

Apartment Resources is a monthly publication designed for apartment developers, lenders, and builders involved in all forms of multifamily housing.

Volume 4, Number 13 November 1990

PAGE

2 The Three Types of Project Rehabilitation

Sometimes you can rehab an older project without calling a contractor.

5 The Value of a Shopping Report

Maybe it's time to view your project through someone else's eyes.

6 The Advantages of A Tenant Profile

You've got a personalized market study sitting in your files. Learn how to make it work for you.

7 Anatomy of a Visitor Registration Card

Last month, we began discussing guest cards. This month, we show you how to obtain a visitor profile.

The Three Types Of Project Rehabilitation

Your project is twenty years old. Vacancies are up. Turnover is high. Free rent and giveaway specials are not helping. It's time to do some rehabilitation, right?

Definitely.

Before you call the contractors and send out notices, however, you should know that not all rehabilitations are alike. You might not have to toss out your old tenants and start from scratch, because the problem might not be your product.

Traditional Rehabilitation

Rehabilitation, in the apartment business, has traditionally meant "substantial rehabilitation." A substantial rehabilitation generally involves major changes and replacements in the apartments. New appliances and carpeting are installed. Units may get new windows or doors. Perhaps some units are redesigned. Interiors are painted. Buildings might get major roof or duct work done, as well as major exterior work.

Usually substantial rehabilitation involves vacating entire sections of the project in order to get the project updated. The expense of a substantial rehabilitation can run upwards of several thousand dollars per unit.

Cosmetic Rehabilitation

A second type of rehabilitation is "cosmetic rehabilitation," which generally involves sprucing up the project. A cosmetic rehabilitation usually involves such things as painting buildings, redoing landscaping, resealing the parking lot, installing new carpeting in the common areas, selective appliance replacement, and perhaps new furniture for the clubhouse.

A cosmetic rehabilitation may not require vacating any units, and generally causes only minor inconvenience to a project's tenants. A

cosmetic rehabilitation costs much less than substantial rehabilitation, but can have a major effect on a project's image and how it is perceived.

Strategic Rehabilitation—A First Option

The third type of rehabilitation is "strategic," the rehabilitation effort that generally provides the highest return on each investment dollar. Strategic rehabilitation is an attempt to place the property within the context of the market to maximize the project's revenue potential by first rehabilitating the project's marketing and pricing strategies.

In order to place a property within the context of the market, a strategic rehabilitation uses several yardsticks, including a field survey of area apartments, shopping the project and evaluating management, and tenant profiles.

Determining Market Context

An apartment market is never static. Every time a project opens, changes rents, adds units, or renovates, the overall apartment market changes. When local economic conditions change, the apartment market also changes. It might seem to a project's management that they suddenly woke up one day with high vacancies and declining revenues, but, except in cases of dramatic upheaval in an area's economy, high vacancy rates do not usually happen overnight. A more likely scenario is that management lost touch with changing market conditions and failed to keep repositioning the project within the market to compensate for these changes.

The first component of establishing market context is to determine a project's Effective Market Area (EMA)SM. This EMA is the geographic area that provides the most support for a project. While the EMA is usually determined through assessing demographic, geographic, mobility, and area

perception factors, the EMA for a strategic rehabilitation is more specifically defined by the previous residences of existing tenants, or the area from which the project is currently drawing support.

Once an EMA is determined, the market context is firmly established through the use of a field survey of all modern apartments in the area. Each area project is visited to determine the unit mix, rents (including giveaways and specials), amenities, and vacancy levels. The key to the field survey is providing a 100% data base. A project can only be properly placed in its market context if the entire market is represented.

Rent/Value Analysis

The Danter Company has established an amenity index that impartially rates apartment projects on the same scale. This scale allows us to compare all apartments based on the same criteria--unit amenities, project amenities, and aesthetic amenities. In this way, we are able to establish a correlation between rent and value through the use of a regression analysis.

This regression analysis, which plots individual projects by rent and amenity index, allows us to establish a market standard for across all rent and amenity levels--and to see where an individual project fits into this picture of the whole market. As a result of this rent/value analysis, we can make recommendations to allow rents to be in line with the amenity index so that the project can represent a value in the market.

