CAPS
CERTIFIED APARTMENT PORTFOLIO SUPERVISOR®

NAA
NATIONAL APARTMENT ASSOCIATION
Education Institute

IMPROVING ASSET PERFORMANCE

Participant Guide

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Message to Apartment Portfolio Supervisors

Improving the performance of underperforming properties is one of the most important things you'll do as a Certified Apartment Portfolio Supervisor, and you will need to bring all of your property management knowledge to the table for the task.

You will need a solid understanding of key performance indicators, and you will need to recognize how they work together to paint a picture of property and portfolio performance. You'll need to know the right questions to ask to get you closer to likely solutions, and while you're searching for answers, you'll have to bear in mind the property's performance history, performance requirements, and the property owner's goals.

The Certified Apartment Portfolio Supervisor (CAPS) training program is designed to prepare CAPS to identify the causes and solutions to property and portfolio performance woes.

Improving Asset Performance is one module in the CAPS credential program.

The complete set of CAPS modules is:

1. **Client Services and Stakeholder Relations**
2. **Investment Management**
3. **Improving Asset Performance**
4. **Asset Evaluation and Preservation**
5. **Talent Development**
6. **Contemporary Issues in Multifamily Housing**

For more information about this program or any of NAAEI's education programs, ask your instructor, contact your local apartment association, or contact **NAAEI** at **(703) 518-6141** or **education@naahq.org**.

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Module Structure and Timing

This module will run for approximately four to five hours. Each module will include a mix of activities, discussions, watching videos, and slides. Your instructor will lead the discussions and walk you through the course.

The time structure of the course will be:

Section	Time
Activity: Mini-Scenarios	50 minutes
Section 1 - Investigating an Underperforming Property	50 minutes
Section 2: Troubleshooting: Questions to Ask	80 minutes
Activity: Mini-Scenarios	60 minutes
Activity: Troubleshooting	60 minutes

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Introductions

Welcome to the **Improving Asset Performance** module, part of the National Apartment Association Education Institute's Certified Apartment Portfolio Supervisor (CAPS) credential program!

Your instructor will ask you to participate in the following activity:

Introduce yourself to the group and answer the following questions:

- **Have you ever been tasked with figuring out why a property was struggling with a particular problem?**
- **If so, what were some of the challenges you faced while you were looking for answers?**

[if the class is large, then participants may do this activity in smaller groups]

Learning Goals

At the end of this module, you will be able to:

- **Investigate an underperforming property to find the sources of the problem.**
- **Use key performance indicators to get a full picture of a property's performance.**
- **Understand how key performance indicators relate to each other.**
- **Effectively weigh the benefits of increasing income and reducing expenses.**
- **Identify likely solutions to common property performance problems.**

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MODULE 3 ACTIVITY 1: MINI-SCENARIOS

For this activity, your instructor will break the class into small groups. You and your group will be evaluating a series of short scenarios. Each scenario will be followed by a brief discussion on that scenario.

For each of the following scenarios, think about how you might answer the following questions:

1. What could be going on there?
2. What piece(s) of this information seems to indicate an issue?
3. Are all of these issues related?
4. What questions do you ask?
5. What reports do you review?
6. Where do you start?

You do not need to answer every question individually, but be prepared to talk about how you would tackle each scenario with these questions in mind.

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SCENARIO 1

Economic occupancy is down, there are low closing ratios in the last month, and traffic is higher than it's been in the last 3 months.

(To be followed by class discussion.)

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MODULE 3 ACTIVITY 1: MINI-SCENARIOS

SCENARIO 2

Rent rates have been flat for the last 6 months, the renewal percentage is lower than budgeted, and closing ratios are higher this month than in the past several months.

(To be followed by class discussion.)

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SCENARIO 3

The property is offering one month free on all 2 and 3 bedrooms, delinquency is higher than budgeted, and the property's average rent per square foot is the second highest in the submarket.

(To be followed by class discussion.)

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MODULE 3 ACTIVITY 1: MINI-SCENARIOS

SCENARIO 4

Expenses are way over budget with the largest unfavorable line items being in appliance and carpet replacement, resident turnover percentage has increased by 10% in the last 3 months, and the new marketing campaign has increased the preleased percentage by 5% in the last 30 days.

(To be followed by class discussion.)

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SCENARIO 5

Resident turnover is lower this quarter than it's ever been, vacancy loss has increased by 4% in the last 60 days, and renewal rates have decreased by 4% since last quarter.

(To be followed by class discussion.)

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Section 1 - Investigating an Underperforming Property

Because it is the CAPS' job to ensure portfolio properties meet or exceed performance expectations, it is inevitable that you will be called upon to investigate an underperforming property and figure out how to increase its performance.

To do this, you will need to know how to identify important pieces of context, as well as factors contributing to the problem. You will also need to be familiar with key performance indicators and how they interact to paint a picture of what's happening beneath the surface of property performance issues.

Topics Covered:

- Rule of Thumb: Revenue vs. Expenses.
- Starting From Owner Goals and Performance Requirements.
- Identifying Contributing Factors.
- Examining Key Performance Indicators.
- Portfolio Key Performance Indicators.
- Portfolio/Team Key Performance Indicators.
- Individual/Team Key Performance Indicators.

RULE OF THUMB: REVENUE VS. EXPENSES

Before you begin searching for ways to increase the performance of a troubled property, you should keep in mind one important rule of thumb regarding revenue and expenses: over the long term, pursuing revenue increases will almost always result in larger NOI growth than reducing expenses.

While both of these approaches are appropriate and valuable (and when you take steps to increase property performance, there's a good chance you will consider a combination of both options), it's worth remembering that expense reduction has a floor, under which you won't be able to operate. You have much more room to increase revenue because there is no inherent limit to doing so.

This effect becomes even more pronounced with older properties. The older a property gets, the more it costs to maintain. As the property ages, your flexibility to decrease expenses diminishes, and it becomes even more important to focus on increasing the property's revenue.

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STARTING FROM OWNER GOALS AND PERFORMANCE REQUIREMENTS

It's always important for the CAPS to understand the property owner's goals for the property, but it's especially critical to start from that foundation when looking for ways to improve a property's performance. The particular steps you take to remedy problems or seize opportunities will be driven by those goals. You may find that some owners are eager to offer specials to buy their way into higher physical occupancy rates, for example, while other owners are much more focused on economic occupancy. An owner who prioritizes economic occupancy may be less likely to view a rent special as a favorable solution.

