KEYNOTE INTERVIEW

Creating efficiency in US multifamily

The pandemic has opened investors' eyes to how technology can drive performance across residential portfolios, argue Yardi Systems' Richard Malpica and Michael Tuer

Multifamily housing has garnered increased investor interest and higher pricing in the pandemic. But for apartment blocks in some of the biggest US cities, the crisis has hit occupancy and dampened rental growth. Michael Tuer, vice-president and general manager western US, and Richard Malpica, vice-president and general manager for the eastern region, at property management software provider Yardi, talk to *PERE*'s Stuart Watson about how institutional owners can utilize technology to squeeze more value from portfolios despite problematic market conditions.

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Q How has covid affected the US multifamily market?

Michael Tuer: In the western US, people are moving out of cities like San Francisco, Chicago and Los Angeles. Covid seems to have led to an increase in homelessness and crime, and they are a little nervous about what's going on, so they're moving to the suburbs.

High-rise developments in city cores are out of favor. Owners of those assets are very cost-conscious because occupancy is down. But garden-style multifamily assets in the suburbs seem to be thriving, and some states like Texas and Arizona are doing well out of the exodus from cities with higher state tax rates. In Dallas alone, around 40,000 new multifamily units are scheduled to be built in the next few years.

Richard Malpica: Multifamily in general has thrived because people's homes have doubled as their workplaces. The notion that they don't need to be near the office and can work from anywhere has opened up new markets. There are some locations along the US East Coast, such as Florida and the Carolinas, that are flourishing due to that, and because they have not seen strict lockdowns imposed.

But the most obvious negative impact has been in the urban core of New York City. Manhattan, historically a market impervious to economic upsets, has been decimated. It remains

Analysis

very uncertain when we will see people returning to work there five days a week and going to Broadway shows or to the movies. The things that attract people about city living are not happening right now. Our clients that manage multifamily property have struggled to maintain occupancy levels, and the expected trajectory for rents for the next 12 to 36 months is not very buoyant. In the meantime, many owners are asking how they can squeeze more yield out of assets by driving down costs.

Q How are investors in the sector employing technology to help them do that?

MT: Multifamily owners and operators are trying to make more efficient use of their resources and avoid hiring more people. They're using automation to backfill jobs that humans would have been doing. For example, they're using tools such as chatbots to answer potential new renters' questions, and get the prospect on the hook, instead of a leasing agent or salesperson.

RM: An interesting outcome of covid has been the expansion of touchless provision of conventional property services: leasing, paying rent, getting a faucet fixed. Leasing workflow is an area where multifamily managers are leveraging technology that we're providing. The entire process from searches, through virtual tours, identity verification, credit check, lease execution and move-in can happen without the tenant being with anyone else in person. Many more property tours are now self-guided or virtual. The prospective tenant gets a code that they can punch in to access the property, and then walks around with a chatbot answering their questions on their cell phone. The landlord does not actually need a person on call, and it has the added benefit of allowing them to do business outside of office hours.

Electronic marketing spend has expanded exponentially and those that do it well really leverage it. Landlords no longer put a six-story sign on the property and buy a newspaper ad. We're in the world of pay per click and search engine optimization, internet listing services, organic web interest and nudge marketing. They want to spend on the marketing channels that give them customer acquisition at the lowest price point, and they need a platform and an ecosystem to see how that plays out over a whole customer journey. Analyzing that spend is a huge driver of net operating income.

Q How else can landlords leverage data to drive net operating income?

RM: Covid has accelerated a paradigm shift that's been going on among institutional owners for some time. They're recognizing it's no longer enough to have an operator providing a report every month or two. More direct oversight is needed to really squeeze the yield on these assets.

Our customers represent roughly 50 percent of the US multifamily market. We're holding data for about 12 million units. The ability to anonymize that and massage it in a way that is aligned for comparison purposes drives efficient asset operation. Most forward-thinking institutions are creating a common platform to manage units across their portfolio, and demanding that operators use it. They want to look across their portfolio and see risk. They want to be able to see vacancy by region. They want to understand the human capital to unit ratio – and to understand which of their operating partners and fee managers are operating their assets more efficiently.