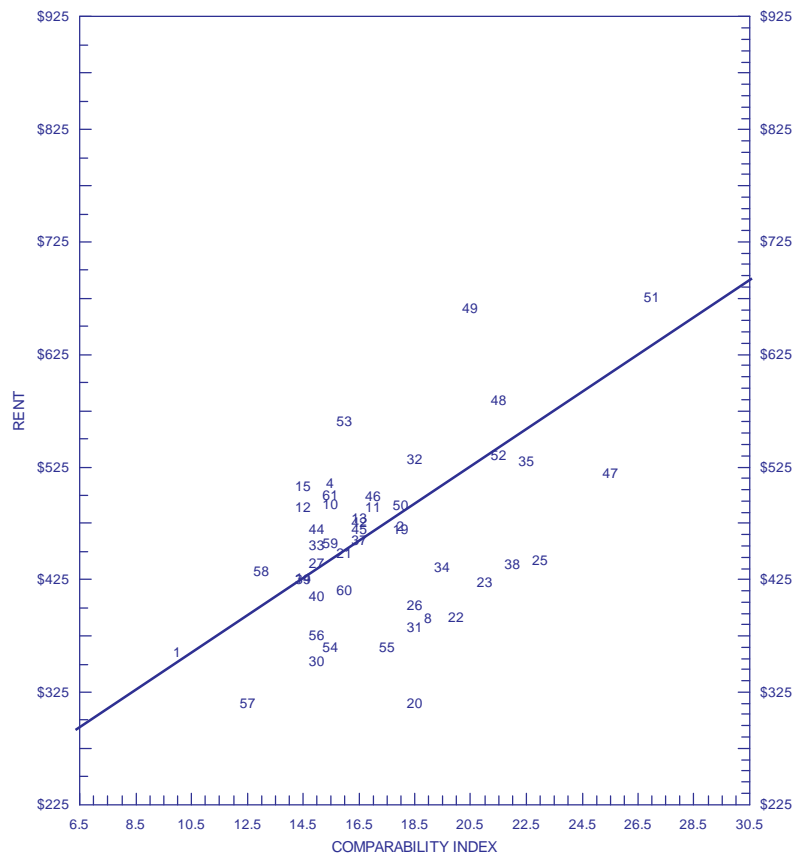
Step-up Support Analysis

Once a 100% database is achieved for a market, we

distribute the rents to establish the levels of step-up support for each type of unit within the project. Past studies by The Danter Company have indicated that a substantial amount of support for apartments comes from existing apartments within the EMA.

Shoppers are usually willing, depending on market

Two-Bedroom Distribution of net Rent by Amenity index



An important tool that determines how a project competes within the market on a rent/value basis is the regression analysis.

On the regression analysis, each project is represented by rent and amenity index. Market-driven rent is then determined by using the straight-line regression. Strategic rehabilitation projects are commonly found to be located considerably above or below the regression line. Those projects above the line (less of a value) are characterized by higher vacancies, while those below the line are not performing up to their capability.

Once the project's relationship with the market is established, we can determine the best method of bringing the project back in line, whether by adjusting rents or properly marketing amenities.

conditions, to pay \$50 to \$100 (based on the new rents) more per month to “step up” into an apartment that they consider a value. By determining the number of units in the EMA within this step-up range, we can establish step-up support.

Once step-up support levels are established, we can place this project further within its market context. For example, a project that keeps raising the rents each year by only \$5 or \$10 per month while the properties below it keep rents stable may find that turnover is difficult to replace because the project has simply priced itself beyond its own support base.

Also, if projects with a better amenity index have also not been raising their rents, a project may find itself competing for the same step-up base with more expensive projects that once were not providing competition, but now may provide the same step-up base with a more attractive rent/value relationship. A strategic rehabilitation will make recommendations on how to take advantage of the existing step-up support base.