The CAPS will also need to be mindful of the property owner's philosophy, vision, and values. If company culture places a heavy emphasis on customer satisfaction and customer service, for example, you may find that affects your approach to controlling expenses. Where one owner may opt to repair an appliance, another owner may prefer to replace it in order to make the resident happy.

There may be specific loan requirements that apply, as well, such as the maintenance of specified physical or economic occupancy rates. In situations where the property is up for sale or refinance, or there is an ownership structure change pending, the CAPS needs to know exactly what the required benchmarks are. Some ownership structures, like real estate investment trusts (REITs) for example, may have more stringent income requirements due to dividend payouts.

All of these factors need to be understood and accounted for before you can begin tackling property performance issues, because they will shape what you are able or willing to do in response. Remember, the CAPS has a fiduciary responsibility to advise owners and act as an owner yourself.

IDENTIFYING CONTRIBUTING FACTORS

Examining the History of the Problem

Diagnosing a property performance issue starts with understanding the history of the problem. The CAPS needs to know whether the problem is a long-standing one or a relatively new development, because that knowledge can illuminate the most likely sources of trouble.

If the problem is a new one, you need to identify what's changed. Those areas of change will be the most likely places to look for potential sources of the problem. Perhaps there is new competition in the area, or an existing competitor with upgraded amenities. Look for changes that originate closer to home, as well.

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For example, new or poorly-trained team members, unfilled positions from team members who have left, or changes in work processes can all have an effect on property performance.

On the other hand, if the problem is one the property has struggled with for awhile, you may need to take stock of what you've tried in the past so you can understand what hasn't worked. Examining failed solutions can give you insight into the most (and least) likely sources of your problem. Doing this work will also help you identify new potential solutions that you haven't tried yet.

Whether you have ready access to the answers to these questions may depend upon how long you've been working with the property. If you are new to the property, you may have to do some digging for information. Make sure to seek out whatever historical data you can find, and consider interviewing team members who have worked with that property in the past.

Knowing Where to Look for Answers

Factors that influence property performance can be external (e.g., competition, economic changes, regulatory changes), as well as internal (e.g., untrained team members, maintenance problems). When you're trying to identify trouble spots for an underperforming property, it can be easy to get so focused on one of these areas that you forget to consider the other side.

If a property isn't meeting occupancy goals, for example, it's easy to assume that there must be some external economic or competitive factor driving the poor performance. While that's a good place to look, you may find that examining internal factors reveals an employee training issue at the heart of the problem. Perhaps the team isn't adequately acquainted with the owner's or management company's rent goals or resident turnover goals, or maybe the team's approach to budgeting and goal setting is out of synch with the owner's expectations.

In addition, when studying external factors, you need to make sure you recognize both long-term and short-term issues. How you respond to an issue that is inherently temporary will likely be different from how you respond to an ongoing issue. You need to be able to see this bigger picture to have a good handle on the current situation, as well as what to expect in the future.

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EXAMINING KEY PERFORMANCE INDICATORS

KPIs: Problem-Solving Clues

One of the most important tasks assigned to the CAPS is the monitoring and evaluation of key performance indicators. KPIs are a measure of how well a property is performing, and thus, how well you and your team are managing that property.

KPIs are more than just tools for measuring property and site team performance, though. They are also a critical source of clues when you're trying to increase that performance. Not only do you gain the information directly tracked by the KPI, you also gain information that can be inferred from that data. For example, if you see that your service team's response time consistently goes up at the same time every month, you might infer that something is happening on a monthly basis that is interfering with their ability to respond to service requests.

Multiplying the Investigative Value of KPIs

Individually, key performance indicators convey a lot of valuable information about property performance, but when you look at multiple KPIs in relationship to each other, you greatly increase the value of that information.

For example, if your rent increase percentages aren't where you need them to be, you might also examine the team's closing percentages for clues. Are they just not closing on enough leases? If it turns out that their closing percentages are appropriate, maybe a more likely explanation is that they're just not being strategic with rent pricing.

Sometimes, looking at one KPI in isolation can be misleading, and the true picture only becomes clear by looking at multiple indicators. If you see a sudden shift to high turnover rates, for example, you might assume something is going wrong. On the other hand, if you see that high turnover in combination with a recent history of high delinquency, maybe the site team is just putting added pressure on residents to pay, encouraging turnover of slow payers to make room for more reliable residents.

Looking at KPIs in this way takes a little more work than looking at them in isolation, but the payoff is a more accurate picture of the performance of the properties in your portfolio, and a clearer path to increasing that performance.

KPIs and Company Culture

Keep in mind that not all management companies prioritize the same KPIs. While many of the KPIs listed here are industry standard, others will vary based on company culture. In addition, property owners may have specific KPIs they prefer over others. Regardless of the particular KPIs you track, the principle remains the same: KPIs are powerful tools that not only track data directly, but also provide important problem-solving clues when you're looking for opportunities to improve property performance.

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PORTFOLIO KEY PERFORMANCE INDICATORS

There are key performance indicators that can be exceptionally useful for evaluating a portfolio of properties in relationship to each other, as well as for evaluating the overall health of the portfolio.

When you look at these performance indicators, you'll want to pay special attention to any properties that seem to have particularly positive or particularly negative performance issues. That can indicate the presence of something you need to investigate.

If a particular property is doing much better than the other properties in your portfolio, take a look at what they're doing to achieve that success. Is there something in their processes that you can implement at other properties? On the other hand, if a particular property is struggling with a KPI, you'll want to find out if it's a direct result of something they're doing, a temporary anomaly, or if there's some external factor that is specific to the neighborhood, market, or region surrounding the property.

If a particular KPI begins to lag at multiple properties at the same time, that might be an indicator of a significant trend you need to keep an eye on.

These KPIs can also be tied to portfolio incentives, and used to foster healthy competition between portfolio properties. They also represent measures by which the CAPS may be evaluated by the management company. Overall portfolio averages on these critical KPIs may be used to measure portfolios against each other, with incentives provided to the CAPS with the highest performing portfolio.

Highest Rated Service
Used to Evaluate: Portfolio

Service ratings are based on some form of work order service evaluation. These could come from your own resident surveys, third-party resident surveys, or post-service follow-up phone calls.

