Gearing Up for the Apartment Revenue Management Conference

Several top rental housing professionals offer insight into the capabilities and opportunities created by revenue management in advance of the 2013 Apartment Revenue Management Conference, September 23-25 at the Turnberry Isle Resort in Miami.

2013 APARTMENT REVENUE MANAGEMENT CONFERENCE

All Revved Up

The human variable in revenue management.

Since the early 2000s, companies have shown that applying revenue management techniques to the apartment business consistently boosts rental revenue by 2 percent to 5 percent. These results are impressive, but for many in the industry, a clear understanding of the human factor in revenue management has been elusive.

"I've often been asked if I find removing the 'human element' from pricing decisions is a benefit," says Ian Mattingly, Executive Vice President of Dallas-based LumaCorp Inc. "The reality is that the human element becomes even more critical when revenue management systems are put in place; a fact that is often not understood or addressed by the folks making implementation decisions, or by professional revenue managers.

"Revenue management systems do not exist in a vacuum. They rely on inputs from outside sources; whether it is from a data aggregator providing competitor's rents, from direct user entry, or from a manager's property management software," says Mattingly. "The human element returns to the forefront after the pricing is generated as well. It is still up to the very human leasing professional to build sufficient value in the product so the prospective resident is willing to accept the pricing presented. If the leasing professional doesn't know how to build value in the product, leasing suffers… the software only has one response possible: lower rents."

By understanding the process by which revenue management systems recommend prices, decision-makers and leasing professionals can better understand those recommendations and determine whether a given price is in the best interest of the property, or in fact is the product of bad data, bad practices or poor training.

Selecting a revenue management system is a matter of which is a better fit for a company's revenue management strategy and style. Two of the methodologies have been in place for a number of years and seen success: The mathematical optimization model, which takes advantage of linear and nonlinear programming methodologies, and the market data model, which utilizes economic trends and the competitive landscape within an aggregated market.

However, many revenue management strategies include factoring in the trending history of the asset itself, as well as the participation and "optimization" of the professionals who are onsite; that is, the leasing professionals. In response, a third revenue management model has emerged that uses what is called the "expert system" (also known as artificial intelligence). As compared to the traditional scientific and market models, the expert system uses a trend and rules-based methodology that leverages the asset's own trend history, and is also designed to engage the apartment professionals on the property so that it is readily understood and appealing to every level of the organization.

The expert system emulates the decision-making process of revenue managers, but automated and with fewer biases. Because its algorithm correlates rent increases with leasing velocity, even if a property's rents are higher than the competitive set, as long as it continues to lease units, the engine will keep recommending higher rents. This allows the model to produce higher-than-market returns based on each property's unique characteristics. Because it utilizes a feedback loop, the engine incorporates the asset's own operating history and seasonality and its results take into account the unique features of the property. The system becomes smarter over time. Moreover, the process is open, visible and accessible to the onsite leasing professionals, enabling them to understand the individual factors leading to recommended rents.

Mattingly comments, "Often, the problem is simply a lack of faith in the property's ability to command the rental rates generated. In these cases, the best cure is to help the leasing professional understand how the actions he or she takes become inputs into the pricing system, and prove to them that they actually have total control over the pricing generated. I have found that once the mystery is removed, much of the fear and doubt goes with it."

Julie Manthey, Vice President of Operations, Western National Property Management agrees. "We use revenue management tools to assist with training our teams on how to better sell with higher skill levels of negotiations for closing benefits."

The expert system also facilitates unique business intelligence views because it utilizes the day-to-day property operating data in defining property trends. The operating and revenue management data is easily combined for key performance indicators and analysis. For instance, property performance can be easily benchmarked against market performance. Rent changes can be combined with resident history to determine correlations with resident quality. Revenue and occupancy can be correlated with performance in areas such as unit management, marketing or, perhaps most importantly, sales performance of leasing professionals.

Mark Jones, Chief Financial Officer for Fairfax, Va.-based apartment management company A.J. Dwoskin, also uses the expert system. "It has given our leasing consultants and property management team a tool and confidence in our asking rents," he says. "They can improve their closing ratios on renewals and new leases while achieving a certain price depending on occupancy or traffic. The data collected by the expert system really helps us focus on securing all possible leases. Our leasing team has improved our occupancy by 4 percent or 5 percent over the typical market in this area, and we experienced rent growth of at least 6 percent to 7 percent over the last year."

