

Making housing offers more flexible

1 Introduction to the research

The housing industry is facing new challenges on a national level. In recent years, the housing market in many regions of eastern and western Germany has been flat. Many prospective tenants now enjoy a “renter’s market” and are able to choose from among a large selection of properties. Property management companies are confronted with a rising turnover of tenants. Increased vacancy rates coupled with high turnover threaten the economic viability and even the existence of some companies in the long run.

It is becoming increasingly difficult for property management companies to stay in business in a renter’s market, even more so in regions of weak demand. With little financial flexibility and looming refinancing issues, the flat market and rising quality expectations necessitate alternatives to major renovation of assets in order to attract tenants with an appropriate cost-quality balance.

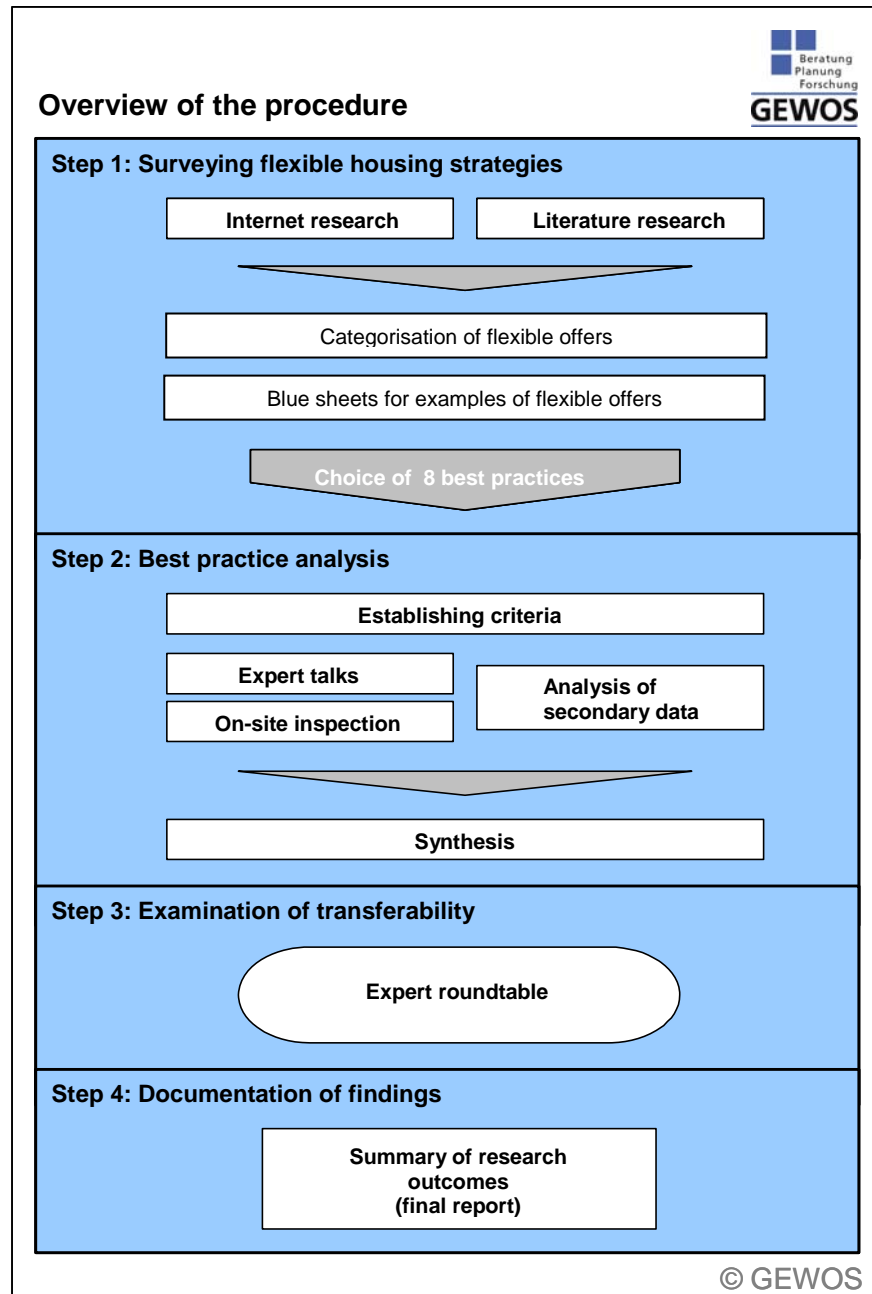
The overarching goal of this research is to present recommendations to property management companies on how to improve their tenancy rate in a flat market. More flexible lease offers are one strategy to open new markets with a new customer base while retaining tenants for the longer term with the firm, thereby reducing vacancies and turnover.

For the research project “Making housing offers more flexible – analysing marketable and cost-effective forms of housing” (file reference Z6 – 10.07.03-06.06/ II 2 -80 01 06 – 06) supported by the Federal Office for Building and Regional Planning (BBR) GEWOS investigated and typified currently implemented innovative and economic strategies in the housing market. Subsequently, the effectiveness of these strategies was examined concerning the long-term goals of decreasing high turnover rates and reducing vacancies.

