

UDR GETS RESULTS WITH REVENUE MANAGEMENT

by Guy Lyman

Leading multifamily REIT experiences 2.1% revenue premium with Price Optimizer

“We embarked upon revenue management at an exciting time,” says Chris Long, Director of Pricing and Revenue Management at Colorado-based UDR, Inc. “Our company was searching for ways to use technology to impact our bottom line, and revenue management was seen as low-hanging fruit that we could implement quickly.”

UDR is a leading multifamily REIT that owns and operates over 45,000 apartment homes across the U.S. Long joined UDR in 2003 with a position in operational forecasting and corporate finance, followed by a stint as operational strategist.

“We were aware that many of the leaders in the industry had started to embrace revenue management solutions, and that some of the smaller companies were adopting them too,” explains Long. “The technology was already a staple in other industries, including hospitality and transportation, so the concept of having technology-assisted price-setting based on supply, demand, competition and other variables was already well-established.”

DOING IT RIGHT

“After deciding to evaluate revenue management, we chose a methodical approach,” says Long. “We needed to both prove the concept and to know which solution was right for us. There were two primary options in the multifamily sector, YieldStar’s Price Optimizer and LRO, so we set up an eight-month, head-to-head trial of these two solutions at fifteen of our properties in three different markets across the U.S. We graded them on a variety of factors: the user experience, quality of reporting, transparency into how pricing was determined and most importantly, revenue improvement.”

“With other approaches to revenue management it was difficult for our site teams to understand how rent recommendations are determined, which made acceptance more difficult, because sometimes the ‘ideal’ price can be counterintuitive,” says Long. “You want to know how the system got there. Price Optimizer provides the ability to do that.”

By the end of the trial, the choice was clear. “The user experience was excellent, the performance reporting was superior and the transparency in pricing was top notch. One of the key components of success was to be able to understand how the system came up with its recommendation and Price Optimizer allows the end user to really understand what is going on behind the scenes and have the confidence to sell at any price. And most importantly, Price Optimizer’s revenue performance met and

exceeded our expectations: the YieldStar properties experienced a 2.1% revenue premium over control properties using traditional pricing methods, so that clinched it.”

GETTING READY TO ROLL

UDR planned to deploy Price Optimizer to its full portfolio during the fourth quarter of 2007, with an eye towards achieving maximum buy-in from users and minimal disruption to operations. At the core of UDR’s deployment plan was training of staff at all levels of the organization and completing the roll out during the slowest leasing season. Senior and middle management were trained first, and on-site teams were trained immediately prior to going live with the new pricing system.

“We saw the most excitement from our managers, who understood the value of revenue management,” says Long. “They looked forward to having a consistent, systematic approach to pricing as well as the time-savings that would be achieved, which would replace ‘intuitive’ pricing and time-consuming discussions between management and the field that go along with traditional pricing practices.”

ACCEPTANCE IN THE FIELD

Once management was trained, UDR staff hit the road to train the on-site leasing teams. It was a radical shift, but one they universally embraced. Long describes the atmosphere at the sites:

“People generally don’t like change, but there was a lot of excitement about this change at the site level for several reasons. First, the system generated all sorts of pricing options for the leasing agents - based on move in date, length of lease, amenities, etc. - so they had more flexibility in what they could offer a prospect. Second, it eliminated the ‘used car salesman’ aspect of the negotiation, which no one likes, since prospects understood that a system was producing the pricing and it wasn’t up to the leasing agent’s whim. Third, they liked being able to tell renters that the price might change at any time, which creates a sense of urgency to act quickly. And finally, as with the managers, they were thrilled to reduce time spent making pricing decisions and having them approved.”

MIXING BRAINS WITH COMPUTER BRAIN

UDR complements their revenue management technology with the expertise of their people.

“The idea was never to simply turn on Price Optimizer and accept every recommendation as is,” explains Long. “We accept the majority of recommendations the system makes without changes, but sometimes there are property-specific strategic objectives or events that affect pricing, and we have to take those into account. The system does a job no human could do of assessing availability, demand, amenities, competitive pricing, market forecasts and other variables that should be taken into account in setting prices; but sometimes, there are things it simply doesn’t know about.”

This being said, Long is quick to clarify that a price recommendation is not rejected merely because it intuitively seems too high or low. “In fact, to me, that’s the prime area for revenue improvement – pricing decisions we would not have arrived at on our own, where we are leaving money on the table,

because Price Optimizer is able to look at more variables than we are and crunch a lot more numbers, a lot more accurately and objectively.”

“In cases of these ‘uncomfortable’ recommendations, we like to look at the data supporting Price Optimizer’s recommendation. And that is one area where Price Optimizer is very different from the other options out there. With Price Optimizer, you can see all the factors going into a price recommendation. This visibility and transparency was very important to us in making our decision to move forward with Price Optimizer. It means we can have confidence accepting certain pricing that otherwise would have made us nervous.”

Management encourages input from the field regarding pricing, and still monitors pricing, but the actual time spent on price analysis and decision-making is a fraction of what it once was.

THE BOTTOM LINE

Beyond the benefits of time savings and pricing discipline, which affect profit indirectly, there is of course the direct benefit to the bottom line: achieving maximum revenue through optimal pricing.

UDR’s revenue premium over market has steadily grown with the use of Price Optimizer. “The metric we use is total revenue performance, and not surprisingly, Price Optimizer is delivering quite visibly in that area,” says Long. “Since we did such careful testing before implementing it, I can’t say the results have come as a surprise, but it is still gratifying to see it become a reality.”

The sense of discipline, control and professionalism and the fact that there is a consistent, intelligent method for determining pricing - these benefits are hard to quantify, but they are very valuable.”

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



UDR, Inc. (NYSE:UDR), an S&P 400 company, is a leading multifamily real estate investment trust (REIT) with a demonstrated performance history of delivering superior and dependable returns by successfully managing, buying, selling, developing and redeveloping attractive real estate properties in targeted U.S. markets. As of September 30, 2008, UDR owned 44,223 apartment homes and had 2,047 homes under development and another 684 homes under contract for development in its pre-sale program. For over 35 years, UDR has delivered long-term value to shareholders, the best standard of service to residents, and the highest quality experience for associates. Additional information can be found on the Company's website at www.udr.com.