Thank you to Yardi Systems for this contribution.

The Weight of Measures

Even as the range and sophistication of revenue management disciplines are on the rise, the integration and adoption of pricing solutions has never been quicker or easier.

Kathie Savage isn't your average multifamily operations manager. True, Savage—the Director of Property Management Operations for Salt Lake City-based Cottonwood Residential—is particular about the technologies adopted across the firm's 34,000-unit portfolio of owned and fee-managed apartment communities, but when she and the executive team at Cottonwood pull the trigger on new technologies, they go all in.

Case in point: Cottonwood's 2012 adoption of revenue management, an overnight sensation rollout of new pricing systems and solutions across 16,000 units. In a single day.

"When you implement in stages, you merely drag out any agonies, and, worse, postpone the benefits," Savage says. "We prefer to work out the kinks beforehand with an extremely small trial group and then implement our properties all at once. When it came to sophistication and pricing, we didn't want to be at the tail end of the deal any longer. We wanted to be revenue management superstars."

Cottonwood Residential is among the multitude of progressive multifamily portfolio owners, operators and property managers that continue to gravitate to revenue management as a critical pricing, lease management and renewal tool. In the three-month period between March and May 2013 alone, one of the industry's revenue management vendors, Rainmaker LRO, signed up more than 30 new clients across a wide range of asset classes and portfolio sizes.

One reason why multifamily firms continue to turn to revenue management systems is the demonstrated gain in effective rent increases. At Cottonwood, some communities saw rents increase by more than 14 percent, and portfolio-wide the firm saw an increase of 4.1 percent.

But firms are also plugging into new applications afforded by advances in optimized revenue management systems, including the opportunity to leverage revenue management mathematics for streamlining the budgeting process or applying next-generation revenue management programming to the student-housing sector.

Balancing the Books

Just introduced at the 2013 NAA Education Conference & Exposition in June, tools for pitting revenue management brawn against the traditionally time-consuming and tedious task of budget building are already in high demand from apartment revenue management professionals. Budgeting tools are allowing firms like Waterton Residential, Simpson Housing and Resource Residential to completely overhaul archaic budgeting practices.

The automated budgeting tools capture key budget and forecasting drivers such as rent charges, move-ins/move-outs, and seasonality, and place them in more user-friendly formats for variance reporting and scenario analysis. Requiring significantly less work than manual or spreadsheet budgeting, revenue management budget tools offer a finer layer of detail to data and the ability to forecast based on unit-category and build-out growth assumptions at the unit level.

"Utilizing a leading revenue management budget tool for the entirety of 2012, our budgeted revenue versus actual revenue improved from 1.47 percent to within .03 percent," explains Simpson Housing Senior Vice President of Revenue Management Bryan Hilton. "It is hard to get your head around what .03 percent actually means. It means the ability to run our entire financial forecast—from operations and marketing to acquisitions and dispositions—with greater accuracy and confidence."

Revenue management technologies are also making significant inroads into the student housing sector, a market with unique lease-up, expiration and supply and demand curves that could often challenge pricing systems built with market rate leasing assumptions in mind.

Intelligent Design, Proven Results

Up next for revenue management is the development of more sophisticated business intelligence (BI) tools and solutions utilizing data warehousing, modeling and integration in addition to predictive analytics and reporting.

With last year's sale of the Archstone portfolio, former Archstone Vice President of Business Intelligence Chris Brust is already consulting with some of the industry's top software companies on how to best deliver BI solutions using revenue management platforms.

"I am excited to help launch into the arena of business intelligence as well as help uncover how data, predictive analytics and more sophisticated reporting can further deliver excellence in pricing practices to revenue management users," Brust says.

But even with all of the latest advanced applications now available to multifamily revenue professionals, the ability of revenue management systems to consistently deliver rent left relative to market is what has nascent and veteran adopters alike lauding the technology.

Cottonwood Residential is looking at an amazing second year with revenue management power under their belt, and has already begun applying optimized revenue management mathematics to renewals in addition to new leases.

