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Landlords Offer Incentives to Stay Put

By [DAWN WOTAPKA](#)

Amid the jobless recovery, some landlords are showering flat-screen TVs, cash, rent cuts and other incentives on tenants to encourage them to renew their apartment leases and thus avoid the expense of filling empty units.

The rise in unemployment has prompted tenants to seek roommates, move home or trade down to cheaper units. In the third quarter, the national apartment-vacancy rate hit 7.8%, a 23-year high, according to Reis Inc., which tracks vacancies and rents in the top 79 markets.

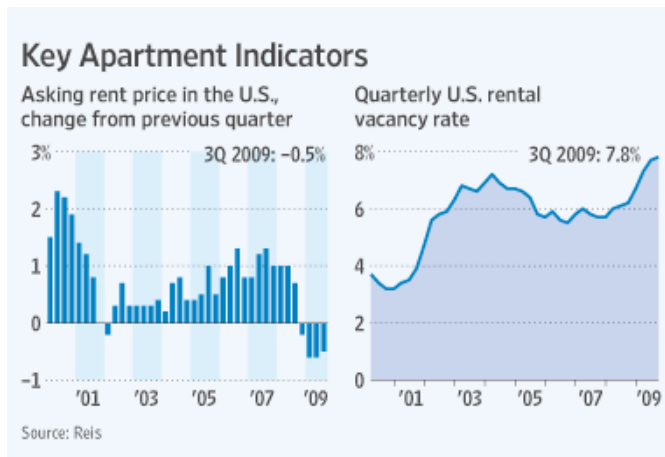
"Many companies are doing whatever they can to keep units occupied, especially heading into the seasonally slower leasing period," said Paula Poskon, an analyst with Robert W. Baird & Co.

The trends are taking a toll on the bottom line. Apartment Investment & Management Co., which owns and operates roughly 150,000 units nationwide, reported Friday that its funds from operations, a key REIT metric, fell to 19 cents a share from 60 cents a year earlier. [UDR Inc.](#), which has about 45,000 units on the West Coast and in Washington, D.C., reported earlier this month that its funds from operations dropped 42% to 19 cents.

"We do need job growth in order for our business to prosper," said David Neithercut, chief executive of [Equity Residential](#), the country's largest apartment REIT by market capitalization. "I think 2010 will be another year of doing the best we can."

Some of the large REITs were able to keep their occupancies up. UDR managed to increase occupancy to 95.6% from 95% a year earlier. [Colonial Properties Trust](#), which operates 35,000 Sunbelt apartments, said its third-quarter occupancy fell to 94.4% from 96% a year earlier.

But landlords attracted and retained tenants by offering incentives and rent cuts. Equity Residential said new tenants in the third quarter paid 9% to 10% less rent than the previous residents. [AvalonBay Communities Inc.](#), an upscale operator, said its decline was about the same.



Owners are focusing on keeping existing tenants because when apartments become vacated they can sit empty for months and often require marketing, painting, brokerage commissions and other expenses to attract new tenants. Denver-based UDR is offering renewing tenants a flat-screen TV, new carpet, kitchen upgrade or, \$300 in cash. The money is the most popular choice, said Chief Executive Thomas Toomey,

Mr. Neithercut said Equity Residential doesn't initially offer rent cuts to existing tenants to persuade them to renew. But if the tenant plays hardball, the company asks:

"What can we do to keep you?" he said.

One problem for landlords is that existing tenants can easily check the Web to see what deals new tenants are being offered. And new tenants are getting incentives like a waived pet deposit or two months' free rent.

Some landlords have also become more open-minded about tenants with credit issues involving home foreclosures. In the past, a foreclosure on a credit record could have meant an automatic denial. Now such blemishes are so commonplace that the stigma is easing. Equity Residential looks for reasonable credit history "outside of a problem that they've had with a single-family home," Mr. Neithercut said.

Another sign of the times: In New York City, landlords are paying broker fees. Typically in New York, which has traditionally been a tight rental market, tenants have to pay fees as high as 15% of a year's rent. But so far this year, Equity Residential has paid about \$1.5 million in such commissions.

Apartment landlords say that one benefit of the bad market is that it has practically halted new construction. New completions are expected to be 98,000 next year and 109,000 in 2011, compared with 188,000 last year and 204,000 this year, according to Green Street Advisors Inc.

But when loss rates are taken into account—the removal of units because of obsolescence—the actual addition will be immaterial. That means that when the economy rebounds, the supply will be tight, increasing landlord profits.

"I have utmost confidence in our ability to be successful when we get to there," said Mr. Neithercut. "I just don't know how far away 'there' is."

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