

# Staying Competitive

Create value—and reduce turnover—in existing communities by improving customer satisfaction

By Erika Schnitzer, Managing Editor

As the industry ramps up for the next development boom, many are thinking about all the “bells and whistles” often associated with new product. But as these communities are completed and delivered to the marketplace, existing communities need to focus on staying competitive.

Older apartments usually feature larger units, points out John Gallagher, CPM, senior vice president of property management for Chevy Chase, Md.-based Polinger Shannon & Luchs Co., which manages approximately 6,000 units in the Washington, D.C. metro area. Gallagher notes that the one-bedroom apartments in his portfolio are approximately the same size, if not larger, than two-bedroom apartments being built today.

Thus, price is typically an advantage of older product, points out Dan Ford, director of property management at Nashville-based Freeman Webb, whose management portfolio consists of over 10,000 units.

Of course, it's critical to ensure that all units are up-to-date and looking fresh. “We upgrade all the time,” says Gallagher. “It's actually cheaper if you keep at it than if you don't do it for 10 years and then you try to do it all at once.”

With this in mind, the company upgrades kitchens every 10 to 15 years, but changes out cabinet doors about every seven years, a less expensive alternative to keeping things looking new. At the same time, appliances are changed out every five to seven years, and carpet is replaced on nearly every turn. “It's an inexpensive, high-end amenity,” says Gallagher. “All those tricks to make it look brand-new, or close to it, are very important.”

Some companies take a more conservative approach, testing various levels of unit interior upgrades to determine at what point there's a diminishing return, explains Dan Haefner, executive director of multifamily management for Drucker & Falk, which oversees management for approximately 26,000 units throughout the Southeast. This analysis will also be dependent on location, demographics and the competition.

“There are other people who pro forma x amount per unit in rehab and x much more in rent for the entire property, and adjust later as required,” Haefner notes.

At the same time, while common spaces cannot be greatly altered due to space constraints, it's crucial to ensure they are in tip-top shape. Every five to seven years, for example, Freeman Webb gives its common spaces what Ford calls a facelift. “I can't add a 10,000-square-foot fitness center, but I can have just as good equipment,” he points out.

In rare instances, a larger overhaul may be possible, however. Waterton Residential, for example, recently completed a \$20+ million renovation of the

2,346-unit Presidential Towers in Chicago. In addition to unit and common space renovations, the company rehabbed the retail component of the project.

“When the community was built in 1985, the West Loop in Chicago wasn't a good place to live so [the original developer] created a community that had restaurants and a convenience center and a health club ... accessible from the inside in order to keep the outside out,” recalls Greg Lozinak, executive vice president and COO of Waterton Residential, which operates about 15,000 units nationwide.

“Now that the West Loop is further developed, we've taken the opportunity to take the same retail component and have it face outward,” he adds. This not only serves the residents but also the surrounding community, which in turn, Lozinak notes, “will offer better-quality products and services to [the] residents.” Of course, Lozinak adds, redevelopers may sometimes run the risk of “over-improving the existing product and shooting too high for the type of potential resident [they're] trying to attract.”

In every instance, though, industry experts point out the importance of selling value. “We sell value as opposed to selling an apartment or selling a lifestyle,” says Gallagher. Polinger Shannon & Luchs Co. presents a card of line-item costs to each prospective resident that demonstrates the cost-savings of living in an older community versus living in the new product.

Even when the economy turns, many in the industry believe that people will continue to seek out value, keeping an eye on their pocketbooks more than they may have in the past. And, Gallagher adds, resident negotiations are more prevalent today than they were five years ago.

## Creating value through customer service

While residents may purchase homes and transfer jobs to another locale, much of retention is controllable. According to the latest NAA Survey of Operating Income & Expenses, average industry turnover rate was 57 percent. At the same time, only 12.7 percent of residents said they weren't likely to renew due to relocation, while 11.7 percent reported that they were purchasing a home, according to Doug Miller, founder and president of SatisFacts Research LLC. That means that 32.6 percent of residents are leaving for controllable reasons. In fact, value and service delivery were the top-two reasons that residents gave for relocating.