Rent gap analysis

An additional analysis tool based on field survey information is the rent gap analysis. A rent gap is the difference between the rents of differing unit types, such as one-bedroom units and two-bedroom units, or townhouse and garden units. A project that does not maintain appropriate rent gaps may find disproportionate vacancy rates, because renters will prefer the larger unit if the cost is not that much greater. In addition, a project with a high percentage of one unit type must maintain rent gaps that encourage absorption of the dominant unit.

Another important consideration in determining rent gaps is changing demographics. Demographics such as household size, household income, and population in specific age groups can indicate changes in demand for unit types in the EMA. As demographics change, rent gaps must reflect the new demand patterns.

Evaluating Management and Marketing

Another major component of a strategic rehabilitation is an evaluation of management and marketing practices. Steps in this process may include detailed aggregation of key information from tenant

applications in order to determine a tenant profile, a tenant exit survey, a telephone survey of residents and visitors to determine perceptions of the project, examining occupancy trends, and shopping the project.

A totally objective tenant exit survey can determine why the project is losing tenants, whether to single-family housing, area apartments, graduation, dissatisfaction with the project, or other reasons.

The shopping report evaluates the community grounds, signage, rental office, and the sales presentation to determine what prospective tenants actually see when they visit a project, allowing us to make recommendations on how the condition of the project and the sales presentation can be improved.

A Valuable First Step

A strategic rehabilitation may be the first step on the way to higher occupancies and a stabilized cash flow. Many older projects in good shape can continue without substantial rehabilitation to successfully compete with newer product. In these days of rapid changes in the economy and the apartment market, doing things “the way they’ve always been done” will not always get the job done.

A strategic rehabilitation can also be the first step to a successful cosmetic or substantial rehabilitation. A project owner in a rush to “get things fixed” could spend hundreds of thousands of dollars doing renovations that leave the project in the same uncompetitive position because they do not fix the project’s real problems. A strategic rehabilitation can provide the focus for substantial or cosmetic rehabilitation by discovering the problems that really need fixing, so that an owner does not throw money away fixing things that are not broken.

A strategic rehabilitation can provide the fresh vision and insight necessary to be competitive in the 1990s—the highest return for investment without losing revenue by shutting down units.

Don’t overlook the potential of a strategic rehabilitation within REO portfolios. Most projects become “troubled” by not achieving expected rent increases. By evaluating potential gross revenues, increased value can be achieved. Also, future value based on realistic estimates of increased revenues provides important target timelines.

The Value Of A Shopping Report

Managing an apartment project is a tricky business. Things break, rents don't get paid on time, and the owner is always concerned about the bottom line. Sometimes, it gets so hectic that managers and their leasing agents forget how to see things from the prospective tenants' point of view.

That's why a shopping report can be incredibly valuable. With an objective shopping report, you know what a prospective tenant will see about your apartment community. An objective report examines the factors that make a difference when a tenant is choosing an apartment.

