

**The Balancing Act: How to
Navigate Concessions and
Revenue Management During a Recession**
by Erika Schnitzer

In today's recessionary environment, property managers often are forced to weigh key variables against one another to determine their best approach for increasing occupancy while maintaining rents. Compound this with fewer and less-qualified applicants – which managers are more inclined to accept to offset their rising vacancies and decreasing ROIs – and managers are faced with greater risk at a time when they quite literally can't afford to be.

When both traffic and quality applicants are down, managers should consider alternatives to best mitigate this risk, suggests Richard Schreiber, president of SureDeposit, a provider of surety bonds to residents and a substitute for security deposits. Its two-pronged effect, says Schreiber, is that it increases owners' protection by reducing bad debt at the same time that it lowers residents' move-in costs, proving to be a powerful marketing incentive – “typically when offered, we have in excess of an 80 percent move-in rate,” notes Schreiber – particularly in today's market when many renters don't have discretionary money for moving costs.

“What's important in this market is to determine what your strategy is to best maintain your occupancy and create a disciplined approach to mitigate the risk on what will inevitably be a higher percentage of riskier applicants,” Schreiber adds.

Don't Overreact to the Market

Faced with an increased risk, and perhaps an increased desperation to fill vacancies, managers have a tendency to overreact to the market, notes Keith Dunkin, director of business management at Yieldstar, Realpage's asset optimization system. Rather than responding to the competition and other external factors, Dunkin notes that the key to maximizing revenue is to make more informed, fact-based decisions.

“I've seen communities down to 80 percent occupancy and worse. When you start getting that low, you have to choose between letting in high-risk applicants or not having enough money to pay a mortgage. But there's only so low you can go before you don't have enough money to maintain economic viability,” says Schreiber.

With revenue management, adds Dunkin, managers can avoid falling victim to overreacting to the market. Instead, they can examine their internal supply and demand fundamentals – as frequently as they deem necessary – and then factor in the external market conditions. With the proper software, property managers have the ability to drill down into any report to determine why a property's financials look the way they do, reports Andy Williamson, sales and marketing manager at Rent Manager, a property management software provider. Evaluating all accounting figures and rental information not only reduces the tendency to overreact, but also allows managers to determine whether concessions are truly necessary.

Concessions: Do or Don't

With apartment communities suffering from high vacancies and decreased revenues, concessions have become increasingly more common – be it in the form of free rent or parking or lease guarantees.

However, employing such strategies may force managers to explain to current residents why they are not being offered the same deals as prospects, which could result in a lack of renewals. Furthermore, as Schreiber notes, especially in today's down market, "Concessions can get pretty crazy. It's a very difficult situation especially when you have a property offering concessions that are far steeper than anyone else. You have to choose between following them or holding down the line."

By utilizing a revenue management system, Dunkin notes, managers can provide prospective renters with more leasing flexibility by offering pricing alternatives based on lease terms and move-in days. Furthermore, with a revenue management tool that analyzes a property's complete financial picture on a daily basis, managers are given the ability to respond to inquiries in a more timely manner, taking full advantage of all prospects that walk in the door, adds Janine Steiner, president of Yieldstar. "The way you interact with prospects and provide feedback elevates the conversation to a more professional level," she says.

Not only does promoting this flexibility present a higher level of customer service and result in a greater lead-to-lease ratio, but it also accomplishes the same goal as a concession by evaluating an apartment's true effective rent. "A lot of companies add concessions into the cost before they offer [the unit]," says Williamson. And as an additional benefit, notes Dunkin, the apartments will be positioned higher up on Internet search listings – which prospects usually search based on monthly rent – driving even more traffic to the community.

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