

# Residential Marketplace

## Tenant Concession Analysis

AssureLease, LLC

March 2017

## AssureLease Overview:

- AssureLease replaces traditional security deposits which for large portfolios are a failed instrument and can only create a negative impact to NOI (net operating income)
- AssureLease can help increase retention and reduce damages by tenants
- AssureLease removes the need to ask for tenant deposits (tenant barrier to entry)
- AssureLease general "cost" structure is in the 1.5% range of gross annual rent and .75% on a net basis (after dividend is received)
- The AssureLease structure allows for 100% of funding that is not used to pay expected losses RETURNED to the owner/landlord/operator
- AssureLease utilizes insurance as capital on a third party basis **WITHOUT ANY** requirement of collateral
- Owners/Landlords self-adjudicate their losses thereby eliminating "claim denials"
- AssureLease is a proprietary product and is the only product offering of this kind

### Case Study (New York)

The New York and San Francisco Rental marketplace has experienced a downturn in class A rent rate and new development occupancy rate based on a “glut” of inventory.

Many of the larger developer/owners have resorted in using a “menu” of concessions to attract new tenants to increase occupancy at existing assets as well as “fill up” new developments. Most estimates range in the 20 – 22 month range to get occupancy to 96% for a new development. The concessions include; Free Rent, Waiver of Security Deposit, Reduced Security Deposits, Gift Cards, Free Access to Building Amenities normally charged to tenants and Owner Paid (OP) fees to brokers. In many cases, landlords will give/utilize multiple concessions.

Below are “competitor” Owner/Landlords in the NYC market and their “menu” of concessions:

<b>Owner/Landlord</b>	<b>Free Rent</b>	<b>OP Fees</b>	<b>Gift Cards</b>	<b>Security Deposits</b>	<b>No Renewal Increase</b>	<b>Amenities Waiver</b>
<b>AVB</b>	Yes	No	No	\$1000	Yes	Yes
<b>UDR</b>	Yes	Yes	Yes	\$1k – 2500	Yes	Yes
<b>TF Cornerstone</b>	Yes	Yes	No	\$0 – 5K	No	?
<b>Related NY</b>	Yes	?	Yes	\$1k – 5k	Yes	Yes
<b>EQR</b>	Yes	?	Yes	\$1000- +	Yes	Yes
<b>Glenwood Mgmt.</b>	Yes	Yes	No	\$1k – Full	Yes	Yes
<b>Rose Associates</b>	Yes	Yes	No	\$2k – Full	Yes	Yes
<b>Durst Organization</b>	Yes	Yes	No	\$0 – Full	Yes	Yes

All of the companies listed on the prior page offer Studios, 1br & 2br units with some owners offering even larger (up to 4br units). Units that are 2 bedrooms or larger are typically much harder to lease and where the majority of “mixed concessions” are utilized.

The net cost of these concessions can erode or remove completely the first year’s net unit profit in some cases. Below is an example of a unit that is currently offered for lease in a newer development on the Westside of Manhattan:

**2br/2ba 16<sup>th</sup> floor with balcony**

**Monthly rent: \$4960.00**

**Cost of Concession(s):**

- 1) 4 weeks rent - \$4960.00/ 8.33% of annual rent
- 2) 2 weeks rent - \$2480.00/4.16% of annual rent
- 3) 1 weeks rent - \$1240.00/2.08% of annual rent
- 4) Gift Card - \$1000.00/ 1.68% of annual rent
- 5) Gift Card - \$500.00/ .84% of annual rent

***The net utilization cost of AssureLease would be \$446.00 or .75% of rent***

The additional concession of a waived renewal increase on a two year lease is roughly 3% of annual rent and waived amenity fees from; parking, pets, gym etc. can range anywhere from .25% to 2% of annual rents.

Using the above example unit, we can compare the utilization of AssureLease as part of a “concession” plan to tenants taking the cost of AssureLease from the listed rent and therefore keeping any pricing model that may be used (LRO/Rainmaker) intact.

**Rent Concession Model Comparison- 2br/2ba - \$4960.00 per month “listed rent”**

	Current Concession Options		AssureLease as a Concession	
	1 Yr. Lease	2 Yr. Lease	1 Yr. Lease	2 Yr. Lease
<b>Gross Annual Rent</b>	\$59,520.00	\$119,040.00	\$59,520.00	\$119,040.00
<b>Weeks of free rent (2)</b>	-\$2,480.00	(4) -\$4,960.00	N/A	N/A
<b>Gift Card</b>	-\$500.00	-\$1000.00	-\$500.00	-\$1000.00
<b>Security Deposit (SD)</b>	(\$1,000.00)	(\$1,000.00)	N/A	N/A
<b>NET Cost of SD</b>	N/A	N/A	\$446.40	\$892.80
<b>Revenue R’cvd</b>	\$56,540.00	\$113,080.00	\$58,573.00	\$117,147.00
<b>Rent Difference</b>	-\$2,980.00	-\$5,960.00	-\$946.40	-\$1892.80
<b>% of lost rent</b>	5%	5%	1.5%	1.5%

In this example comparison, AssureLease allows the new tenant to have a true up front “cash positive” starting point. Most tenants believe that any “free rent” concession has already been baked into the effective rent they will pay and the reduction in rent over time does not remove the largest non-rent entry expense.

**New Tenant impact at signing:**

	Without AssureLease		With AssureLease	
	1 year	2 Year	1 Year	2 Year
<b>Gift Card</b>	+\$500.00	+\$1000.00	+\$500.00	+\$1000.00
<b>Security Dep.</b>	-\$1000.00	-\$1000.00	N/A	N/A
<b>Net to Tenant</b>	-\$500.00	\$0.00	+\$500.00	+\$1000.00

This allows the tenant to “have something in hand” at the start of their residency.

**Summary Conclusion**

As we have discussed before, we researched over 600 apartments that were a comparative match to a sample unit and could not find ONE unit that was priced within 1% of each other. The fact is, that if Owner/Landlords are willing to give up as much as 10% of annual rent (2 year lease) in order to acquire a new tenant, the reliance on a rent “pricing system” system is to preserve a forward rate and less so than to acquire the tenant itself.

This is why we believe that by reducing the cost to entry - supplemented with additional GRADED concessions - is the best way to reduce acquisition cost of the tenant and to help preserve NOI. When you then factor that traditional security deposit programs CANNOT work and obviously reduced security deposit programs only add more negative impact to NOI, why not replace the non-effective process with a process that is financially effective and is also seen as a concession (otherwise an owner would not be reducing security deposits as a concession/enticement)? In short, we believe that implementing AssureLease allows for a built in concession to the tenant and the natural starting point for a concession offering. Additional concessions can always be added.

The most valuable forward accounting/valuation is the rate itself and therefore should be protected.

The AssureLease product is patent protected by AssureLease LLC

AssureLease LLC was formed to design, develop and patent the AssureLease™ business process as it relates to commercial, multifamily and student housing lease tenant default insurance coverages. AssureLease then secured an exclusive agreement for the underwriting of this type of risk with one of the major underwriters of property and casualty insurance in the world. The management of AssureLease comprises seasoned insurance, real estate, legal and risk management executives who have combined their various skills in the development and design of the AssureLease™ product.

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