

Revenue Management Case Study

Bridge Property Management achieves
spectacular ROI with Yardi RENTmaximizer



Bridge Property Management acquired and successfully rehabbed, repositioned and sold two properties in two different regional markets for a remarkable return on investment using Yardi RENTmaximizer for revenue management. RENTmaximizer provides advanced metrics and unique tools that informed the management decisions and enabled the processes that contributed to that success.

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The company



Bridge Property Management is headquartered in Salt Lake City and manages a portfolio of roughly 30,000 multifamily units, along with affordable housing units and about 1.5 million square feet of commercial space. Bridge Property Management has overseen more than \$4 billion in investment properties over the past 25 years for large and small real estate investors.

Bridge Investment Group, the investment arm of Bridge, is currently one of the 50 largest owners and operators in the country. Bridge's private funds have consistently been top performers as ranked by Preqin.

Tim Reardon is Director of Revenue Management for Bridge. Reardon has overseen the growth of total units under revenue management at Bridge from approximately 6,000 to more than 25,000 in fewer than three years.



The challenge

Acquiring two properties around the same time with various rehab needs in two hot markets — Denver and Portland — presented Bridge with value-add opportunities requiring careful planning and execution to achieve its financial goals within the target disposition timeframes.

Bridge's approach to property improvements is based on three different tiers of upgrade (minor/light, medium/partial, high/full), always with a focus on adding value. The three tiers take existing residents and occupancy goals into consideration, with low to medium to high price points corresponding to the same upgrade levels. While the expectation is that occupancy will drop in the first year of a significant renovation, the objective is always to rehab vacant units while allowing for reasonable fluctuations in occupancy while a property is undergoing work.

Denver

In the rising Denver market, Bridge completed its acquisition before the upswing. Bridge purchased a large garden-style apartment community built in the 1970s that needed 100% interior rehab, exterior rehab and significant resident reposition. While the timing was good for turning a profit, it was clear, according to Reardon, that Bridge was not taking full advantage of the market on its upswing without an integrated approach to revenue management.

Portland

In Portland, the market was already on the upswing when Bridge completed its acquisition. As a result, Bridge paid a premium price for the property (unlike the early opportunity in Denver). However, the Portland property was almost 70% renovated upon acquisition, and only required final touches. This work was considered to be more of a polish — but still with a focus on optimizing value.



Desired outcome

For the Denver and Portland properties, Bridge identified its desired returns for investors as follows:

	Denver	Portland
Pro forma rent	\$648	\$891
Target rent at sale	\$811	\$1,030
Sale target	5 YEARS	3 YEARS
IRR target	24.50	18.97
Target rehab growth	12.8%	8.0%
Target total market growth	14.2%	7.2%
Target multiple	2.78	1.65

The properties were selected according to their potential to earn better revenue through various degrees of interior and exterior rehab and strategic rental pricing, in addition to increased valuation to position the properties for profitable dispositions — within three years for Portland and within five years for Denver.

To help Bridge achieve its goals for both properties, it relied on a well-informed and clear revenue management strategy. Bridge's understanding of the needs of its residents and investors, with management expertise that reflects those commitments, is another factor that contributed to successful outcomes for all stakeholders.

The solution

For an integrated and transparent revenue management solution to help Bridge increase rental income and asset value, Bridge chose RENTmaximizer. Built into the Yardi Voyager property management and accounting platform, RENTmaximizer is designed to maximize revenue by targeting the specific goals for each asset, and optimizes performance using real-time traffic, inventory and market conditions.

Visibility

RENTmaximizer provides complete visibility into rent movement and financial and operational performance, and helps clients know their market – including every comp and how they compete. And because it's built into the mobile Voyager platform, RENTmaximizer can be accessed from smartphones and tablets, using any browser.

According to Reardon, having accurate insight into Bridge's operational data, including inventory along with market information and area comps provided by RENTmaximizer, provides a true competitive advantage.

