

Close the Door on Concession Selling! by Christopher Higgins, “The Apartment Guy”

You have all seen crazy banners, signs and ads proclaiming things like:

Win A Mazda Miata!
Two Months Free!
No first or last!
Flat Screen TV if you rent TODAY!

Stop the Insanity!

Just how do you get away from the giveaways and gimmicks and toward selling value and maximizing revenue? Why is it that our prospects expect something for nothing when they call us? Why are leasing consultants likely to look for the freebies when trying to sell an apartment? A culture of concession has changed the way we market apartments. We need to get back to the basics of a good product, a good location and good customer service which will help lessen our reliance on gimmicks and move back to value. Nothing comes free and your prospects get what they pay for – shouldn't they get a quality living environment and not just a deal?

Good salespeople sell on value. Poor salespeople sell on price. Back in the 1970's, Volkswagen made a huge marketing blunder when it entered the Mexican market. It embarked on a huge billboard and newspaper advertising campaign that was quite simple. It had a big picture of a yellow Volkswagen Bug with the word CHEAP written out in Spanish. The problem was, the literal translation of Cheap in Spanish also means junk, trash or garbage. So Volkswagen was telling all of its new potential customers that the bug was trash. It took years to overcome that disaster. Did every car company learn from this mistake? Nope. Chevrolet only a couple of years later began selling the Chevy Nova in the Mexican market. “No va” in Spanish means, literally, “no go”. Funny that the Mexican consumer wouldn't buy a car that wouldn't go.

What's the point? How you sell your community is essential. If all you sell is your specials, the only thing you focus on is price – that is the clientele you will attract. People with no loyalty and those who are only seeking a deal. Take a look at one of Webster's definitions of the word special (adjective) - *Surpassing what is common or usual, exceptional – a special occasion, a special treat*. Does this definition, or any other for this word, apply to the concessions you are handing out are your community? Are our specials very special? The freebies we hand out to our prospects are anything but special!

Understanding the Impact of Concessions

There are many tell-tale signs of a concession-driven marketplace. Many of you have experienced all of them, which can include things such as ...

- “Now leasing” signs in abundance on buildings to clearly identify the obvious
- An obnoxious number of pennants, flags and bandit signs
- Elimination of crucial property job functions, despite the increased need for talented and qualified staff during downtimes

- Increased classified and non-targeted, “risky”, advertising
- Specials listed in advertising, direct mail, and on the phone in a desperate attempt to draw-in traffic only because of the special.

Concessions are a chronic side effect of over-supply and low absorption. I hear this question so often - why do developers continue to build in low-absorption markets? New construction is usually sparked by interest rates and favorable zoning, not necessarily market conditions. Which means that each new apartment community that goes up may seem to defy logic. But developers are notoriously optimistic. Most apartment developers take the gamble that market conditions will eventually rise to the occasion – and they are often right. That doesn't make our job any easier!

Austin in 2001 / 2002 was such a desperate and overbuilt market that an offer of three months free on a 12 month lease was becoming commonplace. Some properties were giving away two months free and paying apartment locators 200% commission – effectively giving away 4 months of rent for 8 months of income. This is equal to a 30% rent rate reduction! That would reduce a \$900-a month apartment to \$630 – an entirely different clientele.

A management company with multiple properties made the unfortunate decision a few years ago to cut back its' landscaping service to once a month, permanently open its' access gates and not turn on the parking lot lights at night – so that they could continue to offer the exorbitant specials that were eating away at their NOI. Bad choice – letters to the editor appeared in the local newspaper and a local television station sent one of their consumer advocate reporters out to the property to cover “the story”. A small class action lawsuit was even considered by the residents due to what they felt was misrepresentation. All publicity is good publicity? Not in this case.

The lessons learned from these two examples are that concessions cost you big-time! Not just in lost rent, but in lost prestige, market position and even bad PR in some cases. So why do so many of us rely on concessions? One reason is tunnel vision. Property management people are notorious for looking at today or this week without looking beyond it. The way we use concessions is an example – we don't look at the long-term cost only the short-term gain – a rented apartment. Another reason - everyone else is doing it, shouldn't we? Well, isn't that special? With all do respect to the Church Lady, no, not really. That would make it “typical”. Hasn't your mother ever asked you if you would jump off a bridge just because all of your friends did? Your community will truly stand apart if you begin to change your focus and train your leasing consultants to sell on value and not on price. Which leads to two other causes of the culture of concession – not having confidence in your sales abilities and not believing in your community's value. Here the fault lies squarely on the training you or your teams receive.

Concessions are dangerous because they cheapen the property. They can create a marketplace feeding frenzy as has been seen in many markets across the country and they seriously impact your bottom line.

Selling Value, Not Price

First, you have to believe in your price. Ask yourself - Is your community overpriced for your market? If you hesitated or failed to immediately say “NO”, then the answer is

probably “YES” or at least “maybe a little”. You have to believe in your price if you expect anyone else to! Statistics and surveys have shown us time and again that price is rarely the reason someone chooses one apartment community over another. If the product is right, and sold correctly, price becomes immaterial. Your marketing, advertising and outreach should let clients know the prospective price – with a price range or starting rent. This helps to curb unqualified traffic and wasted efforts. Ask good questions to find out what your customer WANTS. That is why apartment guest cards were created. Many times this opportunity is wasted when a leasing agent hands over the guest card to the prospect and asks them to fill it out themselves. The only way it works as planned is for the leasing consultant to fill it out, asking the questions one by one and remembering and reacting to the answers. This builds rapport and starts the sales process off on the right foot.

