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**CORPORATE APARTMENTS:**  
**Providing Short-Term Housing for the Business Community**

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815492  
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# **CORPORATE APARTMENTS**

## **INTRODUCTION**

In our mobile society, at any given time, businesses require employees at all levels to temporarily relocate to different cities for short term assignments. The recent phenomenon and popularity of "corporate apartments" provides these individuals with housing alternatives other than hotels. A recent corporate apartment advertisement in a national professional journal made its point through three photographs; one of the typical business man that avails himself of their service, he was dressed in a suit and tie; the second, the landscaped setting of one of their apartment complexes; and the third, and largest photo, of the same business man, this time dressed in shorts, tank top and athletic shoes, ready with volleyball in hand, for a post workday workout. The advertising copy talks about cramped hotel rooms in relation to their apartments with all the comforts of home (and then some when you consider the often included amenities) at a cost substantially less than the hotel room would cost.

The corporate apartment is not a new concept, but as an industry it is in its infancy. Corporate apartments have always existed on a small scale as a function of a local market. However, it is only within the past few years a substantial growth in the industry has occurred. Property management firms across the country have realized the potential of this concept. As one example, and possibly the oldest, R&B Industries was an apartment developer and manager 20 years ago when they were first approached to provide temporary living quarters for corporate employees who were being transferred to the Los Angeles area for short term assignments or relocation. Now, they have developed into one of the leaders in the corporate apartment industry. With 60 properties in four regions that include most sun belt states from the east to the west

coasts and the Washington, D. C. area, they list over 300 of the Fortune 500 companies as their clients. R & B may be the leader in the industry considering its length of tenure. However, in recent years the industry has witnessed a considerable influx of new management companies, with substantial numbers of owned and fee managed units in their portfolios, entering into the corporate apartment marketplace. The trend is toward additional growth.<sup>1</sup>

The fact that this use is materializing, almost invisibly, in communities all over this country with little general understanding of how or why this happens, makes it a prime topic for investigation. With this idea in mind, it is the purpose of this paper to examine the expanding, specialized residential use called corporate apartments so as to identify its peculiar, little noticed attributes.

In order to accomplish this task the report has been divided into five sections. After this Introduction, the Background section outlines the scope of the topic. It begins with a definition of the term "corporate apartment," comparing today's reality to yesterday's perception. It further includes a problem and needs statement establishing the rationale for preparing this paper; and the literature search and report methodology sub-sections which describe where and how data was collected. The Findings section contains the body of the report. Specific topics, each uniquely related to the development of a corporate apartment complex, are discussed and analyzed. These topics include: locational considerations, physical features, legal issues, financial characteristics, tax considerations, and special management techniques. Also in the Findings section, a discussion of possible social and societal impacts and implications, an identification of areas of expansion, and a data update from the time the original research was conducted and the writing of this report, are undertaken. Finally, the paper concludes with an attempt at predicting the direction this use will take in the future.

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<sup>1</sup>Telephone interview with Randy Schultz, dir. of Public Relations for R & B. Industries, by Gail Oranchak, 21 April 1988.



## **BACKGROUND**

The corporate apartment of popular culture, glorified by such sixties' movies as "The Apartment" and "Any Wednesday," was reserved for use by only the most senior executives or important visiting clients of an organization. Its availability was one of the perquisites that came with the position—like the key to the executive washroom. The corporate apartment was typically located in the headquarter's city with furniture and supplies provided by the corporation. Lease agreements were not unlike those signed by any other building resident. The image of today's corporate apartment has almost nothing in common with the one of thirty years ago. For one thing, corporations are now providing short term residences for employees in all strata of the organization when they are being transferred or temporarily assigned away from their home location. No longer is a "corporate apartment" only one isolated unit in a major city attached to a corporate headquarters. The term that has come to represent an industry that is flourishing in support of the reality of today's corporate structures.

## **THE CORPORATE APARTMENT DEFINED**

Conceptually, corporate apartments are not in competition with hotels, neither the traditional style nor the new suite hotels, for daily or weekly rentals. Corporate apartments are, however, an alternative of choice for many corporations and their employees who must temporarily relocate in a city for a month or more, and prefer the home-like atmosphere of an apartment rather than the temporary status of a hotel. The factors that set corporate apartments apart from regular apartments are the short term leases available and the variety of services provided by the apartment management company. Apartments are leased on a month-to-month basis. An informal industry standard exists that requires a minimum stay of one month. The corporate apartment is

arranged and paid for by the employer and the apartment, although the same apartment as the regular rental next door, is move-in ready for the corporate client who arrives with just a suitcase of his or her personal belongings. Understandably, as with any industry, gradations exist within the corporate apartment industry. Providers of corporate apartments range in size from one apartment building manager in one city seizing an opportunity to fill vacant units to the regionally focused R & B Industries. Just as corporate management companies differ, so can the product they supply and the segment of the market they target. Both the types of management firms that are participating in the industry and the products they provide will be discussed later in this report.

There are common denominators however, which serve as a starting point for each one of the management companies that becomes involved in the corporate apartment industry. These include: a need to fill apartments; a willingness to accept short term residents; and, the knowledge of, approach by, or active marketing of, corporations requiring short term housing for their employees. For R&B Industries, and others, this has grown into a substantial part of their overall business; for some management companies the cost of maintaining corporate apartments has been too high and they have withdrawn from the industry. Yet, for a growing number of apartment management firms, entry into the corporate apartment marketplace is a new concept to be tried in their attempt to fill vacant units and at the same time satisfy a need in their community.

It should not be overlooked that cost is perhaps the most important aspect attracting potential corporate clients to this concept; although, as you will later see, location is also a prime justification for participation. Corporate apartment suppliers will typically compare the housing and ancillary costs corporations will spend to lodge their employees in a hotel versus a corporate apartment. Even after adding the cost to provide furnishings and services, and the increased management fee charged for the

additional effort needed to provide this special arrangement, the cost of the corporate apartment is 1/3 to 1/2 less than hotel accommodations. Although the greatest savings are accrued by choosing the corporate apartment housing alternative over a hotel, additional savings can also accumulate for the participating corporation.