Control

RENTmaximizer provides unique control that enables clients to adjust and fine-tune the system according to business rules and specific financial goals. For managing investment properties as Bridge does, that control can be critical to achieving a successful internal rate of return (IRR). In simple terms, RENTmaximizer allows revenue managers to be "in the driver's seat" with pricing. For example, if you're not where you want to be, you can adjust rates to increase occupancy and prepare for an imminent sale. With "black box" software that does not provide transparency or control, clients are only able to set target occupancy thresholds for pricing.

Reardon elaborated, "With RENTmaximizer, there's a huge benefit of control – you can tailor the system according to how aggressive you want it to be in any direction. One of the main reasons we chose RENTmaximizer is that we can get great long-term growth along with daily

incremental growth, without big price swings. We test the market on a daily basis, and we know precisely why the system is moving pricing on a daily basis."

"With RENTmaximizer, there's a huge benefit of control – you can tailor the system according to how aggressive you want it to be in any direction."

Tim Reardon
Director of Revenue Management

For short-term holds, Reardon commented that the need to reach a certain revenue and occupancy to get to a specified goal is crucial. With RENTmaximizer, Bridge can determine exactly where it needs to be a certain date. Bridge knows how it wants to run a property, where the soft spots are and what the market should be giving. Additionally, the buyers want to see certain numbers. With renewals on short-term holds, well-priced leases deliver what Reardon refers to as a "win-win."

Support

Working with the dedicated revenue expert included with its RENTmaximizer license gives Bridge the benefit of communicating feedback to make the system work even better for the company. Bridge is able to work with the RENTmaximizer team to add and configure parameters to help Bridge refine data according to its revenue and occupancy goals.

The process

With a focus on preserving existing occupancy, Bridge performed rehabs on units as they became vacant. For both properties, Bridge did primarily cosmetic capital improvements, without tearing down walls or adding new buildings to either property.

Rehab

In Denver, the pro forma projected 100% rehab of at least one of its three different levels of rehab (minor, partial, full). However, Bridge discovered it was getting higher returns on the classic units that didn't need rehab money put into them. As a result, Bridge painted, added new amenities including a clubhouse and ended up renovating fewer than half the units.

In Portland, 70% of the units were renovated upon acquisition and only required some finishing touches.

RENTmaximizer proved to be an extremely helpful tool during the rehab process at both properties, providing flexibility and insight to guide Bridge to its revenue goals. According to Reardon, "The controls over the daily pricing movement really are the biggest positive with RENTmaximizer. We know when we're going through a rehab that we're not going to see huge swings in price from one day to the next; we know out of the gate what a rehab should fetch versus a classic unit to some degree. But the info we get on a daily basis gives us better insight as to what those upgrades could ultimately bring in. If your rates can frequently move \$50-\$100 overnight, you lose any continuity as to the data you are gathering."



Pricing

When Bridge sold the Denver property it had high occupancy. Reardon elaborated, "We could sell the fact that there was a lot of 'meat on the bone' with occupancy, and with renewals coming up, it was easy to sell a rent lag." Reardon further explained that Bridge continued to get back-end rents up and achieved unusually rapid growth rates – compared to the typical scenario where it takes up to two years to get rates up to market expectations. Reardon claimed that "Bridge got the rates up faster. We were picking up actual dollars versus hypothetical dollars."

"That's what having a dedicated revenue team can do for a company – offer a better solution to what it's doing on a daily basis."

Tim Reardon
Director of Revenue Management

With the Portland property, Bridge could pick up the back-end rents close to market and see where the rents were and what the growth assumption would be for the next year given the asking rate.

To get through the rehab process with operations running smoothly at both properties, Bridge relied on the seamless integration of its property management, accounting and revenue management data. Reardon commented, "We use Voyager and RENTmaximizer and the data matches. The reporting tools are impeccable. To ops and senior management, there's really no gray area – the numbers match up, are auditable and easily explainable. And that gives management visibility to make solid decisions and predict what is going to happen next."

With RENTmaximizer, Bridge's revenue team can "push" the property sites with a better understanding of the market, and knowing what the market will provide. Bridge can practice checks and balances – knowing when it's doing ok, and when there's more out there. Reardon asserts that smart revenue management means knowing when not to try to get too much on a turnover if the market is going in a different direction (which exposes you to vacancy loss). Bridge's site teams normally are instructed to stick to the budget with respect to the market. But with RENTmaximizer, Bridge is positioned to outperform, and can understand the market and how to be nimble with it. Reardon added, "That's what having a dedicated revenue team can do for a company – offer a better solution to what it's doing on a daily basis."



