



Fifield's K2 in Chicago signed 125 leases in 75 days.

# ***Lease-Ups*** How Fast is Fast?

Leasing Teams at New Communities Are Performing at Sizzling Rates

*BY PAUL R. BERGERON III*

**W**hat was the fastest lease-up in apartment history? Unfortunately, there's no such listing in the "Guinness Book of World Records." But if there was, several property management companies in high-demand markets would be bidding to get their names in the legendary book of performance.

Lease-up rates nationwide have been making headlines this year as steady demand and new product are driving traffic as the industry comes out of a two- or three-year development slowdown. Building pace picked up during the first half of this year and is expected to accelerate still more in the next two quarters, and into 2014.

Some feared that a glut of new housing and record-low mortgage rates for single-family homes might bring rents down a bit. Instead, new properties are competing with each other and near-by established communities for residents.

One of note, K2, a new 496-unit luxury apartment tower in Chicago's Fulton River District, signed 125 leases in 75 days,

bringing the building to 25 percent leased. One prominent mid-Atlantic-based apartment marketing executive called K2's rate "extraordinary."

"All buildings in this area have had faster-than-average lease-ups," says Chicago-based national apartment marketing consultant Lisa Trosien. "Fifield has a great product and the location is outstanding. What they did is really fast though."

## **Absorption Ahead of 2012 Pace**

But lower rents have not been a result of the flood of new product—at least not in the Seattle metropolitan area. In King and Snohomish counties, prices have actually crept up with the relatively seamless absorption of more than 2,000 new apartments, says Tom Cain of Apartment Insights.

Average monthly rent there rose 3 percent to \$1,190 during the last three months, his research shows. The vacancy rate is currently at 4.41 percent, down from 4.58 percent the previous quarter.

Nationally, on the demand side, Reis reports that the apartment sector absorbed 31,973 units in the second quarter, about on par

with absorption from one year ago during Q2 2012 and down slightly from the 39,319 units that were absorbed during the first quarter of 2013. Year-to-date, the sector has absorbed more units in 2013 than were absorbed through this point in 2012.

New construction is finally starting to pick up a bit, reports Reis. Completions during the second quarter were 26,584 units, an increase relative to the prior quarter's 16,578 units and slightly below the 29,523 units that were delivered in Q4 2012.

This appears to be the front end of the relatively large wave of new supply that is estimated to come online over the next few years, Reis reports. In 2013, more than 100,000 units are expected to enter the market, with the majority expected to come online in the second half of the year.

Nonetheless, new units continue to be absorbed as they come online. Asking and effective rents grew by 0.6 percent and 0.7 percent, respectively, during Q2, Reis reports. This is a slight increase relative to Q1 when asking and effective rents grew by 0.5 percent and 0.6 percent, respectively.



Greystar's Woodlands Lodge is absorbing 53 leases per month.

Jay Lybik, Vice President of Research, Equity Residential, cautions that operators must stagger lease terms during lease-ups, or any time.

"Timing of lease expiration is critical," Lybik says. "It is possible to lease up a property too quickly because then the majority of leases all finish at about the same time. Thus, you really don't want to have the 'all-time record' for absorption because it will really [put you in a difficult position] 12 months later when you need to renew them or fill them."

In that case, another concern could be that the rents were priced too low.

## Great Stories

Randy Fifield, Vice Chair and Principal of Chicago-based Fifield Cos., says "With K2, we delivered Chicago's premier luxury high-rise apartment building on March 1, two months ahead of schedule, and the market responded enthusiastically."

Residences at K2 include studio, one-, two- and three-bedroom apartments. Interiors feature luxury finishes such as nine-

foot ceilings, stainless steel appliances, granite counter tops, plank flooring and Grohe fixtures.

Rents at K2 range from \$1,650 for a studio to \$6,500 for a three-bedroom, three-bath penthouse. Particular focus for this LEED Silver property is its attention to being pet-friendly and bike-friendly.

Comparatively speaking, last year in Chicago, the 70-unit Lincoln Property Company community 13thirteen Randolph Street Lofts leased 58 of its 72 apartment homes (82 percent) in a 60-day lease-up period July 1, 2012, to Aug. 31, 2012. It reached 94 percent occupancy (49 leases) by Oct. 1.

Located in a smaller sub-market, the West Loop neighborhood, Irini Boeder, Regional Marketing Director, Midwest, Lincoln Property Company, says her company took advantage of neighborhood outreach and getting the word out about the newest apartment community.