An advisory board facilitated the research. It was consulted for the choice of the eight best practice examples and it also played a major role during the expert roundtable at the end of September 2007 in Hamburg. Members of the advisory board were

- Helmut Schiedermaier, founder and senior consultant of Concept Bau-Premier in Munich as well as member of the board of directors of the German Federal Association of Independent Real Estate and Housing Companies, Bavarian National Association, and
- Bernd Meyer, director of the Association of the Housing Industry in Lower Saxony and Bremen (vdw) as well as
- Michael Sachs, member of board of directors, SAGA GWG, Hamburg.

In co-operation with the housing industry the models already in place were evaluated and scrutinised with respect to their concept. The feasibility of the solutions was demonstrated by means of eight best practise examples.



Aided by internet research, investigating real estate and housing publications as well as competition winners, 112 flexible housing strategies could be identified and hence evaluated.

2 Overview of identified strategies and best practice examples

A systematic evaluation of the incentives reveals that in addition to a regional bias for the center of Germany, the majority of property management companies investigated focus on monetary incentives to make their properties more attractive to potential customers.

Data was also collected and analysed on the respective target groups. In addition to a remarkably high number of offers addressing all households (45 %), there are specially targeted offers for apprentices/students (26 %) and families (21 %). Furthermore, there are offers wanting to appeal particularly to handymen, those prone to short notice decisions or new citizens.

The identified strategies were assigned to 20 classes of incentives grouped according to two criteria, target group and conditions:

- **Free rent for families and single parents:** These offers allow for, for example, a month of free rent per child.
- **Free rent for apprentices and students:** Students as well as singles are offered one or two months free of rent, for example.
- **Free rent for commuters and new citizens:** This type of offers targets commuters in particular, for example with posters alongside the main roads.
- **Free rent for handymen and short notice decisions:** Depending on the state of the flat in question and the level of (not) demanded modernisation to be carried out by the owner, tenants do not have to pay net rent (i.e. not including operational costs) for a few months.
- **Rent discount for families and single parents:** Mainly found for flats with more generous floor plans and child-friendly surroundings, mostly in large suburban housing estates. The flats are let for a low rent and at times with a guaranteed rent or without a bond.
- **Rent discounts for apprentices and students:** Rents are low as well as phased during the education as this group only has limited resources.
- **Rent discounts for singles:** This category includes flats for singles (e.g. one to two rooms, 28 to 49 m²) offered for a low rent.
- **Vouchers for families and single parents:** As an incentive for renting vouchers are issued as welcoming presents to families and single parents. The offers range from vouchers for clothes, through toys and school supplies to furnishing.
- **Vouchers for apprentices and students:** This group is also addressed by the aid of vouchers. Here electronics and furnishing dominate.

- **Vouchers for singles and commuters:** While singles are presented vouchers for memberships in fitness studios employees of companies in the vicinity of particular residential areas are given a bicycle when signing a tenancy agreement.
- **Vouchers for moving in:** With this offer all new tenants receive a present in form of a voucher when moving in. In most cases these are vouchers for furnishing such as furniture or hardware stores. Newspaper subscriptions are also common.
- **Resident services:** Some examples include extensive services for tenants. These could be advice, repair services, gatherings, guest flats or service hot-lines. Especially for commuters and students furnished or semi-furnished flats are offered.
- **Child services:** This type of offer is frequently made in combination with vouchers for families and single parents and comprises additional benefits such as childminding, help with homework or child protection packages including advice on safety features as well as on making the flat childproof.
- **Tenant referrals:** When a new tenant is found by mediation of a tenant the mediating tenant receives an award of recommendation usually in form of money.
- **Square footage bonus:** This category includes offers in terms of additional square footage. Families, for example, may obtain a room free of rent per child for a limited period if they rent a certain flat.
- **Stairs bonus:** This type of bonus applies especially to flats in the upper floors of buildings without elevators which are therefore hard to market. With monetary incentives, e.g. reduced rents, one tries to make such flats more attractive and consequently reduce vacancies.
- **Student bonus:** Custom-build for students including features for internet, telephone and television, for example providing free of charge connections or free of charge utilisation.
- **Loyalty bonus:** This strategy offers cash as an incentive for new tenants to rent a flat as well as staying with the housing company in the long run. For the example in question the loyalty bonus grows with the duration of tenancy.
- **Family bonus:** Within the compiled offers the family bonus is either paid for each child as a one-time subsidy for moving or as a monthly child benefit for six months. The goal is to attract families from the environs.
- **Rebates:** In most cases this type of offer is made in connection with housing services and includes discounts with partner enterprises (trade, service industry etc.) of the housing company. Tenants have the possibility for indirect savings on non-rent living expenses.









































The identified examples of flexible housing offers were compiled in a data base and blue sheets were produced for 36 offers. The latter serve as brief characterisations of the investigated examples as well as brief descriptions of the offers.