The results

Bridge experienced rapid growth at both the Denver and Portland properties. In fact, growth was so fast that there was no upside to holding the properties given Bridge was working out of an investment fund where the IRR is the most important number.

Beating the market in Denver

Within 30-60 days of implementation at the Denver property, RENTmaximizer provided a positive impact on Bridge's financials — enabling Bridge to take complete advantage, even given tight occupancy, of a market that was moving in the right direction.

Even though Denver became, in Reardon's words, "a raging market," Bridge still succeeded in beating the market. Using RENTmaximizer, Bridge got the rents to an in-place level where every single rent on the property was above the rising market rent, which brought significant growth.

Almost all capital was returned by the end of the second year, and the property was sold for better than a 260% gain over the purchase price.

Beating the market in Portland

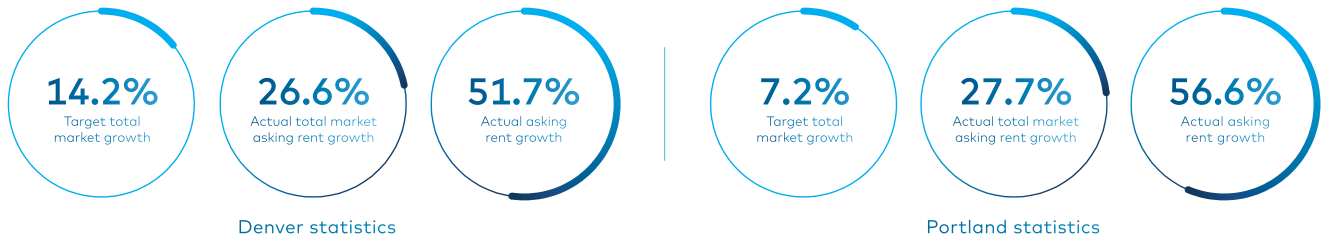
Actual market growth for the Portland property was similar to the market growth. However, in the 2.5 years Bridge held it, it raised asking rates significantly higher than the market did. In terms of actual growth, there was room left between in-place rent and asking rent at the time of the sale, which was sold as a great benefit to the prospective buyer.

For actual growth, Reardon explained that you assume 8% from rehab so beating the market by several points is very good if you're in a rising, aggressive market. You typically have a lag in how fast you can raise in-place rents versus asking rents, so you are in fact ahead of that rent.

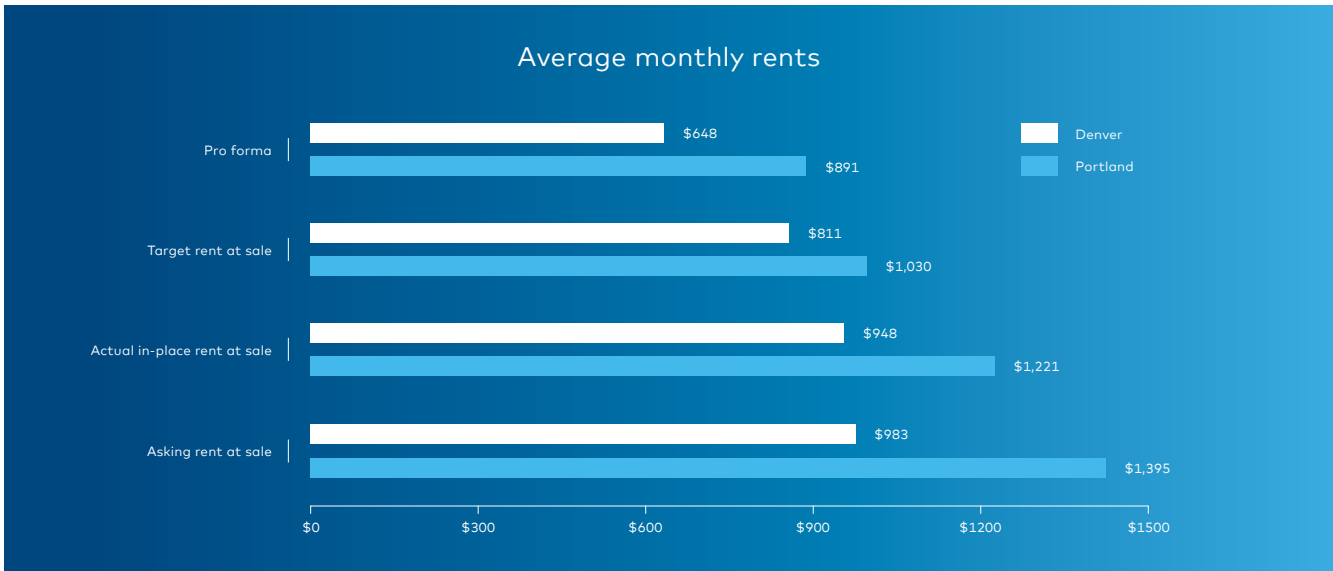
Reardon commented on the highly successful sale of the Portland property, "There is typically a lag in how quickly you get the back-end leases up to market. While keeping tight occupancy, we were able to methodically raise asking rents to the tune of 46.3% with RENTmaximizer versus a 26% market. This is a massive number to beat the market by." Bridge was able to get the renewal rents up to market as well, and came in \$190 above the target in-place rent for the property's sale — six months sooner than was planned. This represents a huge increase on what a rising market would typically provide for in-place rent.

