

MAKING THE MOST OF A TOUGH MARKET

by Guy Lyman

In times like these, “build and sell” can become “build and hold.” Trammell Crow Residential has turned to revenue management to maximize revenue from the properties they’re holding.

These days, Trammell Crow Residential finds itself holding onto more properties than usual, waiting out a market that has virtually suspended all transaction activity. This means increased attention is placed on their income stream.

“When you’re mostly in the business of building and selling properties, there’s more attention paid to growing rents than increasing occupancy and revenue, because you’re not expecting to own the property long-term,” says Sue Vickery, Managing Director for TCR. “With the economic changes, it’s more important to increase collections while we wait out the recession.”

With this change has come a greater focus on maximizing revenue, which led TCR to consider revenue management in particular. Revenue management is a technology- based solution that helps scientifically determine pricing, based on current and historical demand, available supply, recent leasing velocity and rental rates, and market positioning.

“Our management was already aware of new revenue management solutions being used by our peers, and YieldStar’s Price Optimizer in particular,” says Vickery, “so my team was tasked with researching it. We decided the best way to do this was to talk to other companies who were already using Price Optimizer, to see how well it was working for them.”

YieldStar provided Vickery’s team a number of references, from which the team chose six to interview. They ranged in size from small owner/managers to large companies such as Camden, who actually hosted the team at their Houston office for a “show and tell” about revenue management and Price Optimizer. The team interviewed companies using Price Optimizer in conjunction with RealPage’s OneSite property management system, but also with other systems - an important criteria, since TCR uses Yardi’s system to manage their properties.

“What immediately impressed us was the high comfort level these users have with the solution, some of them within a very short time,” says Vickery. “This quick acceptance and enthusiasm was identifiable all the way from leasing agents to top management.”

IMPLEMENTATION

The interviews with Price Optimizer users convinced Vickery and TCR management that they should move ahead with revenue management. The first step was to educate management about the solution, followed by training for the properties. They began with three pilot properties in the Houston area.

“The example we used to educate people was the process of buying a plane ticket these days,” explains Vickery. “A price is arrived at not through guesswork, but through automated calculation of many criteria that an unassisted human simply can’t carry out on a daily basis. It makes perfect sense to people that in the multifamily business, there’s even more need for a solution like this.”

A training team visited the properties to educate the leasing agents on how to leverage revenue management in actual situations with prospective renters. At the end of each training day, they gathered to discuss their experiences, and even created a contest to give awards for the first three leases closed using Price Optimizer.

“We were amazed to find that many of these agents were able to use revenue management productively in less than two hours,” says Vickery. “That’s really remarkable when you consider that this is a completely different way to sell.”

The biggest adjustment for on-site staff was not using concessions to close deals, the way they had become accustomed to. “In general, they were very pleased to eliminate the negotiation aspect of their jobs – the ‘let me talk to my manager and see if I can get you a deal’ approach,” explains Vickery. “Now, they can say ‘yes’ at a price, and can offer a wide range of pricing options calculated by Price Optimizer, based on unit type and availability, move in date, lease term, etcetera. The negotiation is essentially replaced by options that Price Optimizer delivers. The renter knows the system produces the pricing, and it’s not at the agent’s whim, so it’s not a negotiation.”

“Management, of course, is pleased at the significant reduction in the use of profit-eroding concessions as well as the occupancy gains,” she adds.

“The leasing agents also like using quotes. They can say ‘this price is good for three days’, which helps them close sales by creating a sense of urgency. It’s clear to the prospect that a system is producing the pricing, and that it can change at any time, just as airline ticket prices do.”

Vickery’s team placed follow-up calls to the properties for several weeks following the training, to determine their comfort level with Price Optimizer. “I’d say that within a week, 90% of them were reporting that they loved using it. This did not come as a big surprise, since we had done such extensive research with users at other companies before adopting the system ourselves. Of course it was still very gratifying to hear.”

RESULTS

“At the properties now using Price Optimizer, we’re achieving a revenue boost of over 3%, which we’re thrilled about,” says Vickery. “But what makes this even more significant is that these were our best-run properties, with our best managers – the ones that should have been the hardest to squeeze more profit out of. So we expect an even bigger impact at our other properties.”

Vickery notes that sometimes Price Optimizer suggests pricing that makes people uncomfortable. “We’ll hear from the field: ‘there’s no way we’re going to get that price’. And we’ll say: ‘well, here’s why the system thinks we can.’ We’ll show them the logic, so they can have confidence in the pricing.”

TCR trusts the Price Optimizer pricing, and merely “keeps an eye on it,” according to Vickery. “Looking over the pricing now is very little work,” she says. “We’re talking about anywhere from fifteen seconds to a couple of minutes per property per day.” But this doesn’t mean TCR blindly rubber-stamps Price Optimizer’s pricing suggestions. “There are unusual situations, such as the period after Hurricane Ike hit in the Houston area, in which you have to add your own judgment to the pricing process,” Vickery explains.

An unexpected benefit has been the ability to quickly and clearly identify a property with operational deficiencies. “When you’re confident that the pricing is correct, you can more easily link underperformance to a weakness in the leasing or management function, and address it as necessary,” Vickery explains.

THE FUTURE OF REVENUE MANAGEMENT

“It seems to me that revenue management is the new big thing in our industry,” says Vickery. In the long run, Vickery believes revenue management will be adopted throughout the industry. “Some companies will jump on board quickly, while conservative ones will move slowly – but at the end of the day, I believe the technology will be a standard part of property management.”

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



Trammell Crow Residential ("TCR") is America's premier multi-family real estate firm. TCR entities develop, construct and acquire multi-family rental and condominium communities of the highest standards. Widely regarded as the industry leader in the development and construction of high-quality apartment assets, TCR believes its strength lies in its people. The company's heritage of employee growth, combined with its forward-looking vision, has continually helped it attract the best and brightest individuals in the industry.

Trammell Crow Residential's portfolio includes numerous properties located in major markets across the country under such prestigious brand names as Alexan and Wynhaven. Additional information can be found on the Company's website at <http://www.tcredidential.com>.

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