## **PROBLEM STATEMENT**

Awareness of the conceptual transformation of the corporate apartment as an evolving land use and relatively new industry is not widespread. Written materials are nonexistent. Except for the narrow universe of those who provide and those who receive, within the confines of the corporate apartment industry, little is known about its apparatus. Networking among firms providing this service does not take place. Entering the market means that, until now, an organization must educate itself through trial and error.

## **NEED**

Information is critical for those on both sides of the equation in the corporate apartment industry. Apartment managers who are uninitiated in the workings of the corporate apartment industry will learn about a method to fill apartments in areas of high vacancy rates due to economic downturns or overbuilding. Corporations may discover a more pleasant and cost effective technique for housing their travelling employees. If done by the trial and error method, extra time and effort is required to become educated about this residential system (that exists at some level in every major city in the country), at a time when the need may be more immediate than research times allows.

There has been an expressed interest on the part of those publications that provide information to apartment owners and managers to see this topic researched and publicized. Discussions with trade organizations and publications also reveal the



infancy of the industry that is struggling to reach maturity and sophistication. For the most part, the concept has been ignored by the groups that represent apartment owners and managers. Bob Sheehan, economic advisor for the National Apartment Association said the NAA has not been interested enough to consider researching the concept or writing about it in their publication UNITS.<sup>2</sup> Although the AOMA Newsletter (Apartment Owners and Managers Association) reported briefly on the corporate apartment trend, spokesperson, Robert McGough, said they went no further than to point out the fact that corporate tenants are good tenants to have because they typically provide additional revenues in the form of surcharges over and above that collected from regular apartments and they are not always in residence. They recommended to their readers who might be experiencing vacancies to contact major industries in their area and try to market this concept.<sup>3</sup>

In addition to those who are now involved, or who may benefit from participation in the future, this project will also inform local officials of a use that is becoming more widespread in the major cities of this country. Information from this report can be used to assess policy issues relating to this type of housing. Service providers outside the current industry can gain knowledge of potential new market. In light of the facts as outlined above, an understanding of the industry as it exists today and an attempt at showing where it is going in the future are necessary.

## **LITERATURE SEARCH**

Literature searches could not uncover any writings about corporate apartments. Direct contact with staff of several industry publications supported this finding. Bob

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<sup>2</sup>Telephone interview with Robert Sheehan, economic consultant to the National Apartment Association, by Gail Oranchak, 16 June 1988.

<sup>3</sup>Telephone interview with Robert McGough, Apartment Owners and Managers Association of America, 15 June 1988.

Sheehan, economic consultant to the National Apartment Association (publisher of UNITS magazine) believed it is impossible to get data because the industry is in its infancy and participants are not secure enough to share their findings. The data that is available is too controversial due to minute sample sizes and lack of national scope and would not meet standards for research analysis<sup>4</sup>. Bob McGough of Apartment Owners and Managers Association of America (Watertown, Ct) had some knowledge of the reasons behind seeking this type of tenant and their attributes but little more. Representatives of the National Society of Professional Resident Managers (Washington, D. C.) and Apartment Management Newsletter (New York City) were completely uninformed and would consider publishing an article about this concept. Christine Williams of the Real Estate Research Corp. (Chicago) was familiar with the concept and also with the lack of written information except for one newspaper article written in the Chicago Tribune. Contact with industry insiders further demonstrates the need for documentation of the industries' practices and procedures.

## **REPORT METHODOLOGY**

The information for this report was gathered primarily through direct telephone interviews with participants in the corporate apartment industry and from printed materials received from some of the surveyed firms. Sources were found through magazine advertisements, referrals from contacts, and by searching the "yellow pages" of major U.S. cities for corporate apartment advertisers. Obviously, this was not a scientific sample since sample firms were not chosen from a known universe using approved statistical methods and, therefore, it is possible some significant firms were not contacted. A list of organizations contacted in connection with this report, and the person interviewed, can be found at the end of this document.

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<sup>4</sup>Sheehan, 16 June 1988.

## **Corporate Apartment Providers Surveyed**

In researching this concept, numerous management firms currently active in the corporate apartment industry were interviewed by telephone. Each one, depending on their location, size, length of time involved, and level of involvement, had their own method of performing within the broad concept of "corporate apartment," typically using the "trial and error" approach to establish a system of product development and delivery for their market. This illustrates the newness of the industry and the lack of networking that exists, a function of both the infancy of the industry and the possible unwillingness of experienced management firms to share their knowledge with potential competitors. Typically there is someone in every city that has discovered the benefits of leasing units to corporate users; however, for the purpose of this report an attempt has been made to establish contacts with management corporations of various sizes, in a variety of cities, and in different regions of the country. This section of the report will highlight the different corporate apartment providers selected as examples, and it will also include a brief overview of how they entered the market and where they stand within the industry at this time.

The list of management companies to be highlighted include: R&B Industries of Los Angeles, a provider of corporate apartments for the past 20 years. Lincoln Properties and Southmark Corporation both based in Dallas, and both new entries into the industry having begun serving corporate clients in the past year. The Georgia regional office of Balcor Suites which has been providing corporate apartments for the past three years. KormanSuites, established one and one-half years ago and serving the tri-state area of Pennsylvania, southern New Jersey and Maryland. Tahoe North, one of six apartment complexes managed by Metro Atlanta Properties and located in suburban Atlanta. Inkeeper Associates, providing a variety of locations within San Francisco on a relatively small scale and, Executive Turn-Key Rental of Toledo, Ohio, a veteran of five years in the corporate apartment industry.