Best Performance to Budget (Expenses)
Used to Evaluate: Portfolio

Highest Average Occupancy Percentage
Used to Evaluate: Portfolio

Monthly average.

Most Improved Gross Potential Rent
Used to Evaluate: Portfolio

Year over year, as a percent of total.

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Extra Information: Gross Potential Rent and Gross Potential Income

Gross potential rent (GPR), sometimes called market rent or scheduled rent, is the total rent that would be generated from the property if all units were occupied at market rent. Increases or decreases in GPR are a response to market conditions.

Gross potential income (GPI), combines the sum of occupied units at current lease rates, plus vacant units at market rates.

Example: A 250-unit apartment building has 230 units occupied at an average occupied monthly lease rent of $759. Let's also say that the average market rate for the 20 vacant units is $810.

What is the gross potential rent (GPR)?

250 x $810 = $202,500
GPR = $202,500

What is the gross potential income (GPI)?

230 x $759 = $174,570
20 x $810 = $16,200
GPI = ($174,570 + $16,200) = $190,770

All income and expenses are measured and evaluated as a percent of GPR.

Loss/Gain to Lease

Since all units are not paying market rent because of the lease rent each resident pays at the time of move-in, there is always a variance between gross potential income (GPI) and gross potential rent (GPR) that is called loss/gain to lease. As market rents go up, loss to lease increases; as market rents are lowered, the loss to lease is reduced.

There will always be a gap between gross potential rent and gross potential income. In a strong market, it reflects the upward movement of market rents.

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PORTFOLIO/TEAM KEY PERFORMANCE INDICATORS

Some key performance indicators are useful for evaluating both the performance of individual property teams and the performance of properties across the portfolio. You'll want to look at the details of these indicators to make judgments about what's happening within a site team, but it's also a good idea to compare these results to other properties. Doing so can help you get a bigger picture view, which will allow you to spot properties in trouble, opportunities for improving those properties, and any larger trends that might be affecting the portfolio as a whole.

Operating Expense Ratio

Used to Evaluate: Portfolio/Team

The operating expense ratio (also known as expense-to-income ratio) is a tool used to measure how well a property is managed. In addition to measuring the performance of individual site teams, you can compare the results of different properties in your portfolio to find outliers that may indicate potential trouble spots.

The operating expense ratio calculates the percentage of the effective gross income that's used to pay operating expenses—essentially telling you how expensive a property is to operate. The ratio can be affected by property:

- Age (older properties usually have higher operating expenses.)
- Location.
- Owner investment strategy.
- Type (high rise, garden apartments.)
- Operating expenses included in the calculation.

Concessions may be classified as an expense rather than a deduction to rental income. Resident utility reimbursements are sometimes counted as other income, or may be offsets to utility expenses like gas, electric, and water.

The formula for calculating the operating expense ratio is: OE/EGI = operating expense ratio.

Example:

Operating Expenses (OE) = $1,325,743
Effective Gross Income (EGI) = $3,410,700
OE/EGI = 0.389 = 38.9% Operating Expense Ratio

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Variance Percentages
Used to Evaluate: Portfolio/Team

Looking at variance percentages is valuable, whether you're looking at just one property or comparing multiple properties in your portfolio. Variance percentages can show you areas where a particular property team may be struggling. For example, if you have larger variances in plumbing costs than you have in electrical or HVAC, that may mean your service team needs more training on plumbing issues. If you're not collecting as many pet fees as you expected, is it because you're not attracting pet owners, or are you just not consistently charging pet fees when you should?

Comparing such variances across properties can also show you opportunities for improvement. If you have two similar properties in your portfolio, and one has an extremely large variance of a particular kind, and the other is on-budget, you can look for what the on-budget team is doing that may be applicable to the struggling property.

Income Compared to Budget
NOI Compared to Budget
Expenses Compared to Budget
Used to Evaluate: Portfolio/Team

These are particularly important performance indicators to property owners, so you'll want to keep a very close eye on these.

Compare actual income, NOI, and expense numbers to the annual budget to see if the site team is managing to hit targets. Income and NOI should meet or exceed budget projections, and expenses should meet or come in below budget projections.

If you find that the team isn't operating within budget, there may be multiple culprits. Was there a problem with the budgeting process that made projections inaccurate? Is there a temporary external factor decreasing income or increasing expenses? Is the team not managing vendor relationships well enough to decrease expenses? Are they not aggressive enough with rent increases to increase income?

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Income Compared to Same Time Last Year
NOI Compared to Same Time Last Year
Expenses Compared to Same Time Last Year
Used to Evaluate: Portfolio/Team

In addition to checking actual numbers against budgeted numbers, it's useful to compare this year's numbers to the numbers from the same time last year. This check provides a bigger picture that can add valuable context. While it's important to meet (or improve upon) the annual budget, you also want to ensure that you're making improvements year over year. For example, you might find that a site team failed to meet this year's income projections, but still made improvements over last year's numbers—not an ideal situation, but still headed in the right direction.

Keep in mind that there may be legitimate reasons for expenses to climb year over year. Older properties, for example, may simply cost more to maintain than equivalent newer properties.

INDIVIDUAL/TEAM KEY PERFORMANCE INDICATORS

These performance indicators are typically used to evaluate individual team members, or site teams on an individual property. Nevertheless, you may still find it helpful to compare these results to other properties in your portfolio. As a CAPS, it's never a bad idea to maintain a portfolio perspective. It helps you keep an eye on the big picture.

Mystery Shop Results
Used to Evaluate: Individual

Mystery shopping involves having a third party come to the property, call, or email your site team in order to have an interaction with your leasing associates. These visits are scored, and most companies have a benchmark (e.g., 92%), below which the associate may require remedial training or counseling.

The reports from these visits can tell you a lot about the performance of your leasing team members. Are they building rapport with potential residents? Are they having real conversations with those prospects? Are they closing? Are they saying or doing things that could run afoul of Fair Housing laws?

You do have to be careful not to draw strong conclusions from a single mystery shop—even your strongest team members can have a bad day—but if you see consistent troublesome patterns over several mystery shops, that might be an indication of a problem that requires remediation or training.

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Service Request Response

Used to Evaluate: Maintenance Team

Most companies want to see service requests response times under 24 hours.

