

Multifamily Property Management—Truly a New Paradigm

(As seen in Multihousing News Online: October 08, 2009)

By Matt Slepín, Terra Search Partners

Fifteen years ago, we were in the midst of the last big recession. At the time, I was the executive director of the Multifamily Housing Institute, which was an industry-wide effort to help pull the apartment sector out of the doldrums through information sharing and transparency. Then, as now, the crisis was caused both by the general economy as well as illiquidity in the financial markets. Today, however, the multifamily sector is light years ahead of where we were in the last go-around. This time, the major players in our sector, mostly REITs, are fueled by stable capital structures, but, more importantly, by operating platforms with a scale and sophistication unimaginable fifteen years ago.



The last recession killed the large syndicators that had dominated the business in the eighties; they were replaced largely by the REITs, many of which IPO'd, out of necessity, in that timeframe, including EQR, AvalonBay, AIMCO, Camden and others. Leading the charge, Sam Zell articulated EQR both as a mutual fund-like investment and the proving ground where real estate as an investment would be transformed by his company's size and scale. At the time, the size and scale argument was science fiction. Today, that promise is finally a reality due to operating platforms that combine the benefits of technology with the organizational critical mass previously unattainable in the real estate industry. To help understand this change, we spoke to several of our friends in the business, who have been leading the charge at some of the larger REITs.

First let's consider the broad impacts of technology, without which this transformation would not be possible. Think of specific areas where technology has transformed the operating side of the business—yield management, resident screening, procurement, online apartment finders, maintenance scheduling, online rent payment, accounting, talent management, training and call centers—and you will get a sense of both the breadth and depth of technology's impact on the business.

These technologies were non-existent, or in their infancy, fifteen years ago, but today dominate and have indeed transformed the business in each component part. Take, for example, yield management. Camden was an early adopter. Per Ric Campo, coming out of the dot-com recession, Camden was “able to pick up 300 basis points more in yield in several markets that their competitors didn't get, due to yield management.” He says, “yield management empowered our site employees to pop rents much further than budget or what felt comfortable to on-site personnel.” Now, yield management, once available only to the largest firms, is quickly becoming an industry standard.

Technologies alone do not make a difference, which gets to the more important point—these companies have developed sophisticated operating platforms enabled by the adoption of these technologies. Ed Lange, chief operating officer of BRE Properties, says that his company has “leveraged these technologies to redesign the core processes of our business, advantages that used to be available only to Fortune 1000 companies.” Per Lange, this has required “changing decades of behavior through a command and control structure in what was traditionally a highly decentralized business.”

One not-so-obvious point is that the change of ownership structure itself has been an enabler. Per Leo Horey, who runs operations for AvalonBay, “the REIT structure consolidated ownership and gave unilateral control” in what had previously been a “fragmented portfolio due to a combination of third party management and different partners on different deals.” This change enabled the leap to a unified business platform where “you can develop and control the overall structure centrally and make decisions based on what is in the best interest of a group of properties as well as the platform itself.” The benefits of size, scale and centralization have clearly followed this fundamental structural change.

Fred Tuomi, who runs property management for EQR, points out, “the massive retooling of our platform has affected all aspects of our business and was luckily completed well before the downturn.” Tuomi points out is that this new operating paradigm has refocused his energies from “running the real estate to a deeper focus on customer experience.” Lange echoed this point for BRE. “We no longer have an administrative function on site—that is all handled corporately. Now, all of the onsite staff focus is on the people side of the business – customer service and handling maintenance requests, as well as leasing.”

With these structures and technologies, transparency is the watchword and it affects both the operating company as well as the consumer. Corporate leaders have information at their fingertips and prospective tenants are more often highly educated consumers, particularly on pricing. Per Tuomi, “in our business, you can now measure everything.” Lange made a similar point—“quality and consistency is our mantra.” This might have been the mantra even fifteen years ago, but could never have been delivered—today it can be reality.

This has all had a significant impact on the human capital side of the business. Tuomi spoke about placing a much greater emphasis on “property management as a people business” now that his firm is able to focus more on “customer experience.” Horey points out that due to the emphasis on information as a key driver of management decisions, “the regional and district managers we are hiring today have quite different profiles than historically.”

The industry is transitioning to employees—at the site level as well as multi-site personnel—with the sophistication and training to use these new systems and the wealth of information now available (at the site level) to make key decisions (at the management level). These employees also need a whole new level of organizational support, from ongoing training to sophisticated IT staff to a different type of management team.

An example of how far we’ve come is that, several years ago, Camden set a goal to become recognized as one of Fortune Magazine’s “100 Best Companies To Work For.” This was an audacious goal in an industry that is known more for deal making than culture. Camden has made

the list in both 2008 and 2009. Campo is proud of this accomplishment, but is not sure whether or not this translates into a stock price premium. However, at the time of publication, Camden has among the best returns in the sector for the year, so maybe the market is indeed now taking this into consideration.

The apartment industry is still stuck in this recession and suffers along with everyone else, even if we are in better shape than the other sectors of commercial real estate. However, the combination of these new powerful platforms and positive demographic trends paints a positive picture several years out. One silver lining, especially for the bigger players, may be a new wave of consolidation in the sector. Lange views these investments in sophisticated operating platforms and increased efficiencies as a “classic consolidation model where platforms that solve for operating leverage will be the winners going forward” in the industry. In many respects, it is indeed ‘90s redux, but this time, the likely winners will have both unassailable balance sheets and world class operating platforms.

Matt Slepín is managing partner of Terra Search Partners, a San Francisco executive search and human capital consultancy focused on the real estate industry. Prior to his search career, Slepín was executive director of the Multifamily Housing Institute in Washington, D.C.