## **FINDINGS**

Among the firms surveyed, **R&B Industries** has the longest tenure in the corporate apartment industry and therefore, the most sophisticated organizational structure. R&B began as a property development company in the late 1960's. During the 60's and 70's they constructed apartment complexes under the name "Oakwood Apartments." The marketing strategy for these apartments has always been to provide accommodations to a segment of the housing market whose needs were not being met—the short-term renter. With this strategy in mind Oakwood Apartments offered short-term residents spacious furnished or unfurnished apartments on a month-to-month rental basis with immediate occupancy possible. From this basis it was easy to provide the first corporate client that approached them for temporary living accommodations for an employee with the same services R & B provided to their regular apartment renters. Approximately 15 years ago, again from the requests of corporate clients, R&B expanded to include move-in ready services—linens, dishes, TV, and maid service for the furnished apartments. R & B no longer develops properties but restricts its operations to the management of commercial and residential properties. The residential properties include not only the standardized, easily identifiable 200-300 unit Oakwood Apartments originally built by R&B in the 60's and 70's, but also fee managed properties of any style with as many as 1500 units, all of which now make up the Oakwood Apartment chain. Within these 50+ properties located in the sunbelt and the Washington, D. C. area there is a fifty-fifty split between conventional and corporate renters.<sup>5</sup>

**Lincoln Properties** of Dallas Texas, a real estate management corporation with properties in Texas and Philadelphia, is a new entry into the corporate apartment industry, arranging their first corporate rental in December, 1987. At this time the corporate apartment concept (the provision of a furnished apartment in move-in ready

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<sup>5</sup>Schultz, 21 April 1988.

condition with maid service) is still auxiliary to their main function of providing apartments to traditional renters. However, Lincoln Properties would like to become more involved in the corporate apartment industry and they intend to actively market this new aspect of their business. Currently only one of their properties, a new facility that had vacancies and met the locational needs of the corporate client, is on line as a corporate apartment complex. The impetus for Lincoln's entrance into the corporate apartment industry was the downturn in the Texas real estate market. Apartment management corporations, like Lincoln, are investigating innovative ways to bring in supplemental revenues. Lincoln Properties foresees the promotion of additional units in other areas where there is a potential market to target for this service. They also anticipate marketing future phases of already established complexes as corporate apartments.<sup>6</sup>

Like Lincoln Properties, Southmark Corporation of Dallas, Texas has only been involved (at their corporate level) in the corporate apartment industry for the past six months, although in the field individual apartment managers have been providing this service "forever." And, like Lincoln Properties in the last half year and R&B Industries 20 years ago, Southmark's interest in corporate apartments began as a need to reduce their vacancy rate, currently at 20%. They were also market driven to the extent that they fill the need of a specific segment in the temporary housing market. Potentially, Southmark has the ability to surpass R&B Industries in the number of facilities participating in the corporate apartment structure although the segment of the corporate market targeted by Southmark may be different than that of R&B Industries. Southmark Corporation has recently merged with Johnstown Management Corporation of Atlanta, Georgia. This has created a corporation of 600-800 properties nationwide with 175,000 units under the management of one corporation. Forty thousand of these units are fee managed, the remainder are both owned and managed by Southmark Corporation. The majority of the

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<sup>6</sup>Telephone interview with Joyce Eldridge, representative of Lincoln Properties, by Gail Oranchak, 15 April 1988.

properties are not Class A or "upscale" apartment units, although most have a certain level of amenities, and this plays an important role in the targeted market. In contrast to the Fortune 500 companies that R&B Industries claims as their clients, Southmark Properties sees itself as filling the need for temporary residences of other than senior level personnel. For example, they provide temporary housing for audit teams, temporary construction personnel, and nurses on temporary assignment.<sup>7</sup>

Another fairly recent entry into the corporate apartment industry is **Balcor Suites**, an affiliate of American Express. The Georgia regional office, which manages complexes in the north Atlanta suburbs, was surveyed for this report. It has been participating in the industry for only the past two to three years. The impetus for deciding to establish a corporate apartment division seems to have converged on both the national and local offices at about the same time. Local apartment rental offices of the Balcor Management Co., such as those in the Atlanta suburbs, saw people entering their facilities, looking for short-term temporary housing, who were in Atlanta either on short term assignments or as new transfers wanting to familiarize themselves with the area before purchasing a home. Seeing the need to provide an alternative to long hotel stays, local managers approached the national office for approval to market the corporate apartment concept. The national headquarters had also heard about the concept and when approached by their field agents with the proposal to set up the concept at Balcor properties, the national corporate leadership agreed it was a good idea and approved the strategy. Now, regions have been set up across the country and suite representatives market the corporate apartment concept in each area.<sup>8</sup>

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<sup>7</sup>Telephone interview with Howard Haring, representative of Southmark Corp., by Gail Oranchak, 19 April 1988.

<sup>8</sup>Telephone interview with Bernice Wright, representative of Balcor Suites, by Gail Oranchak, 15 June 1988.



The Korman Company has been developing and managing real estate in the Philadelphia area for sixty-five years. For 10 to 15 years, Korman supplied corporations with short term furnished apartments, but only on a small scale. With the establishment of **KormanSuites** eighteen months ago, the Korman Co. greatly expanded their involvement in the corporate apartment industry offering services that range from a simple furnished apartment to an apartment that includes a full range of services and amenities. Ninety per cent of their clients opt for the complete package, only those who are on a strict per diem, government employees for example, will choose the minimum offering. KormanSuites currently manages twenty-three properties in the tri-state area—Philadelphia, PA, southern New Jersey and Baltimore, MD., twenty of these properties were also built by the Korman Co. Their representative stated that by establishing KormanSuites, the Korman Co. capitalized on both a need that existed in the metropolitan areas they serve and on the assets they already had—a high level of quality in the services they provided, the cleanliness of their units and the maintenance of their complexes. The Co. estimates that 50% of the units available at the twenty-three properties are currently leased as corporate apartments.<sup>9</sup>

The hotel industry has not been blind to the fact that this need exists in the short-term housing industry. Inkeeper Associates is one example of how, as an industry, hotels may become involved in the future. Inkeeper Associates is a hotel management firm that has established an apartment marketing division. Unlike the apartment management firms that have been previously discussed, Inkeeper does not own apartment buildings. They lease unfurnished apartments, at twelve different locations in San Francisco, directly from the apartment owners. They then sublease the fully furnished apartment to the corporate client. They market this concept under the title **Inkeeper Associates Corporate Apartments**. They cater to a select group of

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<sup>9</sup>Telephone interview with Kathleen Eicholtz-Umani, Corporate Account Executive with KormanSuites, by Gail Oranchak, 26 May 1988.

corporations targeting their units to the upper level management executive. Because of their selective marketing strategy, they only maintain 50 units at one time.<sup>10</sup>

**Tahoe North** has only 21 of its 508 units occupied with the employees of corporate clients; yet, this constitutes more units set aside as corporate apartments than any of the other seven apartment complexes owned by Metro Atlanta Properties, Inc. Metro Atlanta, like so many other firms is just getting started in the industry.