Service request response time can tell you a lot about how your maintenance team is functioning. If there are a lot of service requests that are open longer than 24 hours because parts are on order, for example, that can be an indicator that the team isn't managing inventory effectively. If most of the requests that are open longer than 24 hours are of a particular category of repair (e.g., electrical), that may indicate that the team is struggling with those types of repairs, or that they're simply putting those repairs off because they don't like doing that type of work. The records should show if any contractors had to be called for service requests, as well. If you see a lot of calls to contractors for a particular type of work, that might be an indication that the team needs additional training on that type of work.

Keep in mind that the data are only as reliable as the information the team chooses to record. Most site teams know they're being judged on response time, and software systems can be manipulated, so it's important that you know your level of trust with your site team.

There are a couple of ways you can evaluate the accuracy of service request response time records. No site team has a perfect record, so if you find that there are no service requests that fall outside of that 24-hour window, there's a fair chance that the data may have been manipulated. In addition, it's a good idea to spot check the service team's work by making follow-up calls to residents after service visits. Residents will usually tell you how long they had to wait.

Budgeted Repair and Maintenance

Used to Evaluate: Maintenance Team

Adherence to the repair and maintenance portion of the annual budget is a critical performance indicator for your service teams. Not only do you want to see the expenses come in under budget, you can also use the details of those records to spot potential problems.

For example, if the budget anticipates $100/month for appliance parts, but you see that they don't spend any of that for several months, and then suddenly spend $500, there's a good chance they're not managing their inventory very well or that they've miscategorized something large. The Management Agreement may contain very specific language that spells out exactly how much room the CAPS or the

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management company has to exceed budget. If the CAPS works directly for the owner, rather than for a management company, the owner will probably need to be directly involved in that compensation decision.

Renewal Conversions
Turnover Percentage
Used to Evaluate: Team

Renewal conversions and turnover percentages give you insight into the relationship the site team has with residents.

If fewer residents than expected are opting to stay, it may indicate a problem with how the site team is interacting with residents. Are service requests getting addressed in a timely fashion? Is the staff conducting themselves in a professional manner? Is there a training issue?

On the other hand, there may be external factors leading to resident turnover. Are single family home prices making home ownership a more attractive option? Are you doing everything you can to publicize the benefits of renting on your website, and in your communications with residents?

To understand your renewal and turnover numbers, it's important to know the reasons why residents are leaving. Make sure your intent to vacate forms are collecting this information, and if residents don't provide the reason in writing, make sure someone from the site team contacts them to find out. Those personal conversations may also be opportunities to change a resident's mind.

It's important to remember, though, that turnover is an opportunity to grow rent income. If turnover percentages are too low, you may be missing that opportunity. Likewise, if you find your renewal conversions are higher than expected, that may mean your renewal rent increases have room to grow.

Delinquency
Used to Evaluate: Office Team/Individual

Most companies have a benchmark of 1% or less delinquency* at the first of month (FOM) billing as a goal.

This performance indicator is often used to evaluate both the office team in general and the individual assigned with the job of posting rent and pursuing delinquent accounts (often an assistant manager role).

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You want to see that rents are getting posted on time, and that the site team is paying close attention during the first several days of the month to see who has and hasn't paid. You want to see whether late letters are going out, and whether appropriate follow-up contacts and actions are happening in order to collect the money.

> **Note:** In this case, "delinquency" refers to current FOM rent payers, not old bad debt, or former residents who moved but still owe money.

Closing Percentage

Used to Evaluate: Office Team/Individual

Closing percentage shows you how many leases your team members are securing in relationship to the amount of traffic they're seeing. Most companies will look for a closing percentage of 33-39%.

Viewing signed leases as a percentage (or ratio) instead of as raw numbers makes it easier to compare individuals despite widely varied traffic numbers. For example, the leasing manager likely takes a lot less traffic than a leasing associate, so it would be meaningless to say the leasing manager secures fewer signed leases. What matters is the percentage of their traffic that they turn into signed leases.

Patterns in closing percentage can turn up possible issues. For example, if you see closing percentages forming peaks and valleys at regular intervals, there may be something happening at those times that affects your leasing team's ability to close. If you see that a particular agent is taking a lot of traffic but not closing enough, that might mean they need remedial training on their sales process.

As with mystery shopping, you don't want to look at these results in a vacuum. Looking at someone's closing percentage over a week or a month won't give you the full picture of their performance. You need to evaluate it over a longer period of time.

In addition, it's important to know whether your software is calculating closing percentages based on total traffic or qualified traffic, because those can yield dramatically different results. You may have a leasing agent or team who performs very well with qualified traffic, but if they get a lot of unqualified traffic, and the software uses that total traffic number to calculate their closing percentage, their performance may look much worse than it really is.

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Economic Occupancy

Used to Evaluate: Team

When it comes to overall property performance, economic occupancy is a better indicator than physical occupancy, and one that property owners generally consider critical. Economic occupancy reflects only the actual revenue being realized.

Economic occupancy takes into account the discounted rent negotiated with the lease, model units, units being made ready for lease, and free employee units as a percentage of GPR.

Physical occupancy, however, measures occupied units, some of which may not be paying rent—or are paying varying rent amounts based on lease terms. Economic occupancy accounts for those differences and gives you a much more accurate financial picture.

The difference between economic and physical occupancy may give you some insight into the site team's performance. If there's a large disparity between the two, you might consider whether the property is offering too many concessions. Generally, the higher the physical occupancy, the more you have the ability to raise rents.

The formula for the economic occupancy percentage is Total Rent Revenue (TRR)/ Gross Potential Rent (GPR).

> **Example:** If the current month's TRR is $198,000, and the GPR is $250,000, then the economic occupancy percentage is .79, or 79%.

SAMPLE

Rent Increase Percentages

Used to Evaluate: Team

You can check rent increase percentages to get a feel for how aggressively your site teams are pursuing increased rent income. It's common for some team members to be reticent about increasing rent because they're afraid of excessive resident turnover. If you find your rent increase percentages are not where they need to be, investigate whether the site team may need training on how and when to pursue increases in rent.

Third-Party Survey Results
Used to Evaluate: Team

Consider using one of the third-party providers that conducts surveys on both prospects and residents. Take the time to evaluate the results for your individual properties and compare across your entire portfolio. The information provided will give you and your team excellent information about how your property and staff are perceived by both prospects and residents. This data can help with training and with identifying actionable items that can help improve property performance and resident satisfaction.