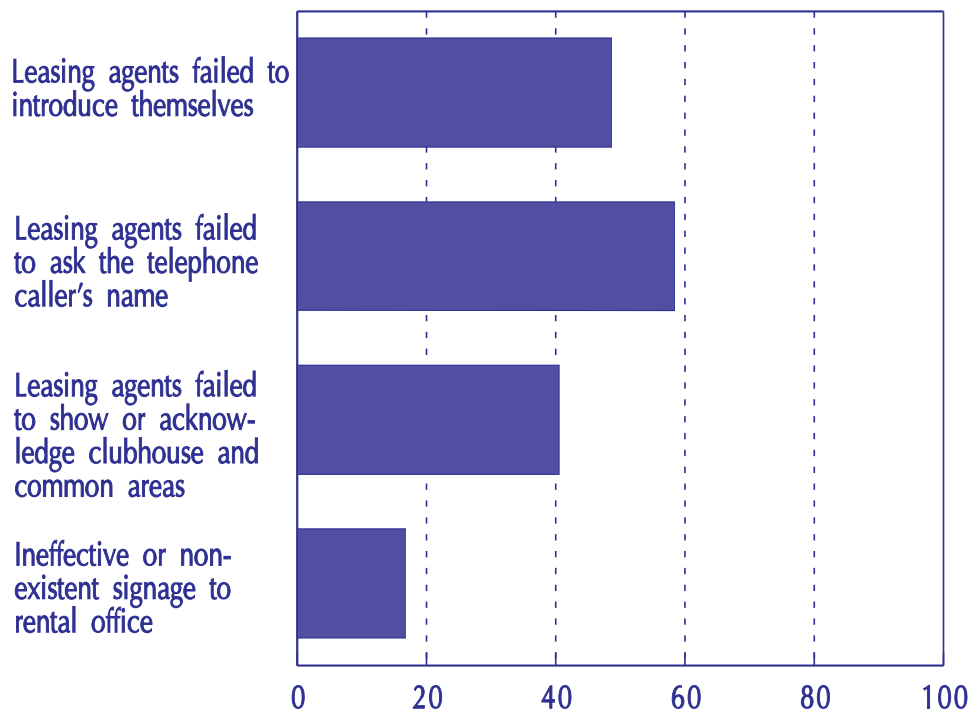
You find out the prospective tenants' perspective on the areas that matter the most to them. Is adequate parking readily available? Are the grounds well-maintained? How convincing are your sales materials and brochures to the average shopper? Is your rental office an appropriate and professional atmosphere for business? What kind of sales presentation are shoppers receiving from your leasing agents? How inviting is your model apartment? These are some of the questions that shoppers consider when choosing an apartment, and these are the questions that you need answered.

Starting with the next issue of *Apartment Resources*, we will begin a series of articles based on an aggregation of data from our shopping reports. Here is a sample of some of the information we discovered:

- 48.6% of the leasing agents we shopped failed to introduce themselves.
- 58.3% of the leasing agents we shopped by telephone failed to ask the caller's name.
- 40.5% of the leasing agents we shopped failed to show, or even acknowledge, the project's clubhouse and other common areas.
- 16.7% of the projects we visited had signage that was ineffective in directing shoppers to the rental office.

This is only a preview—some of our other findings are even more surprising.

Apartment Shopping Report A Survey of Market-Rate Projects



The Advantages Of A Tenant Profile

One of the most effective tools that we use in a strategic rehabilitation is a tenant profile. A tenant profile can establish a substantial amount of useful information about a project. Aggregating information from rental applications can tell age distribution, income and household size of incoming tenants, as well as previous address.

We are constantly surprised at the amount of useful information that the average apartment community has sitting unused in its files. While we realize that the grass must be mowed or sidewalks shoveled and the rents collected, strategic use of slow times to aggregate and use the information available can pay off where it counts most—on the bottom line.

Helping you make the tough choices

The most practical use for this information is in developing and identifying marketing strategies. For example, Project X might be drawing predominantly young, single households, but is experiencing problems with high turnover as its young tenants get better jobs or pay raises, get married or transferred, and then step up into better apartments. Knowing this, management at Project X has choices to make.

One choice is to develop marketing strategies to attract more stable married or elderly households, which are less likely to experience rapid turnover. A second choice would be to accept that the project will attract young single households and the accompanying high turnover, but aggressively market the project so that tenants are waiting for available openings.

Know Your Audience!

One of the most important rules of effective communication is to know your audience, and marketing an apartment community is no exception. Only when you know your audience can you find the correct method to get your message across, to make

your audience identify your apartment community as the one that most closely matches what it wants. Strategically adding certain amenities might make your apartment community more attractive to your desired target market—but unless you know your audience, you might throw away money adding amenities that have little audience appeal.

Knowing your audience also applies to your publicity material and brochures. Identifying your audience allows you to find the best visual and graphic appeal. A shopper may have strong mental impressions of your project, but the only thing you can be positive they leave with will be your promotional material. Effective promotional material strengthens and plants the impressions that will have the best effect on your audience.

Know Your Effective Market Area

In addition, a detailed tenant profile also identifies tenants' previous addresses. This information can be used in determining where to concentrate marketing efforts and which media to use. Knowing your market area multiplies your marketing options because it allows you to target a specific area. A billboard or mass mailing targeting your EMA can be very cost effective, where the same techniques on a regional basis are not.