Similar to Inkeeper Associates method of providing corporate apartment, although not a spin-off of the hotel industry, is **Executive Turn-Key Rentals** of Toledo, Ohio. They are a small provider of corporate apartments who functions by renting apartments from management companies, then furnishing the apartment in move-in ready condition, and subsequently sublease the apartment to a corporate user.<sup>11</sup>

The common element linking the discussion of the sample cases is the original reason for participation in the corporate apartment industry. Each one of the management companies had a need to fill vacant apartments. Not one of the management companies currently involved in the corporate apartment industry considered this as the first use of their properties; and, it is unlikely that apartment management companies will provide this service in an apartment complex that is experiencing a low rate of vacancy. As one interviewee commented, it is also a method of renting the least desirable units in a complex. An apartment may be unacceptable to a long term resident; however, short-term residents, who are not paying their own rent, may not be as discriminating. Additionally, in many instances, the corporate client approached the management company to request the service. From the corporate clients side, employees prefer the home-like atmosphere of apartment complexes and

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<sup>10</sup>Telephone interview with Mark Weiner, marketing representative for Inkeeper Associates, by Gail Oranchak, 26 May 1988.

<sup>11</sup>Telephone interview with a representative of Executive Turn-Key Rental, by Gail Oranchak, 15 June 1988.

corporations are able to provide housing at a substantially lower cost than required when an employee stays in a hotel.

## **LOCATIONAL CONSIDERATIONS**

In physical design and construction a corporate apartment is no different from a traditional apartment. Typically, apartments now being used for corporate apartments were originally built to supply housing for the traditional rental market. In the case of R&B Industries' "Oakwood Apartments," complexes built in southern California were originally intended to provide short term, month-to-month rental, although not the corporate user. Even for a major supplier of corporate apartments like R&B Industries the ratio of corporate apartments to traditional apartments differs from one complex to another.<sup>12</sup> What makes one complex more attractive than another to the corporate user?

**LOCATION—LOCATION—LOCATION!** The primary consideration was proximity to good transportation services. In auto dependent areas like southern California this meant access to freeways. In cities where public transportation is exceptional, Washington, D.C. and San Francisco for example, a location near the public transit facility is desirable. Proximity to airports is another locational amenity. Oakwood boasts that their properties have an average travel time of 20 minutes to the area's major airport.

Another important locational consideration for the upscale, senior executive level corporate users, is the proximity to special regional features. R&B Industries records their highest corporate occupancy rates in their complex at the Long Beach Marina where 82% of the complex is leased to corporate users.<sup>13</sup> In San Francisco, Inkeeper Associates stated that a main attraction of their units was the proximity to the Financial District and the fact that parking was included in the rental, something that is hard to

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<sup>12</sup>Schultz, 21 April 1988.

<sup>13</sup>Schultz, 21 April 1988.

come by in this city.<sup>14</sup> Balcor Suites of Georgia has most of their units in the upscale northern suburbs of Atlanta where many of the corporations using this service have offices.<sup>15</sup>

Representatives from all the firms surveyed agreed with the assessment by the R&B Industries' representative, location was the most important aspect of an individual complex's attractiveness to a corporation for use as a corporate apartment. Proximity saves both time and money for the corporation as well as being convenient for the employee. The location of a complex chosen by a corporate client for use as a temporary living unit for an employee is dependent on the work related destination of that employee. This may require easy access to a downtown area via freeways or public transportation, or to a satellite suburb using private transportation.

## **PHYSICAL CHARACTERISTICS**

### **Amenities**

After locational considerations, physical characteristics play an important role in determining where a corporate user will place their employees. As discussed previously, differences exist between the target markets of organizations providing corporate apartments, and this difference can be directly related to the physical characteristics of the complexes they manage. R&B Industries originally developed the Oakwood Apartment concept to fit the specific lifestyle of southern California and the needs of their target market—short-term rentals. Attention was paid to building and landscaping design details. The standard Oakwood Apartment, first developed in the 1960's, included a variety of amenities in its design plan — night-lighted tennis courts, swimming pools and spas, fitness centers and giant screen TV theaters. R&B Industries

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<sup>14</sup>Weiner, 26 May 1988.

<sup>15</sup>Wright, 16 June 1988.

has always seen their facilities as the perfect "first address" for people locating in a new area.

R&B's fee managed buildings may not have all the desired amenities located on the premises as the original Oakwood Apartment chain, depending on when they were built. In the case of buildings already on-line when management is assumed, provisions have been made to offer these services to their clients at near-by facilities.<sup>16</sup> On the other side of the issue, Daniel N. Epstein, developer of 77 W. Huron in Chicago became aware of the growing corporate apartment market in that city during the building's construction stage. To target the typical Oakwood resident as opposed to the conventional apartment market, a convention center and larger health club and pool were added. Under the Oakwood name 60% of the 304 units are corporate apartments.<sup>17</sup>

Most management companies capitalize on the amenities they have available by including descriptions of the properties and the services they provide in the publicity brochures that are distributed. After locational attractiveness, Inkeeper Associates, for example, points out the amenities provided—choice of architectural styling in the different buildings where they have apartments; availability of parking; apartments with fireplaces, views, and decks; and possibly access to swimming pools, saunas and tennis courts.<sup>18</sup> Similarly, Tahoe North's advertising brochure first discusses the "California contemporary architecture, wooded surroundings, attractive landscaping and prestigious location," and then points out the "modern health and recreation facilities where the active adult can enjoy: jogging trails, four lighted tennis courts, three swimming pools, heated jacuzzi, and a cabana with bar and showers." Even before active amenities of tennis courts, swim clubs, hot tubs, golf courses, nautilus machines, and exercise room

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<sup>16</sup>Schultz, 21 April 1988.