Workplace Safety
Used to Evaluate: Team

Ideally, you want to see that there have been no days lost to work-related injury or illness. If you do see a consistent pattern of workplace safety issues, that could be indicative of a team that's rushing through their maintenance work, or team members who aren't making proper use of personal protective equipment (PPE). If they're too rushed, what's happening to cause that time crunch? Is the quality of the repair and maintenance work also suffering? If they're not using PPE properly, is it because they haven't been trained on how to use the equipment? Is onsite property management failing to encourage a culture of workplace safety?

SAMPLE

Section 2 - Troubleshooting: Questions to Ask

There are many ways a property can underperform, but the most common difficulties properties experience are:

- Not meeting leasing goals.
- Not meeting occupancy goals.
- Low or no rent growth.
- Not meeting budgeted income.
- Expenses over budget.
- Image/PR problems.
- Excessive resident turnover.
- Excessive staff turnover.

The troubleshooting tool that follows breaks each of these performance problems down into a set of questions the CAPS should be prepared to investigate in order to find the source of the problem. The sections immediately following the chart offer more detailed explanations for most of these questions.

The problems and questions listed here do not constitute an exhaustive list of possibilities. Every property has a unique set of circumstances, and the property you're working with may have problems not listed here. This grid merely represents the most likely trouble spots in most situations. Consider it a shortcut to the best places to begin your search for answers.

Topics Covered:

- Troubleshooting Tool: Problems and Questions.
- Trouble Meeting Leasing, Occupancy, Rent, and Turnover Goals.
- Trouble Meeting Budgeted Income and Expense Goals.
- Trouble with Image or Reputation.
- Trouble with Excessive Employee Turnover.
- Individual/Team Key Performance Indicators.

SAMPLE

Problem	Questions to Investigate
Property is not meeting leasing goals.	Are rents set appropriately for the product and market?
	Is your team experiencing a training or staffing problem?
	Is traffic adequate to reach goals?
	Do the market-ready units show well?
	Why are prospects choosing other properties?
	Is the curb appeal up to par (particularly along the tour route)?
	Is the screening criteria appropriate for the market/ resident profile?
	Are the up-front fees set too high?
	Have you reevaluated your marketing strategy recently?
Property is not meeting occupancy goals.	Are specials being offered, and if so, do they need to be presented differently?
	Are rents set appropriately for the product and market?
	Is traffic adequate to reach goals?
	Is your team experiencing a training or staffing problem?
	Do the market-ready units show well?
	Why are prospects choosing other properties?
	Is the curb appeal up to par (particularly along the tour route)?
	Is the screening criteria appropriate for the market/resident profile?
	Are the up-front fees set too high?

SAMPLE

Continued on next page

TROUBLESHOOTING TOOL: PROBLEMS AND QUESTIONS

Problem	Questions to Investigate
Property is not meeting budgeted income.	Are rents set appropriately for the product and market?
	Is there something happening in the submarket/ economy that could be impacting the property's ability to achieve budgeted income?
	Are the collection efforts appropriate and within policy?
	Is the fee structure appropriate?
	Are there other income line items that need to be adjusted?
	Are you supporting Revenue Management System pricing recommendations? If you're not using an RMS, are you evaluating your pricing structure frequently enough?
	Is the pursuit of rent increases and renewals aggressive enough?
Property expenses are over budget.	Are the line items creating the biggest unfavorable variances controllable and/or predictable?
	Are inventory management protocols and vendor relationships being utilized efficiently?
	Is the team using good judgment regarding repairs/ replacements?
	Are expenses being recouped wherever possible?
	Are adequate energy conservation methods in place?
Property has low or no rent growth.	Are rents set appropriately for the product and market?
	Is your team experiencing a training or staffing problem?
	Are you supporting Revenue Management System pricing recommendations? If you're not using an RMS, are you evaluating your pricing structure frequently enough?
	Is the pursuit of rent increases and renewals aggressive enough?

SAMPLE

Problem	Questions to Investigate
Property has an image or reputation problem.	Is image problem a result of a single event, or is it an ongoing issue?
	How does the property respond to negative reviews?
	Are you taking specific steps to build a positive brand image?
	Are there ways to garner positive media coverage?
Property has excessive resident turnover.	When did resident turnover increase?
	Have there been staffing changes that might have influenced resident turnover?
	What reasons are residents giving for moving out?
	Why are prospects choosing other properties?
Property has excessive employee turnover.	When and where did employee turnover increase?
	What are the reasons for separation?
	Are regular staff meetings conducted?
	Is your team experiencing a training or staffing problem?

SAMPLE

TROUBLE MEETING LEASING, OCCUPANCY, RENT, AND TURNOVER GOALS

Are rents set appropriately for the product and market?

Do some investigating to see if your rents are set appropriately for the type of units you're offering and the market you're targeting. Look at the competitive market survey to see how your rents compare with your competition. Are they somewhere near the bottom, the middle, or the top? Are the rents out of line with what your competitors are offering for similar units? Make sure you're accounting for extras like amenities when you're comparing units so that you know you're making a true apples-to-apples comparison.

Look at larger market data from one of the national data providers, as well. Search the market, submarket, and neighboring markets for trends that may be part of the problem. Your approach may differ depending on whether the issue is exclusive to your local market/submarket or reflective of a regional trend.

If your team hasn't shopped the competition recently, consider having them do that, as well. In-person visits can help verify that the competitive market survey data is accurate, and they provide an opportunity to see what the competition is doing in ways that aren't directly reflected in the data (e.g., innovative sales tactics, improved curb appeal). Consider shopping the competition yourself, too. As a CAPS, you may have the experience and knowledge to pick up on nuances that your community managers or other site team members might miss.

Is your team experiencing a training or staffing problem?

When your team isn't functioning optimally, it can reflect in property performance issues. Sometimes it may be a temporary problem (perhaps there are positions temporarily vacant due to staffing changes), but other times it's more persistent, and needs to be addressed in order to see real changes in performance. Scan previous performance reviews to see if the problem is a new one or a longstanding one.

If you suspect there might be a team performance issue, consider having the property mystery shopped to identify potential problems. Shadowing associates on tours and, if available, listening to recorded phone calls can also help identify gaps. When greeting potential residents, do your team members exhibit a welcoming demeanor that makes a good first impression? Do they know how to convert telephone traffic into live traffic? Do they understand the lifestyle and value they're selling? Are they utilizing closing techniques effectively, or are they just showing units and then letting prospects make up their minds on their own? Are they following up in a timely and effective manner? Can they discuss pricing with confidence?

