy to good use?

That's a pretty creative way to deal with low occupancy. What else have you done?

In Northwest Arkansas, the market is extremely soft and we had trouble leasing up our 392-unit community there. But that's where Wal-Mart is located, and you couldn't get a hotel room there during the week. So we figured we'd offer to business travelers one- and two-bedroom fully furnished turnkey units, complete with cable TV and Internet. You can rent one of our two-bedroom apartments like this for $2,000 a month. It's been widely accepted, and we're now 94 percent occupied there. We know that you can't be as creative in every market, but you have to look for the opportunities.

Rick Graf, president, Pinnacle Development

Pinnacle Development is a real estate acquisition, development and operating company and a leading military housing privatization developer, based in Scottsdale, Ariz. Pinnacle, an American Management Services company, has a multifamily portfolio that consists of more than 175,000 units.

How has Pinnacle responded to the economy?

The needs of communities that perhaps weren't as critical in the past are critical today. People are looking to save wherever they can, and we're leveraging our size to help. For example, in one of the portfolios I'm involved in, our team re-bid the landscape contract for a group of properties and cut the costs by $175,000 without cutting the service. And if we need to re-roof 15 buildings with five different owners, we'll try to get best pricing for all 15 and drive the prices to the lowest we can, letting our clients participate in the savings.

We're also offering our services to financial institutions with properties in receivership. For example, one financial institution engaged us to assess a property where their partner wanted to trigger a buy-sell clause. We did the report for a modest fee, but instead of taking a significant haircut by accepting the buyout clause, the institution bought out their own partner and engaged us to manage the property. With more focused management, we increased their position by a couple of million dollars.

What business concerns do you have?

A trend across the nation is for local jurisdictions to exert their power in the form of code enforcements, typically as a way to extract fees out of properties. Municipalities are looking for dollars, and thus they're upping their inspections and code enforcements for the sake of creating fees. We're very involved with local, state and national Multi Housing Councils to make sure that we're not being taken advantage of here.

Do you see any particular silver lining in today's economic storm clouds?

I firmly believe that as the supply of newly constructed units begins to dwindle, the current supply will fill up. And after a period of time—perhaps two or three years—the demand will return. Beyond that, there will be an overall tightening in the market of availability, and rent growth and occupancy will improve.

The road will be a little bumpy to get there, but clearly with the shortage of quality multifamily properties over the next few years, better days for owners and property managers will return.

Christy Freeland, CEO, Riverstone Residential

Riverstone Residential, a subsidiary of CAS Partners, is the largest privately owned residential management company in the U.S. The company's portfolio consists of about 750 properties and some 190,000 units in most major markets. Riverstone is based in Dallas.

What are your key initiatives in working with your clients today?

We're trying to over-communicate. If you look at it from a client standpoint, they have a lot of pressure on them to perform and meet their numbers. Anything they bought in the last 24 to 36 months is probably not doing what they thought it would do, and they're asking for help. We communicate regularly through e-mail and newsletters, and consistently with phone calls conveying market and traffic trends, credit information, and more.

As for our internal clients, our associates, who haven't been through an economy like this before, they're now finding they're having to deal with going to an apartment and finding it vacant, or just finding keys placed on their desks, as residents lose their jobs. They themselves may know people who have lost jobs. So we're working to keep the morale of our associates up, to help them work smart and hard. We want them to know that if they hit all the items on price, product, promotions and passion, they're doing the best they can.

How is Riverstone coping with an extremely price-sensitive rental market?

We know that if there is a $100 difference in rent between a current apartment and another one, a resident will move. So, in addition to giving the best customer service we can, we have to make sure our pricing is right. We may offer a new resident two months free rent or current residents one month free to renew.

We also know that people like to be social, so we're offering things like movie and game nights, or bringing in guest speakers on topics like physical fitness. We're not having to spend a lot of money on those things, but it's the idea of providing a sense of community that will keep residents around longer.

Tell us a bit more about retaining residents.

I know if I lose a current resident that could cost me a lot, so we're very careful in how we price renewals. For prospective residents, we're also offering our Pink Slip Program, where for about $8 or $10 a month, they have the peace of mind of knowing that if they lose their job, an insurance policy will pay $500 a month of their rent for up to two months. Some of our clients are accepting this and others aren't.

We're also offering a Freedom Lease, which essentially waives the 60-day termination fee. And we're allowing people to have increased occupancy. In some areas where you normally go with the one-bedroom standard of two adults plus a child under 18 months, we've actually made this two plus any child up to 18 years old as long as the local jurisdiction allows it and the owner agrees.

We're trying to make things more flexible. We want our residents and clients to know we know they're going through tough times, and that we're proactive in working with them.