<sup>17</sup>J. Linn Allen, "Apartments Go 'Business Class,'" Chicago Tribune, 26 August 1990, Sec. F, p. 2, 1.

<sup>18</sup>Weiner, 26 May 1988.

with equipment, KormanSuites wants to attract their clients with service amenities such as: easy access to general managers, maid service, complimentary continental breakfasts, a concierge at each location, chauffeured transportation, conference rooms and meeting rooms.<sup>19</sup>

In contrast to the previous descriptions of luxury living that is attractive to the corporate executive, Southmark Corporation describes their properties as "neat and clean", well maintained and with a basic level of amenities, a swimming pool and possibly a fitness room or sauna. They do not expect to attract the same level of clientele with this type of facility, as R&B Industries, KormanSuites, Tahoe North or Inkeeper Associates targets. They have assessed their attributes and directed their market strategy to a different user level. Curb appeal and comfort have been defined by Lincoln Properties as the two most important attributes following location. A facility does not have to be plush to fulfill those needs for their market. The availability, variety and quality of amenities provided by a management company has a definite bearing on the market to be targeted and the ultimate decision of a corporate user.<sup>20</sup>

### **Move-In Ready Condition**

The most unique attribute of the corporate apartment concept is the move-in ready condition of the units. The management company provides furnishings and equipment to the corporate tenants that makes living in a corporate apartment seem like home. Each management company has established its own method for providing the necessary furnishings and equipment. R&B Enterprises has developed the subsidiary approach. Within R & B Enterprises is the R & B Management Company which has direct management over Oakwood Corporate Apartments—the trade name given to distinguish corporate units from traditional rental units. R & B Home Services, another subsidiary of

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<sup>19</sup>Eicholtz-Umani, 26 May 1988.

<sup>20</sup>Haring, 19 April 1988.

R & B Enterprises, provides the housewares packages which may be leased on a monthly basis in conjunction with and in addition to the monthly apartment rental. Information on four different housewares packages was available. All of the housewares packages include linen service and two of the packages include maid service as well. With this type of arrangement the total cost was broken down for the corporate decision-maker into apartment rental cost and housewares package cost. Therefore, different combinations of housing unit and housewares package could be easily tailored to the requirements of the corporation and the needs of the specific user.<sup>21</sup>

At Lincoln Industries the method for furnishing and equipping apartments was handled a bit differently, although Lincoln also has subsidiaries. In part, the difference was a function of its newness in the field of corporate apartment management. It is anticipated that as Lincoln becomes more involved in the industry they will modify their procedure through the trial and error process. Lincoln Properties was already in the practice of providing furnished apartments and accomplished this through their own furniture company where they were able to purchase furniture for the corporate apartments at a discount. To accomplish the move-in ready condition of the apartments, one person was in charge of determining which items were needed and then did the shopping. Lincoln Properties has not yet developed a sophisticated system like R&B Industries that allows the corporate user to personalize the apartment and housewares to the employee. At Lincoln Properties, apartments and housewares—including washers and dryers in each unit, microwaves and weekly maid service, are rented as one unit.<sup>22</sup>

Southmark Corporation has a different approach to furnishing their units than either R&B or Lincoln Properties. This difference, to some extent, is based on their marketing strategy which will be discussed later. They are still unsure of the extent to which they will become involved in the corporate apartment market and for that reason

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<sup>21</sup>Schultz, 21 April 1988.

<sup>22</sup>Eldridge, 15 April 1988.



are making long-term investments cautiously. The method for furnishing apartments is dependent on two factors. If they anticipate a strong market for this use, or they have a long term commitment from a corporate user, Lincoln will consider purchasing the necessary furnishings and equipment. Until then, they prefer to rent the necessary equipment from a company than provides this service. They do not intend to add special features for this market. For example, all their complexes have laundry facilities on site, some apartments have washer and dryer connections and others have the washers and dryers themselves. Any of these may be rented by a corporate user, but they will not add laundry facilities to an apartment specifically at the request of the renter. Maid service can be provided as an option.<sup>23</sup>

The other management firms surveyed provide furnishings in much the same way as previously discussed. Depending on their size, confidence in their market, and/or the availability within their own organization to supply needed items, managers of corporate apartments will either purchase through their own subsidiary, as Inkeeper Associates does through a design group that is part of the corporation and has furnished all their corporate apartments to the point that they now have built up an inventory to draw from for future use; or, they may purchase furnishings themselves, as Balcor Suite's Georgia regional representative has done does in some of their units, knowing the use would be long term<sup>24</sup>; or they may rent furnishings from one of the many furniture rental companies available in all metropolitan areas as Executive Turn-Key Rentals has done.<sup>25</sup>

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<sup>23</sup>Haring, 19 April 1988.

<sup>24</sup>Wright, 15 June 1988.

<sup>25</sup>Executive Turn-Key, 15 June 1988.

## **LEGAL ISSUES**

From discussions with representatives of each management corporation cited above, it has been determined that the introduction of corporate apartments in a community does not violate local ordinances, nor is there any anticipation that problems will arise in the future. Since the construction of the original apartment complexes conformed with local zoning and building requirements for multi-family structures, and the corporate apartment concept has not been interpreted to be any different than a typical short-term lease arrangement, it is their opinion that this concept legally conforms with local edicts.

To protect themselves from any possible violation of the local ordinances, Southmark Corporation has put a stipulation in their lease that prohibits the use of the corporate apartments for business activities.<sup>26</sup> Other than this one stipulation, none of the corporate apartment providers had experienced or were expecting further legal issues.