SAMPLE

One likely trouble spot is inadequate training. Are your training methods sufficient and relevant to the property's performance needs? Have all of your team members completed the required training? Are they absorbing the information, or are they just going through the motions without retaining the knowledge?

Check key performance indicators. Are they falling short across the entire team, or just for certain individuals? If the problem is isolated to individual team members, a targeted training refresher may be sufficient, but if the entire team is underperforming, more widespread training may be in order.

If your team does need training, consider whether your sales approach might need updating at the same time. Shop the competition to see if they're utilizing new sales tactics that your team might try, and think about whether a different approach to closing and follow-up might be effective.

Training issues can crop up in other areas, as well. At renewal time, for example, are team members raising rents in a way that is adequate to meet growth goals, or are they backing off out of fear of creating too much resident turnover? Can the staff confidently discuss the value of living at the community for the rent paid? Is your maintenance team trained to make cost-saving repairs rather than simply replacing repairable items? Are you providing the site team with clear parameters for making such decisions?

Finally, you should examine whether your team's work environment is functional and productive. Does the team communicate effectively sharing what they know about competitors and customers? Do team members work well together? Are they generally happy in their jobs? Unhappy teams that don't work well together create chaos and instability. Processes break down, staff turnover increases, and those things eventually effect property performance.

Is traffic adequate to reach goals?

Review the traffic reports to see what that data shows. Is the volume of traffic matching the levels the property has historically seen, or is it lagging for some reason? Where is that traffic coming from, and could any of those sources be boosted? Is there data in the lead management system that could be helpful? Does the traffic you're getting generally meet your leasing qualifications? Is follow-up taking place?

Review the numbers to see if the amount of qualified traffic you're getting is sufficient to meet the property's leasing and occupancy goals. For example, if you have a goal of 10 signed leases per week and a 40% closing ratio, but you're only getting an average of 10 prospects per week, then you're not getting enough traffic to meet those goals.

SAMPLE

Do the market-ready units show well?

You can have plenty of traffic, a great sales team, and competitive rents, but if potential residents don't like the units they see, they won't sign a lease. Make sure prospects are seeing market-ready units that are in excellent condition. This is typically the community manager's domain, but if leasing seems slow, the CAPS may need to get involved.

Take a look at what potential residents are seeing. Are the units presenting well? Are they consistent with efforts to sell lifestyle and value, and not just price? What objections do prospects typically raise? Do you need a mini-model or staged unit? If you have one already, does it seem dated (this might be particularly relevant if you have new competition in the area)? Is the staff avoiding showing a difficult to lease, long vacant unit? Do they need assistance in presenting the unit in a positive manner?

Why are prospects choosing other properties?

Understand the nature of your competition so that you know how to address it. When your prospects choose other options, what are they choosing and why? Are they just choosing another apartment community across the street, or is the shadow market having an effect? Are they choosing single-family homes or condominiums? Perhaps it's just an issue of timing. Maybe they're interested in what your community has to offer, but they aren't looking to move right now.

If you keep records on why prospects chose not to lease at your property, make sure you're reviewing those records. Remember that records are only as good as the data entered into them, so make sure your site teams are gathering this information and entering it into the system properly.

Checking the competitive market survey and shopping your competition can be helpful here, as well, so that you can get a better sense of what you're up against.

If prospects are choosing to go with your competition, consider whether there might be a brand management issue. How do prospects view your property? What trends do you see in online reviews?

SAMPLE

Is the curb appeal up to par (particularly along the tour route)?

First impressions matter. Check yours to make sure it's working for you. What are potential residents seeing when they tour the property? Is it well-maintained and visually appealing? What are they seeing in the leasing office? Is your signage and décor appealing? Do amenity spaces look clean and inviting throughout the day? Is the presentation and demeanor of your leasing staff friendly and professional?

Is the screening criteria appropriate for the market/resident profile?

Consider whether your screening criteria is appropriate for your target residents. Are your criteria more stringent than your competition's criteria? If the property has an unusually high volume of denials or conditional applicants, your screening criteria might be set too high for your market. If this is the case, consider revising your screening criteria to a more appropriate level.

Are the up-front fees set too high?

Even if your rents are competitive, prospects may go elsewhere if they perceive their total move-in costs to be significantly higher than what they can get at your competition. Take a look at your up-front fees and see how they compare to other properties in the area. Check out the competitive market survey or shop the competition to get the most accurate numbers.

If your up-front fees are out of synch with the competitive market, look for places where you might be able to scale them back. Keep in mind, however, that you'll still want to ensure that you can attract the right type of prospect and maintain occupancy at desired levels. You may also have to make up the lost income from waived or lowered fees.

Have you reevaluated your marketing strategy recently?

Are you marketing in the appropriate places? Are you conducting outreach marketing consistently?

SAMPLE

Are specials being offered, and if so, do they need to be presented differently?

If specials are commonplace in your market, you may need to consider offering an incentive to attract customers and aid in closing the lease. Specials can be in the form of a one-time, up-front discount or a decrease in the monthly rent. They may need to be presented in a cost per square foot manner to aid prospects' ability to compare to other properties they may be considering. Consider the ownership goals when looking to add a special. Also, determine if this is something necessary across all units/unit types, or if you can selectively offer specials on a few units as a 'loss-leader.' Another option could be waiving an up-front fee or deposit to lower the move-in cost for the customer while still preserving the rent roll.

If you're using an automated revenue management system, make sure you're using it to control and set selective concessions in order to minimize potential adverse effects.

Are you supporting Revenue Management System pricing recommendations? If you're not using an RMS, are you evaluating your pricing structure frequently enough?

If you're using an automated revenue management system, you need to make sure you're using it to its full advantage. Without question, revenue management systems have proven to be a key to maximizing income and generating increases in property values. These systems track and report a great deal of valuable data that you should be monitoring, like growth reports and variances. In addition, your rent pricing needs to be reviewed periodically, and an automated revenue management system can provide recommendations on a weekly, or even daily, basis.

Revenue management systems analyze each element of the leasing process and make it part of the overall pricing strategy. The objective is to find the highest rent to maintain or improve budgeted occupancy and revenue. The system takes unit turn into account, identifies upcoming unit availability, and prices units accordingly. The pricing can encourage longer- or shorter-term leases. The system also recommends amenity pricing, renter-specific fees, and service or penalty fees.

