

MULTIPLE FEE MANAGERS, ONE REVENUE MANAGEMENT SOLUTION

by Guy Lyman

Multifamily owner Abacus achieves consistency and results using revenue management with YieldStar.

“**N**ew York-based Abacus Capital Group, LLC invests in promising deals around the country, and uses various fee managers based on their local market knowledge and capabilities.

“We believe it is most efficient to find local management with local expertise, and we don’t expect a single fee manager to understand every market either,” says Kyle Ellis, one of the managing partners of Abacus. “We’re perfectly comfortable working with several “best-in-class” management firms across our portfolio.”

Currently, Abacus works with firms such as Riverstone, Lincoln Properties, and Mark Taylor, with \$600 million in assets under management. This arrangement has produced good results for Abacus, according to Ellis. It comes with its challenges, though. As a result of using various management firms, Abacus encounters different approaches to pricing and reporting.

“When you have different fee managers, you get different approaches to pricing rents,” says Ellis. “The first problem is the obvious one: while all of our managers are talented, there is not a standardized pricing strategy. So much is reliant upon the managers. They use different types of data and different approaches.”

“The second problem is inconsistency in reporting, which can challenge the home office,” he continues. “When there are different types of reports coming in, on different schedules, it can be quite difficult to keep up with what’s really going on out there. What you want is a single, consistent, and methodical approach to pricing and an accurate and timely reporting solution that’s used by all managers,” he says.

THE SEARCH FOR A SOLUTION

Having decided the company needed to pursue a standardized pricing strategy, Abacus originally tested another revenue management system, but found its basis for pricing recommendations deficient: too dependent on inconsistent traffic and competitor data, which was collected on site.

“This is not good-quality data,” says Ellis. “The property can’t accurately keep up with traffic on a regular basis. Relying too much on competitive data can be harmful too,” he continues. “There’s a tendency to

just follow what the local market is doing, including its mistakes. And some managers can be tempted to play with the numbers to influence their pricing.”

“We found that YieldStar’s Price Optimizer weighs a much more robust set of data,” says Ellis. “It uses MPF Research market data to track the submarket’s conditions more accurately, and it places more emphasis on the property’s internal fundamentals, like leasing velocity, current and future availability, and the rents we’re actually achieving on new leases and renewals.”

What Abacus likes most about Price Optimizer, says Ellis, is its statistical framework for pricing. “Price Optimizer does the sort of calculations you would do if you had unlimited time,” he remarks. “It looks at the same criteria a good manager would look at to come up with pricing, but does intense analysis on a daily basis that no manager has the time to do.”

After weighing the results of its initial YieldStar rollout, Abacus made a clear choice to standardize on Price Optimizer.

SMOOTH IMPLEMENTATION

“The YieldStar rollout was the best implementation experience I’ve ever had with any third-party technology vendor,” recalls Ellis. “And you have to remember that we were pushing this system to our fee managers, not our own people, so there was a chance for resistance if things weren’t done right.”

For the first phase of the rollout, the company chose to implement Price Optimizer on five properties with strong managers in regionally distinct markets. “We started with a meet-and-greet to get them to understand the system,” says Ellis. “And the rollout involved time on site with YieldStar’s trainers, with follow-up calls to make sure things was going smoothly, and around three months of monitoring to make sure we were getting the most out of the system, which worked very well.”

OPTIONS VS. CONCESSIONS

Ellis commented that the most striking change brought about by YieldStar has been at the point of sale, where leasing agents can now confidently offer prospects a whole range of price options based on move-in date, length of lease, amenity variations, and more. Leasing velocity improved considerably.

“Most prospects like having these price options better than concessions,” he says. “Renters are very price-sensitive these days and want to be offered the lowest price, not some perk they get up front with a higher rent payment after. Plus, they love how they can get a ‘deal’ by moving their lease start date up a little or signing a longer lease.”

“The beauty,” Ellis explains, “is that it doesn’t matter which option the prospect chooses, because they’ve all been calculated by Price Optimizer to be equally profitable.” Amenities, lease expirations, available inventory, competitor pricing, leasing velocity, and recently achieved pricing are all weighed by Price Optimizer in pricing each unit. Even the very best manager can’t calculate the true market value of each and every available unit based on move-in date and lease term on a daily basis.

“Managers now have more confidence in the pricing, particularly pricing that previously they might have felt was too low or too high. There’s a reason YieldStar is recommending these prices, and they know this. Where they might have been leaving money on the table before by fearing certain price levels and resisting them, they don’t anymore – they know there’s a perfectly rational basis for them.”

“We’ve also been able to eliminate the bias in favor of occupancy over price that is fairly endemic in our industry – since poor occupancy numbers are easier to see than the “lost money” of rents you could have gotten, but didn’t ask for,” continues Ellis. “There’s no report that will tell a manager ‘yes, you’re getting \$750 on those units, but you could have gotten \$780.’ Price Optimizer cares about only one thing—sustained revenue maximization—and it balances price and occupancy in a way that will drive maximum revenue, no matter where those levels are, which forces people to change the way they look at things.”

IT’S ALL IN THE NUMBERS

“Every property on YieldStar is collecting more per square foot now and at higher occupancies than at the same time last year, despite the recession,” remarks Ellis. “Our average revenue per square foot is up 4.6 percent. We’ve had impressive results.”

“We’ve also made it harder for our competition, because with Price Optimizer, your prices move daily – so it’s very difficult for competitors to try and match our pricing.”

And Ellis notes other advantages: “We are experiencing a higher level of sustained occupancy and longer lease terms. Plus, we see lower vacancy between turns, since YieldStar motivates renters to save money by moving in sooner. We have fewer turns, lower carry costs, and a reduced need to spend money on marketing.”

Consistency and comprehensiveness in reporting was another of the company’s objectives in moving to Price Optimizer, and according to Ellis, this goal has been admirably met. “I can pull daily information from the Price Optimizer dashboards that lets me see exactly what’s going on in the field, in terms of pricing, occupancy, availability, velocity, and forecasted results. Plus I can analyze trends on rent, occupancy, and revenue. There’s no waiting for reports to come in from the fee managers, which arrive after the fact and in various formats.”

All in all, Ellis says both Abacus and its fee managers are pleased with YieldStar and with Price Optimizer: “Both the product and the company have truly exceeded our expectations and have made a clear difference for us.”

Guy Lyman is a Dallas-based freelance writer who specializes in the multifamily industry.

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Capital Group LLC

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sector. For our investors, we balance traditional values with new ideas to deliver a higher level of performance on multifamily investments. For residents of our communities, we translate these values in superlative service so that every one of our communities can truly be called a “home.”

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