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PENINSULA PUBLISHING

BUILDER AND DEVELOPER

The Hardest Working Homebuilders' Magazine in the USATM

Volume 19, Number 1 Issue No. 205

www.bdmag.com

January 2009 \$10.00

Builder Work-Outs



Building Affordable Apartments LEED Multi-Family Housing

FAQS – WHAT TO KNOW IF YOU’RE CONSIDERING DEVELOPING APARTMENTS

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With development prospects grim in the for-sale sector, there’s been an upsurge of interest among homebuilders in exploring opportunities to develop rental (apartment) product.

It makes sense to parlay expertise in entitlement, design management, construction and sales/marketing of for-sale product into the apartment arena. These “frequently asked questions” from builders new to rental development may shorten the learning curve.

Q. What’s the single biggest difference between rental and for-sale development?

A. Hands down, it’s the duration of the “sales experience.” For-sale product is sold once. Rental product is “sold” repeatedly. In most submarkets, turnover of apartment units runs 50% or 60% per year or even higher. For a 200-unit project, that translates to the need to lease 100 or more units *every year*.

Q. How does the need for perpetual marketing affect community design?

A. Successful apartment communities must incorporate a dedicated leasing office that will operate for the life of the project. (Design should include a separate management office, too, to allow staff to deal privately with customer service issues at the same time the project’s attributes are being pitched to prospective residents – much the same distinction that car dealerships make to separate sales from service.) The leasing office should be carefully situated – it must be easy to find, but also integrated near the property’s selling points, whether a state-of-the-art fitness center, business center, or theater. Design the parking area for prospective residents and the inevitable, ongoing stream of vendors for good long-term functionality.

Recreational amenities in apartment communities are often more extensive than is the case at for-sale properties, since a clubhouse, pool, spa, fitness center, etc. all help merchandise a rental property. With good management, recreational amenities will also contribute toward creating a sense of community to help retain discerning renters.

Signage is critical for the sustained marketing effort required for rental communities. Monument signs should include the word “Apartments” or “Apartment Homes,” since the high quality of many of today’s apartment communities makes it hard for potential residents to determine whether a project is rental or condo. Exterior signs should be designed for readability, at car traffic speeds. Within the property itself, clear wayfinding signage will help prospective residents as well as successive new residents navigate.

Q. What defines a “good” apartment site? Is it different than a “good” for-sale site?

A. Rental projects need great visibility and street exposure. Drive-by vehicular traffic is by far the cheapest, most effective way to market apartment units. Projects that lack a strong

“leasing window” will be forever burdened with the cost of generating leads through more expensive methods such as paid advertising. Average daily traffic [ADT] counts of 20,000+ cars will make a measurable difference in an apartment project’s economics over time.

Renters are arguably less sensitive to school scores and other neighborhood considerations than homebuyers, since many regard renting as a temporary form of housing. On the flip side, apartment development possibilities emerge in some locales with highly regarded schools; some families will rent in areas where they can’t afford to purchase on that basis.

In the big picture, remember that rental sites need to be located closer to job centers than for-sale projects, since renters aren’t willing to commute as far as homeowners.

Q. What differences would you expect to see in unit mix or unit design, in comparison to for-sale product?

A. Apartment communities typically incorporate more one-bedroom units than for-sale projects and have fewer three-bedroom units. (Three-bedroom units rarely comprise over 20% of an apartment project’s mix.) Unit interiors should be designed to minimize upkeep, both because the cost of maintenance will remain the responsibility of the builder/owner, and because the down time required to renovate and clean units when they turn equals lost income. (The apartment industry reports that the average move-out cost runs \$3,000 per unit when factoring vacancy loss, concessions, hard and soft turnover costs, marketing/advertising, and staff time.) Flooring, cabinetry, fixtures and features should all be selected for long-term wear and ease of replacement.

Durability shouldn’t be interpreted as utilitarian, however. It’s not unusual for apartment communities built today to include such high-end treatments as granite countertops, hardwood flooring, fireplaces, stainless steel appliances, crown molding, etc.

Unlike condos, most apartment units built today provide all kitchen appliances (including refrigerators), as well as washer/dryer appliances. Incorporating appliances allows landlords to charge additional rent; makes move-in easier; and significantly reduces wear-and-tear on the building’s stairwells, halls, door jambs, etc. during move-in/move-out.

Q. What about parking?

A. While municipal codes may impose lower parking requirements on apartments than condos, don’t skimp on parking. Under-parked apartment communities translate to higher vacancy and more turnover (for proof, scroll through complaints from unhappy residents on online apartment rating sites). Detached parking – carports or row garages – remains more characteristic of apartment development than condos, although wrap parking structures and subterranean garages are becoming more common, as density increases.