



BY WAYNE WILLIAMS
ALN APARTMENT DATA

Can Dallas become a 'Concession Free' market?

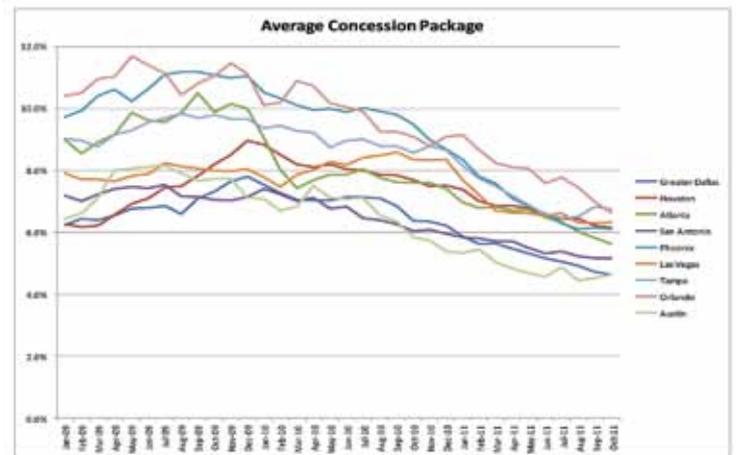
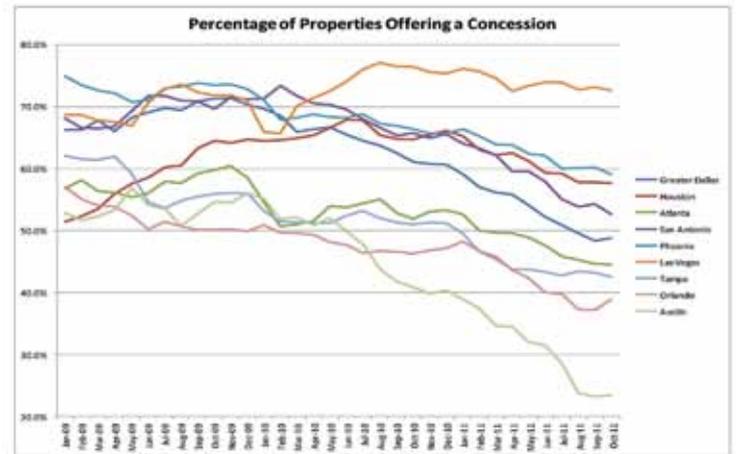
Conventional wisdom says that the average DFW renter has come to expect rental concessions. It's true that ever since the big overbuilding and crash in the rental markets in the late eighties, owners and managers have regularly offered concessions on the market rent, typically by offering a discount on the first full months rent. As more national and larger management companies moved into DFW market in the 90's and 2000's from elsewhere they tried to rein in this tactic only to concede within a short time. Multifamily apartments by far have the lowest barriers to obtaining a lease and the Texas markets have led that trend nationwide with traditionally low deposits and several weeks and in some cases months off the front of a lease. So will there ever come a time that these lease incentives will end—at least for non Leaseup properties? It might be sooner than you think.

When we look at concessions there are three statistics that we are interested in to gauge the market: 1) What percentage of properties in the market are offering concessions, 2) What is the overall effect on pricing in the market from the concessions and 3) How much is the average concession package?

Obviously as these numbers go down that signals strength in the market. Other market sectors notwithstanding we are in the midst of a strengthening market for multifamily rentals and the factors look promising for at least several quarters of positive results.

The Greater Dallas market saw the percentage of properties offering concessions peak in November of 2009 which was, not coincidentally, the low water mark for Occupancy and Effective Rents. In that month 71.4% of stabilized properties were offering some kind of concession. The average concession package for those properties was 7.6% which is equivalent to almost 1 month free on a 1 year lease. Overall those combined to lop 5.5% off market rents for the Greater Dallas market. Since that time however, in every month fewer properties have offered concessions and the average concession package has decreased. By August of this year less than half the properties are offering a concession and currently only 48.8% of properties are offering some type of concession. The current average concession package is only 4.6%, or a little over 2 weeks free on a 1 year lease and that brings the overall variance on the market of 2.0%. By far these are among the lowest numbers we have seen in quite a while.

Another factor in the decline of concessions in the past few years is the growth in the usage of revenue management software, especially for the larger interstate management companies. Revenue Management software does not take into account "local bias" in favor of specials and incentives. This might be a good thing. Sometimes owners and managers can get locked into a set way pricing simply because "That's the way it's done here."



However there is no fundamental reason why apartments should be so inexpensive on the front end, especially in a strong rental market. In other parts of the country several weeks free or a month free on a lease and no deposit would seem downright nuts.

However of course the recent downturn forced their hands and in order to keep any kind of occupancy, other markets were forced to offer exorbitant concessions.

In Atlanta for example, in 2006 only 1 in 4 properties (25%) was offering any type of concession but by November 2009 6 in 10 (60%) were. In Phoenix in 2006 only 40% of properties were offering some type of concession but by January of 2009 75% of properties were offering a concession and the average concession package had risen to almost 6 weeks free on a 1 year lease! However currently in Atlanta only 44.4% of properties offer a concession package which averages almost 3 weeks on a 1 year lease. In Phoenix almost 60% of properties are still offering some type of concession. In the Florida markets like Tampa and Orlando, the number of properties offering concessions have also fallen but the average concession package remains relatively high: about 3 1/2 weeks on a 1 year lease. In Las Vegas 7 in 10 properties still offer some type of concession.

It seems a bit ironic but markets like Dallas and Austin are leading the country in decreasing concessions and the average concession package. Of course we still remain a highly affordable market at least by national standards. I doubt lease incentives will ever totally disappear but I can see a time for perhaps the first time in decades where lease incentives will not be considered the "norm" and security deposits will not just regularly be waived.

Wayne Williams is the founder and president of ALN Apartment Data. ALN surveys apartment conditions monthly in 23 markets nationwide.

For copies of this article and other publications and data visit their web site at www.alndata.com.



The 2012 Community Services project is well under way and we are recruiting members for this year's committee. We officially partnered with Sam Houston Elementary in August, and at that time the AAGD Board of Directors also approved the school to serve as the site of the 2012 Community Services project. Considering the variety of programs AAGD has already assisted in at the school, it is exciting that we will be contributing even more. Tim Mathwig- *CAMP Construction* and Cary Wright- *Maintenance Supply HD* are serving as Community Services Co-Chairs and have already stepped up to this large task. The first committee meeting will be held in January 2012, but we need more members to join! If you would like to serve on the committee, please contact Casey Wright at (972) 385-9091 or email cwright@aagdallas.com.

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