## **FINANCIAL CHARACTERISTICS**

### **Revenues and Operating Costs**

Fee structures were dependent upon operating costs and each one of the corporate apartment providers surveyed had their own method of determining costs. R&B Industries, as mentioned previously, provided the corporate decision-maker with the opportunity to choose an individualized package. The cost of each housewares package depended upon the number of items or services provided within the particular package and the size of the apartment being rented. The V.I.P. Executive Package, The Executive Package, The V.I.P. Corporate Package or The Corporate Package could be used in conjunction with an efficiency, one bedroom or two bedroom apartment. The

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<sup>26</sup>Haring, 19 April 1988.

cost of the packages ranged between a high of \$311.00 for a two bedroom apartment with the V.I.P Executive Package and a low of \$170 for the Corporate Package in a studio apartment. Prices quoted were from a 1986 brochure, information on current costs were not available. For R&B the market rental of the apartment and the cost of furnishings are included as one fee. The cost for housewares, soft goods and maid service make up the second fee. Together these two are the cost to the corporate user. Included in this charge is the mark-up or profit to R&B Industries.<sup>27</sup>

Lincoln Properties determined that location played an important role in enabling them to charge enough to recapture their operating costs. In the Dallas area, where their property housing corporate apartments is located, the operating costs are two times the rental charge, an acceptable ratio. However, in other parts of Texas where they manage properties, the rental fees are so small that operating costs would be in excess of two times the rental, reducing the ability of the corporation to recapture their expenses.<sup>28</sup>

Southmark Corporation estimated the monthly charges of their corporate apartments by first taking the base fee of the full market rent. To that they added the cost of all the additional furnishings equipment and services provided—utilities, telephone, furniture, soft goods (linens, towels, housewares, appliances), cable, maid service, and a location fee. To this subtotal they added a 10-20% mark-up for services. This 10-20% reflects their negotiable profit margin.<sup>29</sup>

Many of the upscale providers, Inkeeper Associates, Tahoe North, KormanSuites and Balcor assess their fees in the same way as the Southmark Corporation; however, they typically adjust their final charge by 20-25% representing a management fee that compensates for the additional cost to install and service corporate apartments. Corporate apartments do entail a great deal of extra time and effort on the part of

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<sup>27</sup>From documents given to prospective renters, provided by R & B Enterprises, April, 1988.

<sup>28</sup>Eldridge, 15 April 1988.

<sup>29</sup>Haring, 19 April 1988.

apartment employees. The simple fact that the corporate apartment turnover is typically three to six months in duration, as compared to the potential annual turnover for regular apartments, multiplies the required servicing by two to four times.

The determination of actual operating costs within the apartment industry as a whole is not an easy task. Even on a general, national level, information sharing is not widespread. The Institute of Real Estate Management annually surveys apartment owners and managers and compiles the information gathered into their Income Expense Analysis for Conventional Apartments. Bob Sheehan, the economic advisor to the National Apartment Association stated that the national information is very good, but the most useful information, the regional and metropolitan break-downs, are controversial because of the small sample of respondents compared to surveys distributed.<sup>30</sup> When it comes to corporate apartments, no data is available. This industry is so new that it is only just beginning to be discussed among industry participants and analysts. It may be possible, with a copy of the analysis at hand, and reliable information from corporate apartment providers (unfortunately, they are not very willing to share financial information) to more thoroughly evaluate the revenue and operating expenses, making comparisons to past data to determine the industry's income growth potential and returns.

### **Construction Costs**

Of all the companies surveyed, only the Korman Co. is actively involved in property development; although they are not building any new apartments at this time. Of the other organizations studied, R&B Industries, Southmark Corporation, Lincoln Properties and Balcor are all property management firms, not developers; while Inkeeper Associates is a subsidiary of a hotel management firm and Executive Turn Key Rental has developed an opportunistic leasing and then subleasing procedure. Although R&B

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<sup>30</sup>Sheehan, 16 June 1988.

Industries was, at one time, a major developer of apartment structures in southern California, they no longer participate in this aspect of the real estate industry. Each of the firms interviewed uses the corporate apartment concept to fill apartments that are already on line. None of the firms are currently in the field of constructing new complexes, and none of them saw the potential for constructing apartment complexes for this use specifically. Due to these circumstances, construction costs were not a part of the discussions with the representatives of the various corporations surveyed. Construction costs may be estimated, however, by using various methods. The most viable procedure would be to use one of the construction cost services, Marshall and Swift Company of Los Angeles or F. W. Dodge Company's Manual for Building Construction, Pricing and Scheduling.

## **Financing**

As with construction costs, a discussion of construction financing was not applicable to the current status of corporate apartment providers. However, to give a general impression of the apartment construction financing prospects for the 1980's the article by Edward C. Carman, Jr. and David A. Smith entitled "Rental Housing in the 1980's" and appearing in March/April 1986 issue of the Journal of Property Management was consulted. They determined that unlike the 1970's, when apartments were financed with long-term, low-interest assumable mortgages; the 1980's would see a shift in the types of financing available to apartment developers. Two potential sources of funding were discussed: pension funds and foreign investors. In addition, new financing techniques were highlighted including, joint venture financing, with lenders and builders in partnership; and accruing mortgages.<sup>31</sup>

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<sup>31</sup>Edward C. Carman, Jr. and David A. Smith, Rental Housing in the 1980's," Journal of Property Management, March/April, 1986, p. 46-47.

## **TAX CONSIDERATIONS**

Corporate apartments themselves are not taxed any differently than other multiple family housing units. Tax considerations are more important to the corporate client and may have an impact on a corporation's decision to choose a corporate apartment over a hotel. Hotel taxes are almost universal in major cities around the country. This adds an additional percentage to the total hotel bill above and beyond the daily rental fee. In Philadelphia, for example, the combined city and state sales tax that is added on totals 11%. Considering the length of stay, the tax bill alone can be substantial adding one more reason for a corporation to choose a corporate apartment over a long hotel stay for an employee.

## **CORPORATE BENEFITS**

Cost reduction is undoubtedly the prime benefit to the corporate client. Not only is the cost per day for housing reduced by 1/3 to 1/2, and they avoid paying the significant hotel tax; but additional savings may be realized by not having to reimburse employees for restaurant meals when they are supplied with a fully equipped kitchen and can provide their own meals.

From the corporate employees perspective, (and in turn the corporation is rewarded with contented, more efficient and more productive personnel), the comfort of living in an atmosphere that is more like home than a hotel is an important benefit that corporate apartment managers highlight extensively in their marketing campaigns. Oakwood Apartments refers to themselves as the "Un-Hotel," KormanSuites recommends "A Home Instead of a Hotel." Tahoe North refers to their units as "Instant Homes." Balcor Suites suggest the greater ease with which employees may invite their families to come and stay with them in their temporary home when it's a corporate apartment rather than a hotel.

