

Conceding to the Economy

When and How to Offer Rent Concessions

By Kim Fernandez

Between military deployments, a faltering economy, a little overbuilding, and historically low mortgage interest rates, many multifamily properties are beginning to see vacancy rates inching—or flying—upwards. And when that happens, it's not long before advertisements and banners start screaming "Two (or three or longer) months free rent!" It seems to work—renters flock to the great deal, vacancies go back down, and everybody's happy.

Or are they? When everybody around you is doing it, should you offer concessions?

"I'm not a big fan of this conversation," says industry consultant Ernest Oriente, Park City, UT. "All we're doing is putting a Band-Aid on when the patient has a broken bone. The moment we start offering concessions, we're no longer studying the market and we're no longer training our sales teams. We've become used car salespeople, and it's absolutely Slick Willie selling."

He says that offering free rent releases the leasing team from accountability when vacancy rates go down. Instead of offering their leasing team personal incentives to sell or providing them with updated training and ideas, property managers toss out free rent specials. Voila! Apartments are filled and nobody had to work very hard to do it.

But what's really happened, he says, is that overall rent has been lowered. "Concessions say that, in effect, the rent is too high," he says. "If you've got an apartment that rents for \$850 per month and you offer two months' free rent, you've really just lowered the rent to \$775."

Jennifer Nevitt, owner of Bravo Strategic Marketing, Reno, NV, agrees. "I never utilize blanket concessions," she says. "It is the epitome of poor management. Those managers do not know how to manage real estate assets. They're just showing their weaknesses."

She offers alternatives, however, and says that oftentimes, a simple market study or property shop can help decrease vacancies without giving away the apartments.

Value-Added Amenities

The first thing to do when vacancies fall, say both Nevitt and Oriente, is to shop both the competition and your own property, to see how services, amenities, and rents match up.

The next step is to analyze the property: are vacancies high across the board, or only in one building? Is one side of the property problematic?

Nevitt says she worked with a property recently that had a problematic building facing railroad tracks. “Those apartments backed right up to the tracks,” she says, and no one wanted them. So she replaced the vinyl floors in those kitchens with hardwood and spruced the units up a bit. The result? “Renters wanted those hardwood floors,” she says, and the building filled up.

Oriente is a big fan of partnering with other local businesses to offer two for one dinner coupons, dry cleaning discounts, and other value-added services to prospective residents. “You don’t have to give up rent money,” he says, adding that local merchants are usually thrilled to get the exposure such partnerships offer, and residents gobble up their discounts.

That strategy even works, he says, when everyone around you is offering free rent. If two apartment properties are in similar condition with similar amenities, he says, local partnerships can often successfully compete with blanket rental concessions.

“Here’s what we’re going to do,” he says. “If they’re giving two months’ free rent and we’ve shopped them, and the communities are really truly apples to apples, we’re going to give one month free rent and then look for \$1,500 in coupons to supplement that second month.”

Rent Concessions

That said, he adds that there are several specific times when an outright rental concession may be not only necessary, but a good idea. These include:

- Anytime a major rehabilitation is going on. Offer a construction concession to those nearest the noise and dirt;
- Anytime a property is adding on or there’s new construction going on nearby; and
- Anytime a property needs to reposition itself in the market; for example, a family property wants to attract more students, or a student property switches gears to cater to retirees.

Otherwise, he says, a property owner’s best bet is to train the sales staff, offer them personal incentives to rent apartments, and find other valuable offers for renters.