The Information is in Your Files

The most important thing to remember is that all the information needed to get started information is sitting in your files right now. Can you afford to let this treasure sit unused any longer?

Guest Cards— Revisited

Last month in this space, we discussed establishing apartment *shopper* profiles from guest cards, as important to your marketing efforts as the apartment *tenant* profiles we've outlined here. On the opposite page, we've created a sample guest card, a composite of cards we typically encounter in our field research.

The best way to encourage a prospective tenant to fill out such a card is to apply as little pressure as possible. We've seen managers achieve great success by handing the prospective tenant the card, leaving to retrieve project brochures (which are always in another room), and then disappearing long enough for the prospect to fill out the

Anatomy of a Visitor Registration Card

This helps give you a quick gauge of the effectiveness of your advertising, but you should be careful about judging the information you receive here. For example, if you are advertising on radio but no one checks the "radio" box, that may not mean that radio advertising doesn't work for you—it may mean that you have targeted the wrong listening audience.

This is probably the key piece of information on your registration card. By plotting your visitors' origination on a zip code or street map, you can roughly estimate the size of your market area (that area from which you can expect approximately 70% of your support).

By finding out where most of your shoppers work, you can find out a little about the market's mobility patterns. You can also determine the most effective places to use area advertising to target new hires and transfers.

As we often note in *Apartment Resources*, one of the most effective ways to optimize your rent revenues is *Gap Management*—precisely identifying the market difference in value between your apartment unit types. This question can help you understand the ratio of demand among

Some tenants may feel uncomfortable about revealing sensitive demographic information on a visitor card, but if you can get away with a question, the rewards are worth it. Here, you can get an idea of the average income level of apartment shoppers, to help you better establish and

This question can yield enormous insights. You can determine the strength of your step-up support and mobility patterns. In addition, you may want to coordinate your advertising to match leading responses (i.e. if "to be closer to work" is often used, you might consider stressing

To serve you better...

Our goal is to create the apartment community that's perfect for you. Please tell us about:


<p>Where you heard about us</p> <p><input type="checkbox"/> Newspaper</p> <p><input type="checkbox"/> Radio</p> <p><input type="checkbox"/> "Apartment Finder" magazine</p> <p><input type="checkbox"/> Billboard</p> <p><input checked="" type="checkbox"/> Live nearby</p> <p><input type="checkbox"/> Other _____</p> <p>What apartment you need</p> <p><input type="checkbox"/> One bedroom</p> <p><input checked="" type="checkbox"/> Two bedroom</p> <p><input type="checkbox"/> Three bedroom</p>	<p>Your employer <u>Wilson Manufacturing</u></p> <p>Reason for moving <u>Want better apartment</u></p> <p>Number of adults <u>1</u> Children <u>0</u> Pets <u>0</u></p> <p>Date you need the apartment <u>February 17</u></p> <p>Income range (optional)</p> <p><input type="checkbox"/> \$14,999 or less <input type="checkbox"/> \$26,000 to \$29,999</p> <p><input type="checkbox"/> \$15,000 to \$19,999 <input type="checkbox"/> \$30,000 to \$49,999</p> <p><input checked="" type="checkbox"/> \$20,000 to \$25,999 <input type="checkbox"/> \$50,000 or more</p>
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Phone (Home) (217) 555-1235 (Business) (217) 555-7729



Resort Lakes

APARTMENTS

Looking Forward

Look for us at the National Association of Home Builders gathering January 18-21, 1991 at the Georgia World Congress Center in Atlanta. Did you subscribe to REAL/LINE prior to June 1988? If you did, you'll be happy to hear that your old REAL/LINE account has been re-entered into the new system, including your old password. However, on the new REAL/LINE system, you have the capability of changing your password at any time. We think you'll be surprised at the new system features, and we will offer the most recent

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Apartment Resources is published monthly by The Danter Company—40 W. Spruce St., Columbus, Ohio 43215. Kenneth Danter, President. Phone (614)221-9096; FAX (614)221-4271. Second class postage paid at Columbus, Ohio. Send all address changes to 40 W. Spruce St. Additional copies

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