Concentrate on the things that make someone rent. Price is rarely the reason. Think about what the primary reasons are for people to rent at your community. Things like an excellent public school system, street-level retail with a coffee shop and dry cleaners, being across from a bus line or multiple major employers or even abundant closet space. Once a prospect has determined their general price range, these sorts of reasons tend to come to the front of their mind. These are the things your leasing teams need to focus on.

The Importance of Good Phone Calls

67% of your prospects have called your community first, before coming out to see it. If you don't have a plan on how to deal with concessions over the phone – you don't have a plan to deal with your prospects. Phone calls are very often missed selling opportunities. Remember that this is not just a question/answer session or a diversion from office chores – but a selling opportunity. This is crucial to making phone prospects turn into live traffic. You have to get the prospect to commit to you and not waste your special.

Unless you are specifically asked, you shouldn't even give out the details of a special on the phone. It is a closing tool for you – not an appointment setting tool. They will want something else in addition if they get the special on the phone. Instead, dangle it or tease the customer with something like “our two bedrooms are really moving fast, we've put together some great offers – I can't wait to tell you on your appointment.” Treat the caller like you would a walk-in! You wouldn't give a walk-in a price sheet immediately when they came in (would you?). I certainly hope not. Why would you tell them the price and special immediately on the phone? Same thing, same bad results. Get answers to questions!

A common mistake I overhear when on-site or when reviewing recorded prospect calls is a leasing consultant launching into a special shortly after the phone call gets underway. Few people are in the mood or mindset for rapid calculations when they are calling for apartment information. Why confuse them with percentages and pro-rates? They want to know why they should come and visit your community – what they cannot find out from the ad they are viewing. You lost them at “pro-rate”. Along that note, there really is no such thing as prorating a concession – you are just reducing the price of your apartment because you aren't able to sell it at the price offered.

Managing Concessions

At the very least, concessions need to be well managed. You should only use concessions

to move SPECIFIC product. You can always tell what cars GM isn't selling enough of because of those financing offers on TV for "exceptionally well qualified buyers". You don't see those ads for Corvettes. Why not? Low supply, high demand – no need to concede. If only the apartment industry worked that way! Just review your pricing and ask yourself some basic questions:

- a) At your community, which units do you have the least of?
- b) What is the concession you are offering on that plan?
- c) What floor plan do you have the most of?
- d) What concession are you offering on that floor plan?

These might seem very simple, but you would be amazed at how many properties focus the bulk of their marketing attention on the floor plans they have the least of. You can try offering unit or type-specific concessions rather than blanket concessions property-wide. Review each floor-plan and compare to comparable FLOOR PLANS at other communities. What are this units' strengths, weaknesses? What should you focus on in the tour? Should a special be designed to move this particular unit? You can also pinpoint your concessions to be location-specific. What are the most desirable areas within your community? What are the least desirable? Price the units accordingly. Nearly all high-rise condominiums get more expensive each floor you ascend. Why not at apartments? Many communities price third floor apartments as if they are less-desirable rather than treating them as "penthouse opportunities." This is because of perception and the way we manage inventory.

You have to change the way you look at it to change the way you present it. If you think about it, there is not a lot that gets better about being higher up in a hotel. The wait and ride in the elevator takes longer. It takes longer to get the bellman to come and bring your bags, room service takes longer – sometimes even the HVAC is tougher to regulate higher up. And if the elevators all go out – forget about it! However, hotel companies have manage to sell these rooms for higher prices because of the feeling that you get from exclusivity and the promise of a view – something most visitors to hotels never see. But wait! If I institute a location or unit-specific concession, couldn't I get in trouble with fair housing law regulations? No. Tying a concession to a unit-type or a specific unit means everyone who views that apartment would be offered the same special. This actually **REDUCES YOUR RISK!**

There are other steps you can take to reduce your reliance on concessions. One simple idea is to try instituting a quota system or a maximum number of concessions allowed each month. Another is to only use specials during specific "slower" times during the month, such as the second and third week. You can also consider non-monetary incentives that may benefit the entire community. Reinvest the money that you were spending on concessions to tangible benefits at the property. Things like washer and dryers, upgraded appliance packages in stainless or black, high grade carpet, ceramic tile or wood laminate flooring - ANYTHING that makes you something "special" compared to your competition.

Training is another commonly overlooked element. Companies with good training programs, often that go beyond basic leasing but develop sales skills and self-confidence, often have teams that rely much less on specials and much more on their own sales

ability. It is simply one of the best investments you can make in your property. You should also look at hiring salespeople who can lease – sometimes people trained in our industry can't sell *or* lease! Limiting your search to candidates with apartment experience can sometimes put you way behind with a bunch of employees with bad sales habits that can take years to overcome.

Advertising

Lastly, you need to take a critical look at your advertising. What is the theme? What does it say? Does it focus on value, price, specials – or community, home, service and comfort? It is important to market to clientele that isn't as price motivated, people looking for a home not just a good deal. It is essential to have price-ranges in your advertising, or a "starting at" price. Many apartment communities have the mistaken idea that not listing prices in advertising is a good idea because it creates mystery and generates more phone calls. This is false – all it does is create a lot of unqualified phone traffic, which over time trains your leasing consultants to believe that phone calls are a waste of their time, since the callers are likely not qualified anyway. Simple "starting at" or a pricing grid can eliminate this and get you more qualified callers.

This is just a sampling of many ideas. If you don't like any of these options you could just stop. Cold Turkey. Properties have done it before, with amazing results. If you can't rely on a crutch, you tend to walk on your own. Concessions are bad. Bad for business, bad for the property – even bad for the consumer! They are driven by tough markets, lazy marketing and poor salesmanship! You can get past concessions by concentrating on your core product, changing the way you manage inventory and teaching your teams to sell value.

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