Revenue management systems also permit concessions to be set selectively on a local property-by-property or unit type-by-unit type basis, thus better controlling their potential adverse effects.

SAMPLE

Keep in mind that revenue management systems don't always work well for all property types in all situations (e.g., during times of very low turnover, during a lease-up period, or on very small assets).

If you're not using an automated revenue management system, evaluate your process for setting rent prices. How often are you adjusting your pricing? Are inventory changes triggering pricing reviews? Are you being aggressive enough with your rent structure? Does your amenity pricing (views, floors, etc.) need adjusting?

Is the pursuit of rent increases and renewals aggressive enough?

Fear of causing too much resident turnover can cause some team members to be skittish about pursuing rent growth. Examine the property's historical data for patterns and changes in lease renewals and rent growth. Make sure your staff thoroughly understands the property owner's philosophy regarding rent growth and turnover. Some owners are comfortable with a certain level of resident turnover in order to secure rent increases, while others place significant value on retaining existing residents. If there are required benchmarks, make sure everyone is familiar with those, as well.

When did resident turnover increase?

Did resident turnover increase suddenly, or did it build gradually? Can it be tied to any external market events? If so, are they temporary, or do they represent long-term trends? Have you ruled out seasonal or other cyclical variations?

Have there been staffing changes that might have influenced resident turnover?

Resident turnover is a key indicator of the health of the staff/resident relationship. When that relationship is poor, residents are more eager to move. Have there been recent changes in staffing that might have resulted in less resident satisfaction?

Why are residents choosing to move?

When residents move, what reasons are they giving for that choice? Are you capturing and tracking that information? When residents don't provide that information on intent to vacate forms, are you following up with them to ask? Is that data being entered properly into the property management software?

SAMPLE

Do the reasons residents are choosing to move represent things you can counter? Are you attempting to have those conversations?

TROUBLE MEETING BUDGETED INCOME AND EXPENSE GOALS

Is there something happening in the submarket/economy that could be impacting the property's ability to achieve budgeted income?

Take a look at any recent economic changes happening in the area. Review the competitive market survey and local economic data. Has there been a significant increase in new competition? Is something happening to change the size of your target market, like the downsizing or elimination of a large employer? You may need to make adjustments to these new economic realities.

Are the collection efforts appropriate and within policy?

Review your delinquency and collection reports to evaluate the efficacy of your collection efforts. Delays can be very expensive, so ensure that these activities are done in a timely fashion.

Make sure your team is collecting rents and other debts, tracking delinquencies, and sending out late notices. Small balances can be easy to ignore, but they add up quickly, so make sure they're not falling through the cracks. When collection efforts fail and evictions become necessary, make sure that your team is moving as quickly as company policy and the law allows.

You'll need to pay particular attention to bad debt. It will be your responsibility as the CAPS to ensure that bad debt is turned over to collection agencies, and that such debts receive follow-up. Some property management software systems will turn bad debt over to collection agencies automatically based on time elapsed, but not all systems do this. You will need to monitor these debts to ensure they're moving through the collection process.

Is the fee structure appropriate?

Shop the competition and review the competitive market survey to make sure your fee structure is appropriate for your market. If you find your fees are out of synch with your competition, see if you have any room to make changes.

SAMPLE

Are there other income line items that need to be adjusted?

Is amenity pricing being used? Are unit premiums set appropriately? Are there additional opportunities to add other revenue streams (i.e., other income fees)?

Are the line items creating the biggest unfavorable variances controllable and/or predictable?

Look at your operating statement and other budget-related documents (current and historical), and examine them for trends. Are there particular line items that are creating large unfavorable variances? If so, determine if they are uncontrollable or controllable (e.g., new regulatory changes vs. inefficient internal processes), and whether they are unpredictable or predictable (e.g., repairs due to natural disasters vs. preparation for normal seasonal weather patterns). Where such items are controllable and predictable, determine what changes are necessary in your processes and budgeting to more accurately account for those items. For example, you may find that some of your property expenses are for items that are processed through the management company home office without an invoice ever showing up at the property. Consider asking your CFO or controller to add, remove, or breakout line items to more accurately tell the story of those property expenses.

Are inventory management protocols and vendor relationships being utilized efficiently?

Check to ensure that efficient inventory management protocols are in place and that team members are following them. Supply and part inventories should be maintained in a way that minimizes last-minute retail purchases of items that should have been on hand.

Make sure you're getting the most out of your vendor relationships, as well. Check your vendor contracts to see what agreements are in place. Can they be renegotiated? Would you benefit from establishing preferred vendors? Find out what kind of bulk buying arrangements are available. Bulk buying can save a tremendous amount of money up front, as well as helping to ensure that you always have enough supplies on hand.

At the same time, you should also ensure that you're not overbuying. Check how frequently orders are placed. Could your team place those orders less frequently? Is there a protocol in place to ensure that orders are placed only when they need to be? Make sure you have adequate storage for your inventory, as well.

SAMPLE

Is the team using good judgment regarding repairs/replacements?

Examine the service request reports for the property to look for inefficiencies in repairs and replacements. Are your service team members using good judgment when it comes to fixing repairable problems rather than opting for replacement, and are they adequately trained to perform those repairs? Make sure there is a protocol in place to ensure that smart repair/replace decisions are made, especially with big-ticket items like carpeting. Consider having someone other than just the service manager review such decisions.

Are expenses being recouped wherever possible?

Check to see if you're passing through all allowable expenses to residents. Depending on local laws, you may be able to recoup expenses for things like pest control, trash, water, and sewer services. Make sure you're also recouping the repair costs for damages that go beyond normal wear-and-tear.

Are adequate energy conservation methods in place?

If the management company or property owner has any energy conservation initiatives in place, make sure they're being followed (e.g., lights off and thermostat turned down in vacant units; model lights on a timer or motion sensor). Talk to your service managers about any concerns you might have, and ask them if they have any additional ideas to conserve energy. Make sure your site teams aren't inadvertently making things worse with misguided attempts at energy conservation. Some people may be tempted to turn off refrigerators in vacant apartments, for example, but doing so usually creates permanent odors in the appliance, necessitating an expensive replacement.

SAMPLE

TROUBLE WITH IMAGE OR REPUTATION

Is the image problem a result of a single event, or is it an ongoing issue?