The key, then, to preventing residents from moving to a newer community is focusing on customer satisfaction.

“If you really want to be competitive with the new product, you have to dif-

ferentiate yourself by service level. The new product may be able to fill their community quickly, but are they going to be able to hold onto those residents?" asks Jen Piccotti, vice president-consulting services at SatisFacts Research.

One of the keys to success is focusing on work orders and ensuring that they are resolved quickly and correctly. It is critical for communities to have fully staffed maintenance teams that have the proper training and tools to resolve the most common issues. Additionally, because many service requests are called into the office, the leasing staff needs to understand how to take a detailed and thorough service request, explains Piccotti.

Because an older property often tends to have more maintenance needs than a brand-new community, work orders must be a priority for the entire team, says Miller, who points out that "the percentage of residents with outstanding maintenance issues has a direct relationship with satisfaction, and satisfaction has a direct relationship with renewal likelihood."

Waterton's Lozinak agrees. "If you're not taking care of your residents ... they'll just turn around and leave. On the other hand, if you are taking care of your residents, if you're creating a sense of community, a sense of home for them, even though a newer property might come up on the other side of town ... they will stay put."

Drucker & Falk's Haefner agrees. "Service is the number-one consideration for us," he says, adding that his company, like many others, has an internal process that includes touch points throughout the lease period whereby management reaches out to residents to find out whether they are happy at the community, whether they are thinking about renewing and what, if anything, management should be doing differently. The company is also getting ready to implement a survey process for prospects and their leasing experiences. "If it's a great place to be and you like everybody you're with, why would you even want to look in the first place?" he asks.

And when it comes time for renewals at a Polinger Shannon & Luchs Co. community, residents don't simply receive a rent-increase letter; rather, "We ask if they'd like to come and talk about where they are in their future plans and [let them know that we] want to make sure that we're included," says Gallagher. "The company asks, 'would you come and talk to us?' or [says] 'we'll come and talk to you.' We make it less onerous." MHN

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## Increasing Perceived Value to Increase the Bottom Line

Over the past two years, the percentage of residents who said they are very likely to renew their leases has grown by about 6 percent, reports Doug Miller, founder and president of SatisFacts Research LLC. "That's by focusing more on what really matters," he points out.

According to the 2010 SatisFacts Index, 22 percent of residents want to be able to communicate with management staff from 7 p.m. to 9 p.m., while about 20 percent want to communicate with staff from 7 a.m. to 9 a.m., Miller adds. At the same time, about 12 percent of residents want to have 24/7 access to management.

In fact, the communities that are most successful in retention, says Jen Piccotti, vice president of consulting services at SatisFacts Research, are those that are constantly in touch with their residents, and are focused on key events in the resident lifecycle.

This commitment, adds Miller, needs to be supported by technology. Resident portals are crucial, he adds, but they must have the functionality to submit work orders online, and residents need to have the ability to pay rent online. What's more, there needs to be a place where residents can communicate directly with management.

While Miller doesn't dismiss the fact that older product has the competitive advantages of size, construction quality and oftentimes, price, they do "have to work extra hard because of the sex appeal of new product."

Despite this, older properties often score higher than new Class A properties in customer satisfaction on SatisFacts surveys. While "the new product can wow with sizzle, the old product can wow with heart and soul," Miller points out.

Many of these older properties, says Piccotti, "have a real commitment to a culture of responsiveness. ... They know their residents; they are responsive. They return calls and emails quickly. All of those things create value because it's all about how easy is it to live [in a particular community]."

And it's not just added value to the resident. In fact, Miller points out, focusing on what matters most to residents and having a culture of responsiveness pays big dividends. He shared that SatisFacts clients' average turnover rate is nearly 10 points lower than the industry average; that, plus the \$4,166 price tag for an average turn, translates into a 5,000-unit portfolio increasing its NOI by \$1.9 million.