"Revenue management takes the emotion out of new pricing, but it's even more important to be able to do that with renewals," Savage says. "When it comes to renewal time, it's extra hard to take emotion out of price increases, increases that are much easier to explain based on the analytics and business sense provided by the components in revenue management. I'm all over that. I love it."

Thank you to Rainmaker LRO for this contribution.

New Uses, New Markets

The flexibility of revenue management systems to work within a variety of lease-up strategies is but one reason that emerging areas of opportunity such as student housing are taking a closer look.

Many in the multifamily industry have yet to realize the tremendous NOI benefits of revenue management on lease ups and renovations. However, true asset optimization will help apartment professionals identify the external and internal drivers that will affect their rents.

"Revenue management is configurable to execute a variety of lease-up strategies, such as quick lease up with lower initial rents or more extended lease up driving maximized rents," says James Flick, Director of Revenue Management for Camden Property Trust, and one of the first to embrace revenue management within a lease-up environment. "Whatever the strategy, revenue management provides the rent recommendations, performance measurement and onsite compliance to navigate through a successful lease up."

But Flick noticed it went beyond that.

"While standard lease ups often involve heavy concessions, revenue managed rents are much closer to true market rents, which down the road will help with retention."

Assisting the Asset Lifecycle

Revenue management platforms have advanced operational control and transparency, and are expanding into budgeting, including revenue forecasting, demand optimization and on-demand analytics.

"Revenue management has transformed from revenue optimization to asset optimization, including demand management, lease transaction-based revenue forecasting and NOI optimization," explains Keith Dunkin, Senior Vice President of YieldStar at RealPage.

"Revenue management is really the entrée into a holistic approach to improved asset value through enhanced analytics and cross-platform optimization, maximizing not just rental structure, but the overall DNA and health of the asset."

As transactions have returned to multifamily, revenue management is frequently utilized to protect cash flow while maximizing rents in advance of the sale. In moving to disposition mode, Hale McNinch, Vice President at Bell Partners, ensures his team is configuring revenue management to produce the highest trailing revenues overlaid with maximum near-term rent growth, all the while producing key decision support to substantiate the increased value.

"We consider all components-new lease and renewal rent structures, timing of expirations and upcoming exposure—and optimize the pricing relative to each asset strategy," McNinch says. "At disposition, there is a multiplier of value on each penny of incremental income.

Bell Partners is committed to maximizing the sales price for our clients, and revenue management provides us the flexibility and controls required."

Entering the Student Housing Space

Student housing is emerging as a preferred asset class within multifamily housing, and as institutional investment in student housing is expanding, so too is the utilization of revenue management.

Revenue management pioneer LaSalle Asset Management, led by Stephen Adams, Managing Director, was the first to bring revenue management to student housing in 2009.

"We saw the opportunity to leverage science and technology to improve revenues and maximize asset value within our student housing portfolio. Revenue management has done for pricing what institutional investment did for student housing."

When student-housing communities use revenue management, beds are always optimally priced based on the owner's objectives, internal supply and demand characteristics and market conditions.

Additionally, student properties can guarantee a rate as "the best price today," while adding a sense of security by providing them printed quotes. This locks in the rate even if the price on that room increases due to demand. Students are also given a sense of urgency, knowing that the quoted price is only for a limited time. It encourages faster leasing decisions at a better price, which in turn helps communities reach their occupancy goals more quickly and at the highest possible rents.

"Using revenue management on our student housing assets has been key to maximizing revenues," notes Jennifer Cassidy, Vice President at Campus Advantage. "The ability to evaluate the long-term effects of a pricing decision with our revenue management platform is really important to Campus Advantage.

When the system makes a pricing recommendation, it will project for you the financial impact to your lease up. For example, if the system recommends a rate increase of $5 on a certain unit type, it will project the potential revenue increase of accepting that rate. Conversely, it might tell you to drop rents by $5, but predict that rate change will yield more leases and thus more revenue."

After nearly a decade of providing the conventional multifamily industry with revenue lifts of 3 percent to 7 percent, the student housing industry is finally taking notice. It's a revenue management trend that owners and operators can no longer afford to ignore.

The near future for revenue management in multifamily housing holds even more opportunity to improve results with enhanced benchmarking, unparalleled insight into how assets are performing relative to the markets in which they compete and in resident retention through optimized rents and lease terms suited to their needs at lease-up, move-in and renewal.

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