Slicing & Dicing Data

Demographic preferences assist revenue managers when setting amenity-based pricing.

BY LAUREN BOSTON

On seatguru.com, travelers select the best seat for an upcoming flight based on seat advice from thousands of fellow travelers. What they might not realize is that they're also sharing their seat preferences with revenue managers, enabling the airline industry to gather demographic data and segment their market based on customer choice and customization. If 80 percent of customers indicate a preference for row 11, for example, those seat prices can be increased.

It's about micro supply meeting micro demand—and in the apartment industry, that means finding the right price point for amenities. Such was the theme of the session "Matching Amenities: Micro Supply to Micro Demand," at the 2012 Apartment Revenue Management (ARM) Conference in October.

During the presentation, revenue management professionals Mark Van Tilburg, CAM, CAPS, Vice President for Goldman Sachs, and Bryan Pierce, Director of Revenue Management for Vancouver, Wash.-based Holland Residential, suggested that such segmenting can—and should—be implemented in the apartment industry to generate micro demand and ROI.

"The industry needs to compare amenity costs to the customer's perceived value of that amenity," Van Tilburg says.

Amenity-based pricing can be tricky, though. The key, Van Tilburg and Pierce say, is to drive demand to each individually priced amenity—which in most modern revenue management systems is added to the apartment's base rent and any lease fees to arrive at the total value of that apartment—by studying a community's demographics.

"One of our industry's fatal flaws is that it doesn't slice the customer demographic up very well to market based on those traits," Van Tilburg says. "As more customer data becomes available, the time is now to leverage that information to drive micro demand to properties and unit types."

To assist in amenity-based pricing, both panelists agree that it is important to evaluate amenities for the future by determining the right demographic and right product fit for an asset. If the majority of residents in an urban community are recent college graduates, it may make sense to think ahead and offer amenities with a focus on technology or green living, as those characteristics often match that demographic. Electric car-charging stations, for example, may not yet be wildly popular, but perhaps are worth investing in now to meet future demand.

Some amenities become quickly outdated. Stainless steel is not particularly trendy right now in some markets, especially when compared, for example, to black appliances. Therefore, it is

necessary to reset amenity pricing annually to adjust for inflation and supply and demand fluctuations based on preferences.

Additionally, apartment communities should conduct a detailed demographics study to get a sense of what residents are looking for when they rent. Amenities that are popular at competing communities can give a valid indication about what residents are willing to pay more for. Often, this depends on age. Pierce says that most studies have shown that older residents are willing to pay extra for AC, but younger residents are not—they instead simply expect it as part of their base rent.

Pierce also says it is important to study survey data available to the industry and work within those amenities to create demand. Although feedback on apartment ratings sites should be taken with a grain of salt, by reading the comments carefully, management can gain invaluable information on what amenities consumers like and don't like—and care or don't care about.

Also, when testing amenity pricing, do so with seasonality. Try marketing a balcony as an additional—and more expensive—amenity in the summer and do the same with a fireplace in the winter.

Finally, Van Tilburg and Pierce say communities should implement a rate fence for amenities, which prevents members of a higher price segment—such as residents in a Class A community—from purchasing at the prices available to members of a lower price segment—such as residents in a Class C community.

"Does your customer base have a preset expectation of an amenity cost?" Pierce says. "For example, if you're buying beer at a resort versus from a corner store, you're going to expect to pay more for the beer at the resort. If you're in an 'A' community, you expect—and are usually willing—to pay more for the same services that someone else would pay less for at a 'C' community."

Van Tilburg says management companies should allow their residents to customize their apartments through amenities, either prior to move-in or at renewal time. Customization, Van Tilburg says, leads to longer leases and higher rents.

Although the tendency is to consolidate units by type when pricing, Pierce says Holland Residential has done the opposite, un-consolidating apartments when more than 40 of one unit type are available.

"When you consolidate, you run the risk of lumping two different unit types together at turnover and therefore renting each for less," Pierce says. "By un-consolidating units, occupancy and rent perform stronger. It allows you to break out and adjust the pricing separately and work with preferences and micro demand. Consolidation does not allow you to price with your micro supply and demand."

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