When asked if RENTmaximizer also helps Bridge attract new clients, Reardon replied, "Investors have confidence when they see proven returns. So to the extent RENTmaximizer facilitates successful returns, it does help to attract new investors based on those results. Clients recognize that Bridge has a great sense of value add and excellent expense control. With impeccable research and a solid operational platform — that is the combination of talented people and reliable Yardi software — Bridge optimizes performance across its portfolio."

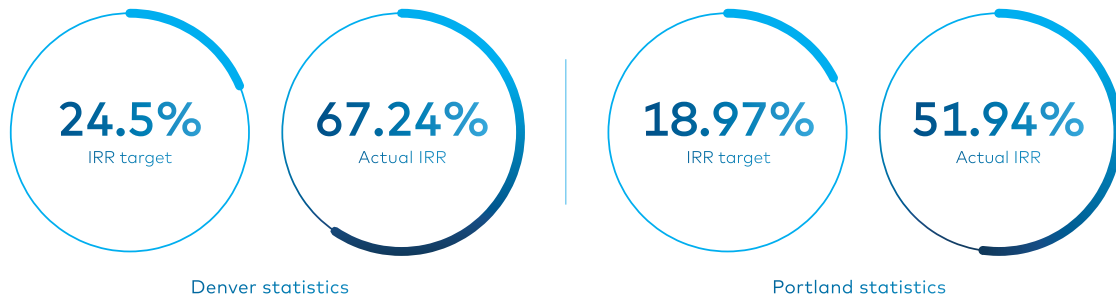
Growth comparison



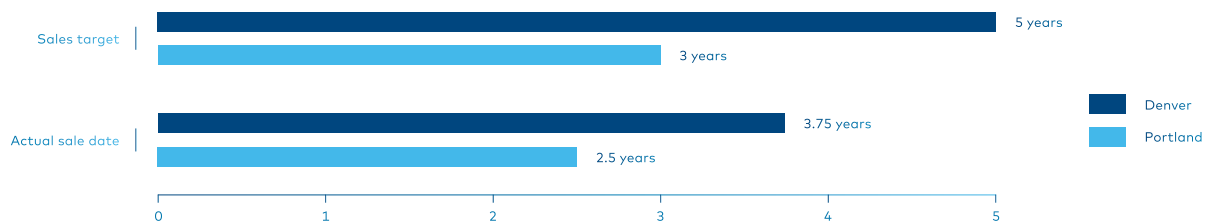
Average monthly rents



Internal rate of return



Disposition time



After successful dispositions, the subject properties are no longer under Bridge's ownership. Photographic images are included for representational purposes only and do not depict the actual subject properties.

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Organizations like yours have been using our proven
and mature software with confidence for decades.



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