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David Kirk - Pattern of price points & specific price points for specific products

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The real estate market always has a pattern of price points and specific price points for specific products. Pricing is a marketing strategy with objectives, and unlike real estate, pricing can be fluid, elusive and manipulated and subject to the sudden ravages of economic forces. When markets start to move, pricing dynamics increase and price points dance. The new millennium pricing for multifamily units included predictive algorithms with daily competitive rental inputs and daily onsite street rent determinations like the hospitality industry. The algorithms recognized competitive product pricing relationships and measured daily movement in street rents. Less likely to dance, some commercial markets are still using 2009 pro forma rents for renewals.

Price point patterns are used to quickly characterize the market for a property product. Differentiating product characteristics are selected to justify differentiated price points. The success of selecting appropriate price points can be relatively immediate. Multifamily rents are probably the most responsive and sustainable with 12-month leases. Hotel room rates can record an immediate occupancy bump; however, sustained daily success in pricing is required for sustained property performance. Commercial and industrial rents typically have marketing cycle of several months and, accordingly, are less easily manipulated. However, tenant allowances and rent concessions can be tweaked for short term interim price points.

Pricing strategy starts with the development pro forma. The product is defined by its location, exterior visuals, mechanicals, finishes, amenities and services, all related to the competition and the pipeline. The thresholds of meeting the market and beating the market are relatively easy to define in the market context. Occasionally the location and the improvements are defining and the price point is hard to manipulate. Within a given submarket, the strategies and objectives of pricing can vary considerably and not all price points within the submarket are relevant. Under prices for prompt absorption, lost leaders for identity or leasing momentum, rental premiums for short term, furnished or service-loaded occupancy, rental discounts for desirable tenants or tenant mix. Pricing strategy can be used to effectively meet and beat the market at a given location.

Selecting price points requires diligence, monitoring and a consistent vision. Initial market research will reveal pricing patterns and pricing strategies as well as the physical attributes of the competitive market which inform design. Pricing is accordingly plodding, ongoing and profound. Developers through effective pricing strategy and acting deliberately can capture a fair share by meeting the market and lead the market by beating the competition. Simple and complex, considered and decisive.

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