Owners have the information, so they no longer need to ask their managers what's going on. They're able to look at a metric like unit availability over the next 90 days and say: "We see a problem. What are you doing about it? Are you spending more on marketing?"

> *"Many owners are asking how they can squeeze more yield out of their assets by driving down costs"*
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> RICHARD MALPICA

Tuer: Visibility of real-time data lets owners look into the future and get ahead of the curve, and they're asking for the tools to do that. And it's not just data on how their own assets are performing. It's also data on how their assets are performing compared with those owned by competitors. They want to benchmark against what they're achieving, and not just for the usual things like occupancy levels and rental rates, but on the expense side, too. What are their payroll or maintenance costs? How quickly are they turning around vacant units?

RM: That analysis has gotten really granular. For example, owners are now realizing the importance of managing the unit turn process. When a unit becomes vacant, the manager will do things like change the lock, repaint and clean the stove. Then it is re-let. Some of these institutions own more than 20,000 multifamily units, and they've begun to calculate that if they can shave a few days off the turn time, then do the math across the portfolio, that can provide a significant boost to their overall return.

The same goes for the number of people they employ per unit. By implementing a combination of automated efficiencies, we've modeled NOI increases in the range of $100-$150 per unit, per year. In an environment where the trajectory of rents is somewhat suspect, making those efficiencies, while also leveraging the fact that tenants want automation anyway, is a real opportunity to drive performance. Real estate is now stepping into the same world as supply chain management and manufacturing, in which businesses examine their processes in a more granular way. Real estate has been late to the technology game historically, but the pandemic has opened owners' and operators' eyes about how it can help them. Our institutional clients are also realizing this helps to create a distinction for their investors. Where money flows to, and who gets to manage it, will be increasingly connected to the ability to build a platform and demonstrate that all of the vital information is at your fingertips.

MT: That's already caused consolidation in the space. We've seen mom and pop operators getting out of the business because they cannot survive with the margins that they're getting for managing multifamily properties. Their assets are being acquired by organizations that can be profitable, while doing all of the reporting required by institutional owners and investors today.

Q What trends will reshape the multifamily market post-covid?

RM: Operators will have to learn how to engage their customers and establish a corporate identity through the use of technology. As the generational demographic changes, if the customer cannot find your site on the web and get a rich experience on their phone, that would be a risk for owners and operators of every size.

MT: Branding will become more significant, like it is in the hotel sector. With the consolidation we are seeing, some of the larger operators are already aiming to make sure that when their customers relocate from one of their properties in San Francisco, for example, they will want to rent at another of that operator's communities in Arizona, because they have had such a great experience of the brand. ■

The rise of single-family housing

Covid and technology have driven investor and renter interest in the sector to new heights, say Yardi's Malpica and Tuer

RM: We've seen a lot of institutions stepping into the aggregation of single-family rental properties recently, and the more dispersed and distributed the assets in a portfolio, the more technology becomes essential. That aggregation strategy doesn't work unless there is a technology platform to manage activities like leasing, maintenance, taking payments, smart home appliances, smart locks and thermostats.

MT: We're starting to see institutional players building complete communities of single-family rental homes. Technology like GPS has enabled that because it allows leasing and maintenance people to schedule their appointments across a whole region. Meanwhile, in the pandemic, the use of touchless technology, such as smart locks, which is also an enabler for more efficient single-family operations, has become more commonplace.

RM: Single-family investors are responding to increased demand. Covid has driven the market for single-family homes because people have realized they don't need to work from home in their small apartment in the city; they can be anywhere.

MT: Remote working is playing a big part in the single-family trend. And after covid, many renters no longer want to live in a high-rise. They want a backyard where they can barbecue. But there's also a longer-term shift at play. Even before the pandemic many millennials did not want to be tied to a single location by buying a property, and they increasingly prefer to live in houses, not apartments.