

# The Triple Play: How to Tackle Tough Vacancy Problems

By Clifford Hockley

Every property manager knows apartment vacancy rates are a little bit like the weather: everybody talks about them, but no one ever seems to do anything.

Sometimes the usual combination of advertising and tenant incentives doesn't work and something more is needed to give the properties with vacancies an immediate and sustainable booster shot. After months of struggling to find the right formula to attract renters, we came up with what might be called a Triple play for owners. Here's how it works.

About 55 percent of the renters in our market area need some kind of help to close a lease, a statistic which will vary in other communities. Renters with good credit histories may simply need an incentive to help them make the choice; renters with impaired credit may need a little more extensive accommodation. This situation is exacerbated in areas that, for whatever reason, having trouble attracting renters. The Triple Play addresses this problem by applying a series of three successively more aggressive incentives to difficult properties until they're finally rented.

1. If a property is not renting, the first step of the Triple Play is the Freebie, a month's free rent or a free television to the prospective tenant. In about 50 percent of the cases, this is the only incentive needed to fill up a property.

Freebies are fairly common in the property management industry, and this tactic usually works well at second-tier properties with fewer amenities or less desirable locations, say units away from employment centers or core shopping districts.

2. If the Freebie is unsuccessful, the next step is try the Diminishing Lease. Typically entered into for one year, the Diminishing Lease incrementally reduces the tenant's rent each quarter until the lease expires. For example, if a two-bedroom apartment normally rents for \$675 a month, a Diminishing Lease cuts the rent each quarter as follows:

Months 1–3 - \$675  
Months 4–6 - \$625  
Months 7–9 - \$600  
Months 10–12 - \$575

The Diminishing Lease has several important benefits. First, it sends a clear message that the landlord appreciates tenants who stay put. Second, it gives the tenants something to look forward to that few other tenants will ever see in their lifetimes: their rent going down. The fact that tenants are paying \$100 per month less at the end of the lease makes the lease easier to sell and puts tenants in a very receptive mood at renewal time. In other words, the goodwill often translates into much higher renewal rate. Thus, while the Diminishing Lease is a little more proactive than the Freebie, it's useful for getting and keeping renters in properties that are either difficult to rent or experience high tenant turnover.

3. For all but a handful of properties, most prospective renters will respond to either the Freebie or the Diminishing Lease. In some instances, however, even more aggressive

measures are needed. As a last resort, we employ the third tactic of the triple play: Bad Credit OK. This tactic involves making an offer to lease an apartment to an otherwise unsuitable credit risk by requiring an extra month's rent as additional security. The name for this tactic comes directly from the headline we run in the newspaper ad for a property that requires this level of incentive.

Of those who need help with renting, roughly half perceive that they have bad credit, and about half of the latter group actually does have bad credit. People who perceive they have bad credit may choose not to apply for a lease out of fear or embarrassment; people who actually have bad credit may be turned down as an unacceptable risk. From the landlord's perspective, the net result is the same: both groups are removed from the potential universe of available renters.

"Bad Credit OK" essentially expands the pool of available renters to include those who, either through perception or reality, would otherwise be excluded from entering into a lease. And that expanded pool of renters usually makes the difference between a property that stands vacant and one that is filled to capacity.

The Triple Play has proved to be enormously successful in renting properties that previously seemed to be un-rentable. By employing a series of successively more aggressive steps, problem properties can be rented quickly and efficiently without giving away more incentives than are actually necessary.

*Clifford A. Hockley is the President of Bluestone & Hockley Realty, Inc., a leading brokerage and property management firm in Portland, OR. The brokerage department handles leases and sales of investment properties throughout Oregon and Washington. Reprinted with permission from On-Site Northwest.*