## **MANAGEMENT**

Management techniques differed with the level of involvement in the corporate apartment market and the scope of the management companies interests. This section of the report will give a sampling of the organizational systems various apartment management corporations have established to deliver their product, highlighting the differences in their approaches and the reasons for those differences.

R&B Industries has developed the most sophisticated management operation that involves regional offices with regional managers and staffs to market and service their clients. Three regions—the far west, the southwest and Washington, D.C/Virginia are delineated. Three segments of the economy are serviced—government, military and corporate clientele. Marketing specialists or sales representatives serving each one of these areas are available to serve their clients.<sup>32</sup>

Balcor Suites has also uses a decentralized system of management and marketing. The nation has been segmented into regions. Within each region one person is responsible for marketing the concept and setting up units that have been rented. Each regional office is basically on its own to establish management policy and techniques. The regional representative for the Georgia region goes directly to each complex and schools the employees on the procedures she has established. Many of the decisions may be made by the local apartment manager, since they typically have a better grasp of their local market; for example, the manager may decide on the quality of furnishings to purchase or rent for the unit depending upon the market they serve. The national office in Skokie, Illinois may be consulted for advice on marketing or other issues but declarations do not generate from that office.<sup>33</sup>

For Lincoln Properties management of their corporate apartments has been delegated to one person who has the responsibility for soliciting clients and overseeing

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<sup>32</sup>Schultz, 21 April 1988.

<sup>33</sup>Wright, 15 June 1988.



the preparation of apartments.<sup>34</sup> This small one person staff points out the fledgling status of their involvement in the corporate apartment industry. At the present time their share of the market is made up of one apartment complex with fifteen units being used for corporate apartments. This method is typical for management firms that are dealing either with small number of units or in very localized areas, such as KormanSuites in Philadelphia.

Southmark Corporation, although also new to the corporate apartment industry, is involved in developing standardized management techniques that involves educating the individual complex managers about the corporate apartment market. This educational process would include: identification of client needs, how to service those needs, and specifically, how to develop the corporate apartment market in their area. Because they manage apartment complexes nationwide, Southmark feels it is in their best interest to train local managers who are more familiar with their own markets to the possibility of providing this concept in their area, if the local manager sees a potential market. Managers will be responsible for creating demand for their units as corporate apartments. This will be a new responsibility for apartment managers who have not been trained to market their units. Typically, they are used to waiting for the renter to come to them, but with Southmark's new strategy apartment managers will need to approach business, to become more sales oriented, to develop good people skills. This will be the focus of the training program the corporation is developing for its field managers.<sup>35</sup>

The KormanSuites Corporate Account Executive handles the marketing and establishment of units within their complexes. After location she claims SERVICE, SERVICE, SERVICE is the most important aspect of their operation. With this in mind

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<sup>34</sup>Eldridge, 15 April 1988.

<sup>35</sup>Haring, 19 April 1988.

they conduct a training program for their staff that covers all facets of apartment management, with corporate apartments as only one focus.<sup>36</sup>

## **SOCIAL AND SOCIETAL IMPACTS AND IMPLICATIONS**

From the perspective of the corporation contracting the service, the most significant impacts gained from the corporate apartment concept is a more efficient employee. The corporate client not only receives substantial cost savings (the cost of a corporate apartment is estimated to be one half the cost of hotel accommodations) but also the comfort of the employee benefits the corporation with greater productivity. Families that may have been subjected to extensive separations due to one member's employment responsibilities are now afforded the opportunity to accompany, or at least visit, in surroundings that are more home-like than a hotel.

For the provider there are both pros and cons to this arrangement. On the positive side, the typical corporate apartment resident is a business person with all the attributes managers want to attract: stable lifestyle, consistent income, etc. On the other hand, the hyper-transient nature of the resident is not compatible with the traditional apartment renter. Depending on the percentage of corporate apartments to traditional apartments a sense of community and shared experience may be lost. For some providers who are using this concept to fill vacant apartments, advertising is done selectively and separately because it is felt that it is not necessarily attractive to regular renters to be in a building that markets for corporate apartments.

Since corporate apartments are occupied by business persons living temporarily away from their primary residence they cannot be expected to demand certain public services such as schools. In addition, the impact on other public services, like road

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<sup>36</sup>Eicholtz-Umani, 26 May 1988.

systems, may be reduced since residences that would normally be lived in by two to four people will only have one resident.

In addition, this new concept may provide for the increased viability of communities that have been experiencing economic hard times, or that might have experienced them, if apartment complexes could not fill their vacancies. This is not to say that vacancy rates are not still substantial in many locations around the country from overbuilding and the downturn in some sectors of the economy, but this concept allows for the utilization of resources that may otherwise be subjected to deterioration through neglect from a lack of financial reserves and a reduction in support they may provide a community via property taxes.

## **INDUSTRY EXPANSION**

The corporate apartment industry appears to be in a growth mode. In the last 15 months, in addition to both Lincoln Properties and Southmark Corporation's entrance into the market, at least two new corporations have been spawned. Corporate Lodging Services located in Memphis, Tennessee has been formed to fill a gap that the large regional suppliers have left open. Corporate Lodging Services acts as an intermediary between a corporation needing temporary short-term housing for an employee in a city that may not be served by one of the large regional corporate apartment provider. Corporate Lodging Services is not tied to specific units but is able to coordinate between a corporation in need of housing facilities and an individual provider of those facilities anywhere in the nation. They handle the needs of auditors, consultants or training groups, for example and they can accommodate the needs of an individual family relocating to a new area and requiring temporary housing arrangements.<sup>37</sup>

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<sup>37</sup>Telephone interview with Judy Smith, Vice-President of Corporate Lodging Services, by Gail Oranchak, 21 April 1988.