"Ours was one of the first apartment communities to come online in a condo heavy sub-market, so supply was limited," she says. "We placed the temporary leasing office in a nice, prominent location for maximum visibility in the neighborhood. We held a prospect and pre-leased resident event on the rooftop of Market Bar. Prospective residents came with deposits in hand to reserve their apartment homes. We took advantage of these summer months and increased marketing on all our ILSs, and Craigslist was a big player in this market. Some broker traffic helped, too."

Florida also has been a flourishing market for Lincoln Property Company. At Alta Congress in Delray Beach, which opened in mid-January, its SE Regional Director of Marketing Heather Williams says that despite all the obstacles with City restrictions, her team this year has created "an incredible wave of traffic and capture for the coastal community." Effective rents there have increased over 10 percent since April, and it has averaged 15 leases per week since then.

"We increased our original spend with online marketing of all types to boost SEO tracking through Google Analytics," she says.

Williams says staying open later hours to accommodate flexible work schedules increased success rates.

## Good to Great

Lybik says that for a typical, new development, signing 30 to 40 leases a month would be considered excellent for a 300- to 400-unit community.

Mark Franceski, Director of Research, Bozzuto, Greenbelt, Md., says a recognized national average absorption rate for benchmarking does not exist. So many factors are involved in how a new property will stabilize and perform the companies are better left setting their own goals, based on unique market con-

### **World Record for Lease-Ups**

*What's the fastest lease-up you've experienced in your company or in your market? Send your thoughts to paul@naahq.org.*



Lincoln's Alta Congress in Delray Beach is getting 15 leases per week.

ditions, including time of the year.

"I don't know that I've heard of a project in the last 10 years that was faster than 40 or 50 leases signed [in 75 days]," Franceski says. "The long-term average here is in the 15 to 20 range. A place like New York or Chicago could be very different since they have high-rises and different fundamentals."

Franceski says in Washington, D.C., a hotbed for new construction in the recent past, 30 is the tops he has seen. "Given that, I would consider 50 to be very good," Franceski says.

## Season, Cycles Dominate Lease-Ups

Mack Armstrong, Managing Director of Real Estate, Greystar, agrees that lease-up rates for new properties change seasonally, but, in general, 25 to 30 units per month can be considered a good average.

"We have been through many building cycles over the years," Armstrong says. "We don't really keep any official records on absorption; however, we have seen high rates of absorption at some of our communities in the Houston area during the early part of the current building cycle."

Woodlands Lodge is a 300-unit Class A community that Greystar developed and managed through lease-up in Woodlands, Texas.

One of the first communities developed during the current building cycle, it leased up at an average absorption rate of 53 units per month. "Is this an 'all-time record'? I don't know, but it was certainly an excellent result," Armstrong says.

Armstrong says Houston is a strong market because of the improving economy and job growth in the energy sector.

"We currently have five of our managed communities in the lease-up stage in the Houston area," he says. "These communities are averaging approximately 25 to 30 units per month. Depending on location, amenities and leasing season, some of our managed lease-ups have done extraordinarily well, generating 50 or more leases in peak months."

Armstrong says that what leads to achieving extraordinary absorption rate performance is to start early and to get the word

out. Press releases, ground breaking and prospect events can be good ways to build awareness in the community, he suggests. Onsite signage and advertising wraps on the construction fencing also helps to build an identity for the new apartment development, he adds.

"At many of our lease-up communities we have been successful with social media to build awareness and to attract prospects," Armstrong says. "We usually begin pre-leasing 90 days in advance of first units being delivered. It's important to work with the construction team to ensure that first units are delivered on time, and that they adhere to a tight delivery schedule for the remaining units. Having units ready to show and move-in is critical for maintaining good leasing velocity."

Ryan Severino, CFA, Senior Economist and Associate Director of Research, Reis, says, "Over the past few years, the time to stabilization has been short. Many properties came online stabilized, if not fully leased up. We have seen that slowing down a bit in our data as of late with increased construction activity and a bit of a slowdown in demand."



Monthly rents at K2 start at \$1,650.

## How Long Will It Last?

The outlook for 2013 is sturdy if not spectacular, Reis says. Even with new completions beginning to ramp up, demand will continue to outpace new construction for the remainder of the year. However, the difference between net absorption and new completions will narrow, causing vacancy compression to slow down. Although rent growth will continue to be held in check by a weak labor market, rents will nonetheless remain at record levels, both nationally and for many metros across the country.

The greatest wild card at this juncture is the housing market, Reis says. It has been somewhat resurgent over the last year—both pricing and sales have been on an upward trajectory. With mortgage rates experiencing a mini-spike since early May, it remains unclear what affect this will have on the market. ■

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