

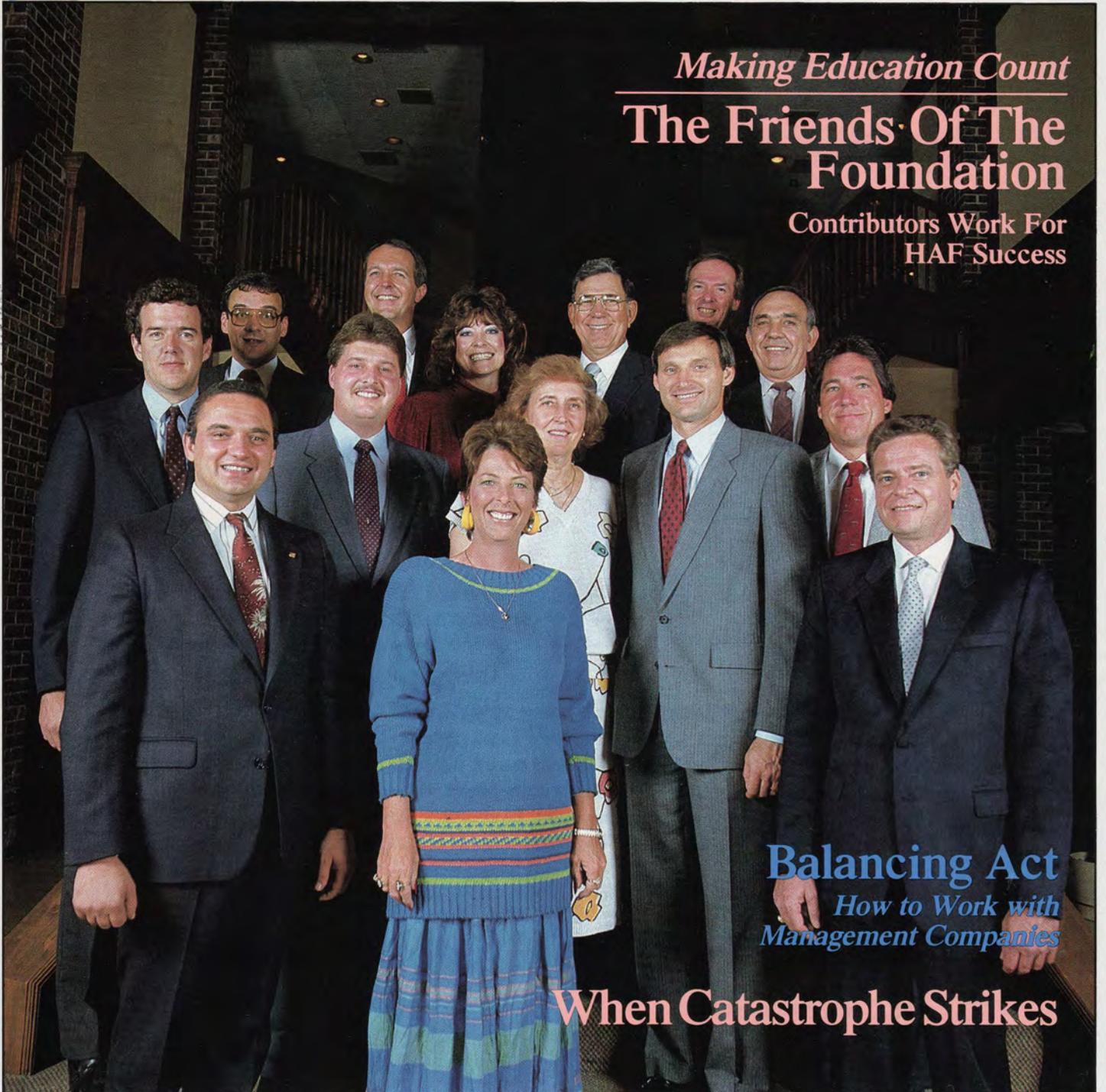
# ABODE



July 1988

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# ARE YOU READY FOR THE GOLDRUSH?



## Part II

In last month's ABODE, we discussed how recent positive economic forecasts combined with residents now choosing to pay for quality apartments has created a "gold rush" in Houston's apartment industry. We discussed the importance of keeping a close eye on each apartment in your market area, and how average statistics can sometimes be misleading. We introduced a new mapping technique that displays the performance of a market area in a concise and easy-to-read format. In this article we will take the analysis one step further and show how occupancy and rental rates, when used properly, can be utilized to reveal the

revenue performance of the apartments in your market area.

The market area we analyzed last month contained 17 communities with an average occupancy of 75.9 percent and an average rental rate of 36.6 cents per square foot. Are these out-performing the rest of the market? Not necessarily! It's important to keep occupancy and rental rate numbers in perspective. When considered individually, they are often misleading. However, when they are used together in the form of "Net Rate" they can reveal a true revenue comparison.