How you respond to an image problem may vary depending on whether it's a longstanding issue or one that arose out of a specific event. Longstanding issues are more likely to have multifaceted causes and multifaceted solutions, whereas issues that stem from a specific event may respond to more specific remedies.

How does the property respond to negative reviews?

Is there a management company policy in place that covers responding to negative reviews, and if so, is your site team following that policy? Is there one person in charge of online reputation management? Is there a process in place for approving responses? Are the responses that have been posted up to this point appropriate and helpful?

Are you taking specific steps to build a positive brand image?

Do you have specific plans in place for building a positive brand image? Have you communicated those plans to the site team in a way that is clear and unmistakable? Have you delegated specific tasks to specific team members to ensure a smooth, coordinated effort?

Are there ways to garner positive media coverage?

Have you explored a media outreach plan? Are there things you can do that might garner positive earned media coverage (e.g., community outreach, charity events)? Would a press release be appropriate?

TROUBLE WITH EXCESSIVE EMPLOYEE TURNOVER

When and where did employee turnover increase?

Did employee turnover increase suddenly or gradually? Can it be tied to a particular event?

SAMPLE

Did turnover increase in all departments or just in particular areas (e.g., office staff, service department)? Were there changes specific to those particular areas that might have caused a turnover problem?

What are the reasons for employee separation?

Were the employees terminated, or did they leave voluntarily? If they left voluntarily, did they leave for the competition?

Is it possible that compensation is an issue? Are your compensation rates, incentives, and bonuses appropriate and competitive?

Are there work environment issues involved? Is the work atmosphere friendly and collaborative, or is it cut-throat and competitive? Have there been any formal complaints of harassment, discrimination, or safety issues?

Are regular staff meetings conducted?

Does the site team get regular opportunities to express their concerns to management? Are those concerns noted and acted upon when appropriate?

SAMPLE

MODULE 3 ACTIVITY 1: MINI-SCENARIOS REVISITED

For this activity, your instructor will break the class into small groups. You and your group will be evaluating a series of short scenarios. Each scenario will be followed by a brief discussion on that scenario.

For each of the following scenarios, think about how you might answer the following questions:

1. What could be going on there?
2. What piece(s) of this information seems to indicate an issue?
3. Are all of these issues related?
4. What questions do you ask?
5. What reports do you review?
6. Where do you start?

SAMPLE

MODULE 3 ACTIVITY 1: MINI-SCENARIOS REVISITED

You do not need to answer every question individually, but be prepared to talk about how you would tackle each scenario with these questions in mind.

SCENARIO 1

Economic occupancy is down, there are low closing ratios in the last month, and traffic is higher than it's been in the last 3 months.

(To be followed by class discussion.)

SAMPLE

Notes

SCENARIO 2

Rent rates have been flat for the last 6 months, the renewal percentage is lower than budgeted, and closing ratios are higher this month than in the past several months.

(To be followed by class discussion.)

SAMPLE

Notes

MODULE 3 ACTIVITY 1: MINI-SCENARIOS REVISITED

SCENARIO 3

The property is offering one month free on all 2 and 3 bedrooms, delinquency is higher than budgeted, and the property's average rent per square foot is the second highest in the submarket.

(To be followed by class discussion.)

SAMPLE

Notes

SCENARIO 4

Expenses are way over budget with the largest unfavorable line items being in appliance and carpet replacement, resident turnover percentage has increased by 10% in the last 3 months, and the new marketing campaign has increased the preleased percentage by 5% in the last 30 days.

(To be followed by class discussion.)

SAMPLE

Notes

MODULE 3 ACTIVITY 1: MINI-SCENARIOS REVISITED

SCENARIO 5

Resident turnover is lower this quarter than it's ever been, vacancy loss has increased by 4% in the last 60 days, and renewal rates have decreased by 4% since last quarter.

(To be followed by class discussion.)

SAMPLE

Notes

MODULE 3 ACTIVITY 2: TROUBLESHOOTING

The property owner has purchased the property noted in the River Commons Property Assessment and Due Diligence Summary (in the Activities Resources section of the CAPS Training Activities Book), and your company is now the managing agent. You are the CAPS responsible for this property.

The owner's goals were set at transition as follows:

- Achieve the recommended effective rents stated in the due diligence report within 90 days of transition.
- Maintain 94% physical occupancy and 91% economic occupancy.
- Bring the down unit back online within 14 days.
- Increase effective rent per square foot on the one bedrooms and 2/2 units by a minimum of 3% within 60 days.

We are now at the 90-day mark, and the only goal that has been achieved is bringing the down unit back online.

SAMPLE

The current status of the property is as follows:

Recommended effective rents are as follows:

			Take Over Effective Rents		Recommended Effective Rents		Actual Current Effective Rents	
BD/FB	Qty	Area	Rent	$PSF	Rent	$PSF	Rent	$PSF
1/1	84	700	$852	$1.18	$896	$1.24	$854	$1.22
1/1	96	800	$917	$1.15	$960	$1.20	$925	$1.16
1/1	36	894	$1,019	$1.14	$1,073	$1.20	$1,025	$1.15
2/2	48	1089	$1,203	$1.05	$1,264	$1.11	$1,203	$1.05
2/2	56	1198	$1,280	$1.03	$1,347	$1.08	$1,280	$1.03
3/2	8	1413	$1,652	$1.17	$1,738	$1.23	$1,652	$1.17
3/2	16	1428	$1,601	$1.12	$1,677	$1.18	$1,601	$1.12

Current Physical Occupancy: 93.3%

Current Economic Occupancy: 89.9%

SAMPLE

MODULE 3 ACTIVITY 2: TROUBLESHOOTING

The closing ratio average for the leasing team is currently 41.2%. The property is getting an average of 27 new prospects per week. Follow-up is being handled well, with all follow-up being completed within 36 hours of initial visit. The property is still using Yieldstar for revenue management, and daily pricing recommendations are being followed. The renewal percentage in the first 90 days of takeover is 51%.

The owner is upset that the rent and occupancy goals have not been met and has mandated that the goals be achieved within 90 days, meaning that 180 days after take-over, these goals must be met or the owner may cancel the Management Agreement.

Using the due diligence report and what you know about the property, what could be the issues preventing the property from meeting the owner's directives? What red flags does the current property position present? How are you going to get the property on track to prevent losing it?

Map out your short-term, mid-term, and long-term action items to get the property on track to meet the owner's goals.

SAMPLE

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