Jointly with the advisory board, eight case studies were selected for more detailed analysis. By analysing already realised projects, their transferability could be assessed directly. The concepts had been tested in practice, so that opportunities and challenges were already known in advance. The offers examined in the selected case studies could therefore be easily and quickly adaptable to other property management companies. For this purpose each of the eight offers was analysed with a mix of methods, such as expert talks, secondary data analysis and on-site inspections. The assessment of the case studies was supported by an extensive catalogue of data. Amongst others the following aspects were researched: form of offer, marketing strategy (slogan, media, time horizon), innovative character (content, methodology, target group specification), in-house rating, tenancy situation (before/after), rate of return (costs and revenues), practicability and effectiveness (chances and challenges) as well as market potential/marketability.

For each case study a two-page profile was produced which comprehensively describes the offer and the results of its analysis.

The table below presents a results-oriented overview of the examined case studies.

Evaluation of the best-practise case studies

Criteria/ case study	WG Hannover Herrenhausen: Wohnen à la Carte	KWG Kiel: Handwerker wohnungen	GWG Kassel: Baby Boogie Wohntarif	Stadt und Land Berlin: Balkonino	WOB AU Rendsburg: Kraxel- bonus	HWG Halle: Heide-Nord Treue- bonus	GGG Chemnitz: Junges Wohnen - Der IKEA- Gutschein	HWG Hattingen: Fettwohnen
Precondition on the rental market								
Type of housing enterprise	Corporation	Capital company	Municipal housing company	Municipal housing company	Capital company	Municipal housing company	Municipal housing company	Corporation
Type of offer and contents	Service for members	Free rent for personal contribution	Low priced fixed rent and diapers for a year	Service by means of events	Rent discount for upper flats	Loyalty bonus for loyal tenants	Voucher when moving in during education	Rent discount during education
Target group	All tenants	New tenants adept to handcraft	New tenants Young families	All tenants	Low-income earners New tenants	All loyal new tenants	Students, apprentices, new tenants	Students, apprentices
Marketing strategy								
Acceptance of the offer								
In-house rating								
Assessment of transferability								

3 Conclusion

On 28 September 2007 an expert roundtable took place in Hamburg which was attended by two members of the advisory board and four representatives from the property management companies in the case studies. After the presentation of the researched examples important criteria for the conceptual design of flexible housing offers were decided on, sample contents of flexible offers were defined and a choice of transferable offers from the case studies was made.

It became clear that flexible housing offers should not generate a downwards price spiral by offering flats, which mostly have deficits, at dumping prices. Particularly in combination with high vacancy rates this leads to increased competition amongst the housing companies wanting to divide up the respective housing market.

A sensible strategy for such markets comprises selling and dismantling of buildings as well as investments into the facilities of the remaining flats and ensuring steady neighbourhoods. The latter measures are also recommended in tight markets.

It became apparent that most offers have the sole purpose of appealing to new customers in order to reduce vacancies. At the same time existing tenants are displeased as they are paying higher rents since the offers do not apply to them. In order to reduce turnover rates, additional offers are needed which support the loyalty of these tenants to their property management company. Direct loyalty bonuses can serve this purpose; however, targeted investment in capital improvements to buildings to benefit specific tenants are also well received.

At the outset of developing special forms of offers, a thorough analysis of the portfolio should be carried out. It will clarify which assets should be kept and – if applicable to a target group specifically – upgraded and which should be sold.

Moreover, housing companies should not consider themselves as victims of politics and regulations (e.g. costs of accommodation) but rather as designers actively shaping policies. Co-operation with other companies should be treated as an opportunity.

All in all, this study and research into the available range of offers was seen in a positive light by the members of the expert roundtable. It provides a compilation of diverse starting points for marketing and sales. Nevertheless, the study revealed that some companies do not monitor the profitability of their offers, recording neither their investment nor concomitant changes in revenue. These cost data are, however, vital for their assessment. Furthermore, standards for so called handcraft flats are essential in order to be able to let the flat to potential tenants after the handyman moved out.

In conclusion, it is a matter for governments and the housing industry to jointly advance urban development. To this end, concepts for the provision of living spaces as well as for housing markets, both of which GEWOS has been developing for a number of years, are required at the very beginning of such development processes.

4 Documentation of findings

The findings of the research were documented with a report some 100 pages. It is planned to publish the executive summary, the table of the identified offers, the 36 blue sheets and the extensive profiles of the best practice case studies in form of downloadable PDF-files on the homepage of GEWOS. This executive summary is available in English.

Hamburg, December 2007

Responsible for the contents:
Renate Szameitat, Director
Maike Müller, Project Manager

GEWOS
Institut für Stadt-, Regional-
und Wohnforschung GmbH
Maurienstraße 5
22305 Hamburg

Telefon 040/69 71 20
Telefax 040/69 71 22 20
E-Mail info@gewos.de
Internet <http://www.gewos.de>

Geschäftsführung:
Renate Szameitat

SEB AG
BLZ 200 101 11
Konto-Nr. 17 33 922 900

Sitz der Gesellschaft:
Hamburg
Registriergericht:
Hamburg, HRB 12 536