



Employing Revenue Management to Up Your Amenity Game

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The housing market is roaring back, and the multifamily sector, which was at the head of the pack last year, is expected to lead the charge again in the years ahead. But, even with 299,000 new multifamily residences forecasted for 2013, it is estimated that 350,000 units are required to keep supply and demand in balance.

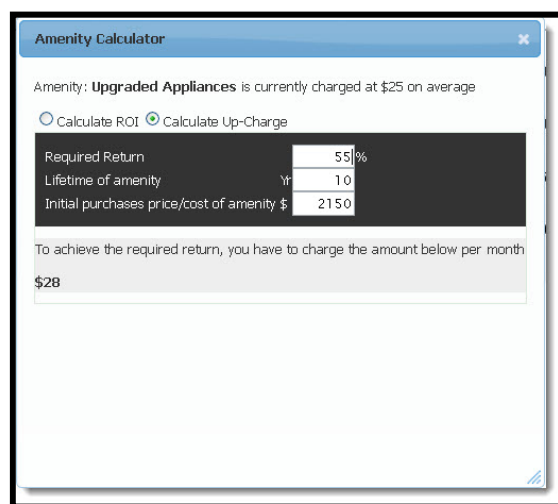
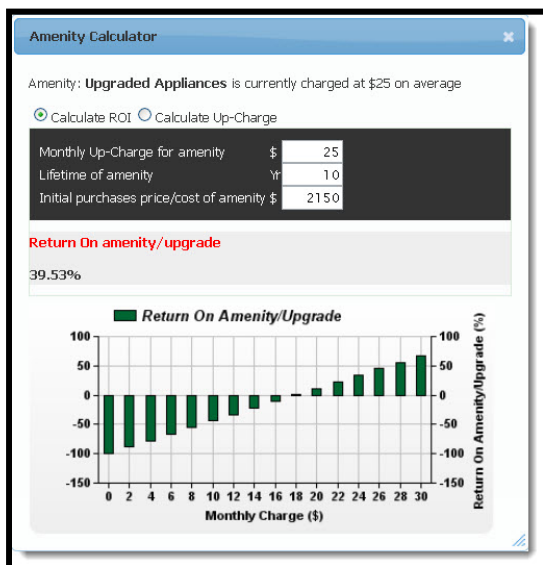
Throughout much of 2011 and 2012, lenders, still licking their wounds from the real estate bust, were slow to commit to funding new multifamily development. Consequently, many projects are still in the development pipeline, and demand is likely to outpace supply until this new product hits the market in 2014 and 2015.

Existing properties that have long been the Class A darlings of their markets will have to up their amenity game to compete with this influx of new product. The right upgrades will absolutely attract and retain residents, but can quickly result in a drop in operating profit, and subsequently a drop in property value, if costs overrun returns. Correctly calculating the potential payoff is critical to the success of your upgrade initiative.

Old school, back of a napkin calculations no longer offer the level of financial sophistication required by today's owners and operators. A spreadsheet approach, similar to the one below, is slightly more advanced, but with no interface with property or revenue management software, becomes cumbersome because it requires additional time and resources to manage the pricing process.

AMENITY RETURN ON INVESTMENT	
Amenity Type	Brushed Nickle Hardware
Cost Per Unit	\$150.00
Useful Life (years)	10
Monthly Up-Charge	\$5.00
Total Per Unit Revenue Increase	\$600.00
Total Profit Per Unit	\$450.00
# Units	75
Total Community Cost	\$11,250.00
Total Community Revenue Increase	\$45,000.00
Total Community Profit	\$33,750.00
Return On Investment (ROI)	300%

Revenue management is quickly becoming the industry rent pricing norm for most major multifamily owners and operators. Now, those same owners and operators are employing revenue management to ensure they are choosing the amenity upgrades that are most appropriate for their assets and deliver the highest return on their investment dollar. On the innovative edge are programs such as RentPush.com®, a division of Spherexx.com®, that offer advanced amenity pricing analysis. RentPush was designed with an Amenity Calculator that can be used to evaluate the existing, as well as the projected return on investment for each specific property amenity. Variables such as the monthly up-charge, amenity lifetime, initial cost and ROI can be adjusted to assist the user in determining the optimal price point needed to achieve the desired return.



Additionally, RentPush offers ongoing tracking and reporting to measure the absorption, occupancy and days vacant of units with, and without the specific upgrade.

Floorplan	Occupied/Total With Amenity	Occupied/Total Without Amenity
B1-L	27/28	48/52
B1-L-H	6/5	2/2
B1-U	20/24	58/64
C1-L	1/1	8/11
C1-U	5/5	7/7
All	59 / 64	123/136

Floorplan	Days Vacant With Amenity	Days Vacant Without Amenity
B1-L	100	68
B1-L-H	207	154
B1-U	77	77
C1-L	31	158
C1-U	54	135

Sound real estate knowledge, paired with this type of advanced analysis and reporting, will provide owners and operators with the tools they need to implement a value-add upgrade program and position their assets to compete favorably with the steady stream of new product coming on line. Armed with the right information, pricing will be optimized, not only on rents, but also on amenities, and higher ROI and increased property value will follow.

Sources

1. **Crowe, David**, NAHB Chief Economist. *NAHB Multifamily News Release*, January 13, 2013
2. **Partial List of Multifamily Owners and Operators Currently Employing Revenue Management -** Equity Residential, AIMCO, Archstone, Camden Property Trust, Apartment Management Consultants, UDR, Inc., Avalon Bay Communities, Pinnacle Family of Companies, MAA, Forest City Residential Group, Lincoln Property Company, Bell Partners, Irvine Company Apartment Communities, Home Properties, Inc., Colonial Properties Trust, Berkshire Property Advisors, Essex Property Trust, BRE Properties, Greystar Real Estate Partners, The ConAm Group of Companies, FPI Management, Alliance Residential Company.