Net Rate is simply occupancy multiplied by rental rate. For example, an apartment

with an occupancy of 83 percent and rental rates of 32 cents per square foot has a Net Rate of 26.6 cents per square foot. That means the apartment is able to produce revenue of 26.6 cent per month for every rentable square foot. With a Net Rate analysis we can compare the performance of the individual apartments in a market area, as well as compare different market areas to each other.

The accompanying performance comparison graph displays the performance of six apartments in our case study. The graph is

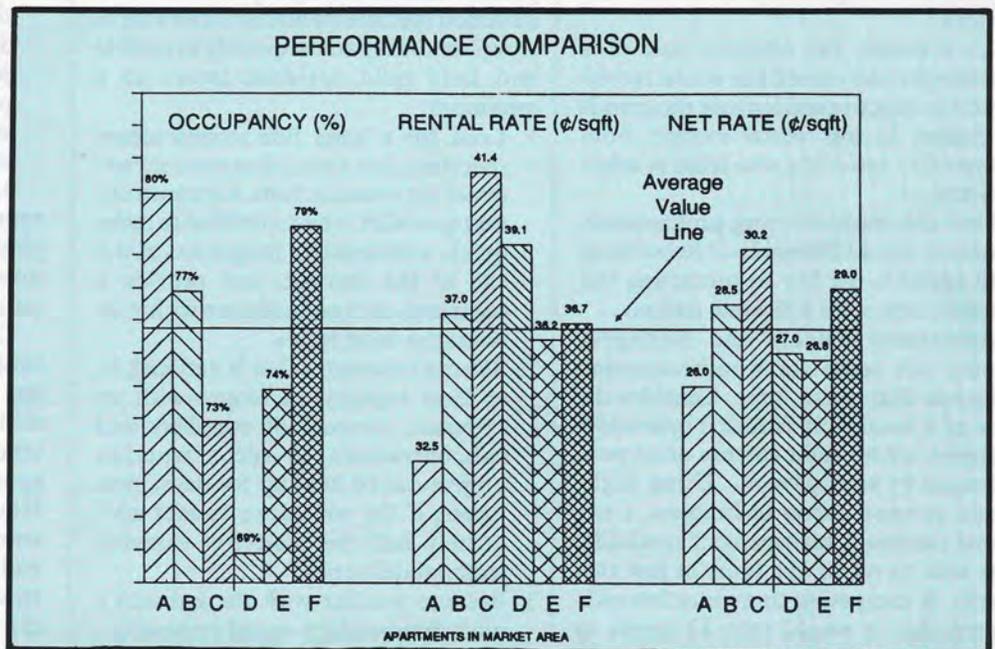
### John Severance and Nick Senofsky Apartment Data Services



John Severance



Nick Senofsky



divided into three segments. The segment on the left compares the occupancy of each apartment (A thru F) to each other and to the market area average of 75.9 percent. We can clearly see which apartments are above and below the average occupancy including apartment (A) at a seemingly strong 80 percent and apartment (D) at what appears to be a poor 69 percent. The middle segment does the same type of comparison using rental rates. It is important to note that the apartments with above average occupancy are not necessarily the same ones with above average rental rate. To protect ourselves from being misled by occupancy and rental rates, we must use the data together in the form of Net Rate.

The segment on the right shows the Net Rate comparison of the same six apartments. The average net rate for the market area is 27.8 center per square foot (36.6 cents per square foot X 75.9 percent). Utilizing the Net Rate comparison we can identify the apartments that are out-performing the market on a pure revenue basis. We can see that apartments B, C and F are producing a better rate of return than the other apartments. Surprisingly, with occupancy of only 73 percent, apartment (C) is the overall top performer in the market area. This is a good example of how occupancy numbers alone are often misleading.

With Net Rate as a measuring guide we can identify the top performing apartments in the market area, as well as compare individual apartments to each other. Assuming similar expenses, the Net Rate comparison reveals those apartments that are providing a higher rate of return for the investors. An additional benefit to a Net Rate comparison is that it shows the revenue potential of a market area. More specifically, if you are considering renovations, the Net Rate comparison would indicate the apartments that are currently out-performing yours. You should then further investigate these apartments to identify the items that allow them top performance. More importantly, the Net Rate is a strong indicator of the rate of return you can expect on your rehab investment.

The use of Net Rates and the mapping technique introduced last month provide excellent tools to analyze the performance of individual apartments in your market area. Furthermore, this type of close-up analysis will allow you to better understand your market area, which is vital in achieving peak performance of your apartment community. In short, these new tools can guide you to profit in today's "gold rush."

In the August ABODE, we will introduce other techniques and tools used to analyze Houston's complex apartment industry.



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