

## **Apartment Trends for the Independent Owner**

*By Joe Greenblatt, CPM®*

As an independent owner, staying abreast of how best to market, manage and maintain your property can be difficult, and at the same time, can make all the difference to the value of your investment. Keeping up-to-date on local apartment trends can help us focus on the right issues and make quality, timely management decisions.

Moving into the second half of 2005, there are three noteworthy trends apartment managers expect to effect the industry going forward: the property insurance market is improving, Internet apartment marketing has become a significant source of rentals, and maintenance and repair costs are rising.

### **Property Insurance**

Several destabilizing events combined in 2002 and 2003, which not only drove up property insurance rates, but also drove insurers out of the California apartment market entirely. The decline in interest rates decreased insurance companies' investment returns, causing firms to change underwriting rules and increase premiums. In addition, fears of an expected surge in toxic-mold-related claims in a post 9/11 world along with losses associated with a litigious business climate caused many insurers to stop writing apartment coverage here altogether.

Fortunately, as interest rates have bottomed out, the pressure on premiums has subsided and the wave of toxic mold claims never materialized. As a result, we are seeing insurance companies return to California markets and as competition heats up, premiums are stabilizing and in some cases falling. As renewal time approaches, apartment owners and managers need to be out shopping for coverage. The return on the investment of our time can be enormous.

### **Internet Apartment Marketing**

According to results of a widely regarded national study, published in 2004 by Satisfacts Research, LLC, Internet Apartment Sites have surpassed printed media (apartment rental magazines) as a source for rentals. Satisfacts reported that although Signs and Drive-By traffic still represents the greatest rental opportunity (yielding 24% of total apartment rentals), prospective resident traffic from Internet Apartment Sites has grown to directly account for 19% of all apartment rentals. Printed apartment guides, as a group, accounted for 16% of apartment rentals in the study, making Internet sites the primary paid source of rentals for apartment owners and operators.

The challenge that now faces independent owners is tapping into this rental stream. Everyday, there are more people using the Internet, which means that everyday there are more people using the Internet to find a new home. The trend is clear and the opportunity cost of failing to establish an Internet presence will no doubt increase over time.

## **Maintenance and Repair Costs**

It's no secret that the buildings we own and operate are aging and their maintenance and repair needs are rising. Labor and contractor rates are also inexorably going up, however there's much more to this trend than increasing wage rates. In recent months we've seen Workers Compensation insurance rates level off and even decline in some cases. Unfortunately, we are also finding that increases in health benefit costs for workers are more than offsetting these savings and contractors traveling to and from our properties are feeling the same pinch of increased gasoline prices we are experiencing.

Meanwhile, the surge in construction has created fierce competition for the skilled labor force we need to keep our properties in good shape, which is driving up wage rates for competent tradespeople.

## **Recommendations**

These are all "environmental" business trends. In order to be successful property owners and managers, we must recognize them and respond wisely. Some ways we can do this, include:

Take advantage of the improving insurance market. It represents an opportunity to offset other costs.

Get on the Internet. Both the *San Diego Union Tribune* and the *San Diego Reader* offer listings on affiliated Internet sites. *For Rent* and *Apartment Guide* magazines offer associated Internet listings. Rent.com offers pay-as-you-rent listings on their site and there is a wide-range of free and paid alternatives.

Be realistic. Maintenance and repair costs increase over time and labor rates are on the rise. Don't have unrealistic expectations. This leads to poor decisions – like using unlicensed, uninsured tradespeople on your buildings. Be a good risk manager, this will yield profitable results in the long run.

*Joe Greenblatt, is an IREM CERTIFIED PROPERTY MANAGER<sup>®</sup> (CPM<sup>®</sup>) and president of Sunrise Management, an IREM ACCREDITED MANAGEMENT ORGANIZATION<sup>®</sup> (AMO<sup>®</sup>). With more than 20 years experience in the acquisition and management of investment properties, Joe is a member of IREM's National Faculty. For information regarding professional property management or to receive a complimentary property evaluation, contact Joe at 858.571.6321, or e-mail [jgreenblatt@sunrisemgmt.com](mailto:jgreenblatt@sunrisemgmt.com).*

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