

Revenue Management on the Front Line

by Guy Lyman

A regional manager gets hands-on experience with income-boosting revenue management technology

Angie Taylor didn't expect to be on the front line for her company's venture into revenue management. But when one of her property managers took an unexpected leave of absence, that's exactly where she found herself.

"It turned out to be a blessing," says Taylor, a regional manager for Carter-Haston. "I gained first-hand experience of the power of this technology."

Carter-Haston had been considering revenue management for several years. "Over time, we began to see more and more companies adopting the technology and reporting impressive bottom-line results," says L. Marc Carter, Principal and Co-Founder of the Nashville-based company. "After evaluating the potential ROI, we decided we needed to move on it."

The company chose to start with one property in each of its four regions in April of 2008. The same week that training was scheduled to take place, the picture changed suddenly for Taylor, whose territory includes North Carolina, South Carolina, Alabama, and Georgia. "The manager at the chosen property in my region became very ill," she explains. "I had to step in and manage the property personally for some time, which meant that I was much more involved in using revenue management every day."

A TOUGH PRICING ENVIRONMENT

"We were completing a renovation program at this property," recounts Taylor. "Before rolling out YieldStar, it was very difficult to get the pricing right. There were renovations underway at neighboring communities as well, which made pricing against the competition even more tricky."

During the renovation, occupancy dropped to 77%. With occupancy low and a challenging pricing environment, Angie was counting on YieldStar to make a difference.

AUTOMATED PRICING IN ACTION

"I had no concept of how empowering this technology would be at the point of sale, until I experienced it myself at the leasing desk," says Taylor. "It completely changes the interaction between leasing agent and prospect, in so many positive ways, in addition to improving the bottom line."

First among these benefits, Taylor says, is the empowerment of the leasing agent. “You can offer a multitude of different prices, based on move-in date, length of lease, type of unit, amenities, etc. Obviously the renters like having all these options, but the agents love it too, because it gives them so much more independence and flexibility to close the sale.”

“Agents can also create a sense of urgency,” she continues. “Renters understand that their pricing options could change at any time, based on availability, market conditions, and other criteria, so they’re motivated to act quickly. We had prospects move in even before their leases expired at other apartment communities, in order to take advantage of a lower price based on an earlier move-in date. The reason the rates were lower is that vacancy cost is built back into the rate when someone asks to hold an available unit, so whether the renter moves in earlier or later, the revenue result is the same for the property. But the renter feels they are getting a discount if they move in sooner.”

“And fortunately, the whole concession aspect of the sale is gone. There’s no more ‘if I could drop the price another \$20, would you lease?’; instead, you can offer a better rate if the prospect is willing to move in sooner or take a different lease term, and that approach to selling works better for both the agent and the prospect.”

Taylor noticed an overall increase in confidence, enthusiasm and what she simply calls “energy” that was infused into the leasing process.

MANAGING PRICE

In order to get the most out of revenue management, YieldStar users are expected to trust the pricing generated by the system most of the time, but to keep an eye on it as well. Taylor has a tremendous amount of confidence in the pricing delivered by YieldStar. “The system is looking at so many more criteria than I can consider in coming up with a price every day,” she says. “I have to trust the pricing to get the most out of it, and not second-guess it all the time. For example, what might seem like too high or too low a price will make total sense in light of all the factors YieldStar is weighing, and you would be leaving money on the table by changing the price based on an emotional reaction.”

“This being said, we do set parameters for rents as well as occupancy, and we review the pricing regularly, but the system has proven that it can be relied upon.”

IMPRESSIVE NUMBERS

Of course, the primary benefit of revenue management is the improvement it delivers to the bottom line, and it is here that Taylor says she has experienced the greatest reward.

“Just over two months after we rolled out YieldStar, we had already improved occupancy by over 8% and with 2.9% higher rents than we expected. This was amazing to me,” she says. “In general, you expect revenue management to balance occupancy against rent prices to achieve the optimal profit, but we experienced better results than we thought were possible, due to our increased ability to close new leases and renewals at the best possible prices.”

Taylor recorded a 7% increase in renewal rents alone, driven by YieldStar's calculations of the market value of the units. "We might not have had the confidence to increase renewal rates otherwise, but YieldStar told us that the increases were in order, and they obviously were."

By the end of 2008, Taylor's property was outperforming its competitors in revenue by 3.5%. "Obviously, we were thrilled."

MOVING FORWARD

With the initial rollout of YieldStar complete and the property manager at Taylor's community back at work, Taylor has returned to being a fulltime regional manager. But having experienced revenue management first-hand at one of her properties, Taylor is now in a much better position to help the remaining Carter-Haston properties roll out YieldStar; three more properties in her region have recently come online.

"I've seen what revenue management can do, and I'm a huge believer now," she concludes. "It's one of those rare breakthroughs that both improves the way you do business and makes you more profitable at the same time."

Guy Lyman is a Dallas-based writer specializing in the multifamily industry.



Carter-Haston is a real estate asset/property management company that focuses on maximizing return on capital invested while managing risk for its private investors through the acquisition, management and sale of multi-family communities.

We have tried to distinguish ourselves by responding to the expectations and needs of our partners, clients and lenders. To do this, we strive to consistently provide timely, accurate and insightful information from which our partners and we can make sound management and investment decisions.

We believe that our success has been built upon our responsiveness to these expectations and our commitment to act on them with integrity. Our leadership and management will remain focused on these fundamentals.

Ending 2005, we owned and managed over 33 multi-family communities comprised of more than 6,500 apartment units. We estimate that these properties have a market value exceeding \$350 million. The performance of our properties are the result of the efforts of a management team of 17 professionals that are responsible for operations management and an on-site support staff that exceeds 180 team members. This group is responsible for the daily leasing, marketing, maintenance and care of the properties. Our home office is in Nashville, Tennessee and we maintain regional offices in Atlanta, Georgia; Tampa, Florida; Columbia, South Carolina; and Charlotte, North Carolina.