Similarly, Corporate Suites located in Dallas, Texas and Manilow Executive Suites in Chicago behave like Corporate Lodging Services but on a much smaller scale, concentrating their efforts in the cities where they are located. For example, Manilow Executive Suites "leases blocks of apartments at a discount, then furnishes, equips and re-rents them."<sup>38</sup> In the ten years Manilow has been in business the number of apartments rented as corporate apartments has expanded from six to one hundred and forty-nine.

Corporate Lodging Services, Corporate Suites and Manilow Executive Suites have researched the potential for this service and see substantial future demand resulting from the strong economy. To prove this fact Corporate Lodging Services alone has opened four new offices in the fifteen months since they began operation.

## **REVIEW**

The bulk of data compiled for this project was done in the summer of 1988. In the interest of supporting the findings and conclusions of this report an effort was made to update the information by contacting the representatives of corporate apartment providers who were interviewed in 1988. R & B Industries, parent of Oakwood Apartments, continues to be the industry leader expanding into markets where they see the right components while retaining their established mission and structure. Those who were relative newcomers in 1988 are still finding their niche, evaluating their performance and adjusting their service as experience warrants.

One such participant is Balcor Management Company which initiated Balcor Suites. In the past two years they have found that operating corporate apartments could be an administrative nightmare. Although they were hoping for relatively long term corporate apartment residents—three, six or twelve months; in actuality they were

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<sup>38</sup>Allen, p. 1F.

allowing stays as short as one or two days. The expenses and upkeep of operating in this way was not profitable. Some programs within the group are active and profitable but Balcor is not planning to expand the concept. As the corporate apartments are vacated long term conventional lessees are the preferred replacements. Since vacancy rates in their holdings are now around three to eight per cent the need to attract this specialized resident is not required. Those programs that are successful rely on their proximity to commercial or industrial users who relocate employees for temporary assignments or training programs that run for extended lengths of time.<sup>39</sup>

KormanSuites, localized in Philadelphia, had a different experience in the last two years. Since 1988 they have constructed a new building as a suite hotel. Korman's involvement showed a trend toward corporate apartment residents desiring as many amenities as provided by hotels. In their new building they offer overnight accommodations as well as the monthly rentals with expanded amenities including a restaurant, room service, bell boys and doormen. Their market analysis demonstrated the absolute necessity for corporate apartments but with more services and amenities and they complied.<sup>40</sup>

For Southmark Corp. a complete retreat took place. The special assets division is no longer under the direction of Howard Haring and the corporate headquarters is not pursuing the corporate apartment concept as they did under him.<sup>41</sup> As before, individual managers are performing the task of filling apartments through any means available. With the knowledge of the corporate apartment concept, the requirements of the local market and the vacancy rate managers may pursue residents requiring this service.

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<sup>39</sup>Telephone interview with Sara Wiebort, Balcor Management Co., by Gail L. Oranchak, 30 November 1990.

<sup>40</sup>Telephone interview with Kathleen Eicholtz-Umani, Director of Sales with KormanSuites, by Gail L. Oranchak, 30 November 1990.

<sup>41</sup>Telephone interview with office of Clark Zimmerman, director of special assets for Southmark Corp., by Gail L. Oranchak, 30 November 1990.

## **CONCLUSION**

The prospects for the corporate apartment industry are uncertain. What appears to be a growth industry has, for the most part, been based upon turning a negative into a positive. That is, out of the necessity to fill vacant apartments, apartment managers have stumbled into the corporate apartment concept. Corporate apartments as an industry are at a crossroads. Depending on market needs, this temporary living arrangement may flourish, at which time support structures will be built up around it that include standardizing both the process for participation in the industry and the relationship between providers and clients. The outcome of expansion and formalizing procedures would be the establishment of a nationwide network connecting the various participants for the purpose of sharing information. Lacking any unified, standardized methodology, each industry entrant follows a process of trial and error in getting their operation under way. The lack of networking stifles the growth of the industry by preventing a corporate user in one area of the country from being referred by their local provider to a provider in another part of the country where the temporary, short-term housing service is required.

What will determine the future growth of corporate apartments is the level of demand by traditional apartment renters. One trend that favors the expansion of the corporate apartment industry is the anticipation of "slower population growth and household formation, combined with maturation of the baby boomers." With less people in the 20-24 age bracket and the elderly determined to remain in their single-family homes as long as possible, the traditional market for apartments is shrinking.

The reduction in demand for apartments, evidenced by the consistent rise in vacancy rates from a low of around 6.3% in 1981 to 11.4% in 1988 (a 20 year national high) has been met with a dramatic slowdown in multifamily development between 1983 and 1989. While the six year average (between 1983 and 1989) was 553,000 units annually, by 1988 permits had dropped to 407,000. The results of slower construction

starts was a dip in the vacancy rates in 1989 to, a still high, 10.6%.<sup>42</sup> Whether the corporate apartment industry grows, shrinks, or stays the same depends upon two issues: first, will this style of residence be seen as a valuable asset rather than a short term solution; and second, will construction slowdown reduce vacancy rates sufficiently to curtail the need for property managers to experiment with new methods of attracting tenants. Although the multifamily housing industry is currently experiencing a slowdown, according to the Real Estate Research Corporation "residential builders are taking the same attitude as office developers faced with overbuilding—they think it's someone else's problem."<sup>43</sup>

It is obvious that a additional research is required to assess this housing style more completely. The problem the researcher confronts is also the one that the new entrant into the industry encounters—accumulating information about different corporations actively participating in the industry without an established networking system and the reluctance of experienced participants to share their knowledge with newcomers. Although this report has dealt extensively with the procedures used by current providers, the changing nature of the service requires continuing input. Areas of this report that need greater study include possible legal issues, financial characteristics and societal impacts. In addition, this report has approached the subject through the perspective of the provider. There is another side to the story, the corporation using the service and further insight may be obtained from researching the industry from its purview. Investigation needs to continue and information disseminated to expand the data base in an effort to understand the effects, implications and management of the corporate apartment.

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<sup>42</sup>Richard Kateley, Emerging Trends in Real Estate: 1990. (Chicago: Real Estate Research Corporation, 1990) p.32.

<sup>43</sup>Kateley, p. 32.

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