Retain & Gain

By Doug Miller and Jen Piccotti

Because the majority of turnover is controllable, adjusting the industry's focus to what matters most to residents will help reap clear financial rewards.

After conducting research with residents from more than one million apartments nationwide, SatisFacts has compiled a database of findings from annual, move-in, work-order follow-up and pre-lease renewal feedback programs which provides an empirical test tube from which to review retention. This data permits SatisFacts to evaluate the critically important areas of retention and turnover, revealing which beliefs and practices are valid, which need to be questioned and on which issues the apartment industry should focus.

Because the majority of turnover is controllable and service delivery by apartment community office and leasing staff has a significant impact on renewal decisions, discovering how to adjust the industry focus to what matters most to residents will reap clear financial rewards. Because each move-out costs between $3,000 and $6,000, controllable turnover cannot be overlooked: a 5,000-apartment portfolio that reduces turnover by 5 percent will grow net operating income (NOI) by $750,000 to $1.5 million.

Some say that retention is less important if a community currently is increasing net effective rents. Unfortunately, this is not the case. If net rents have increased $25 for new residents, the payback period to recover the $3,000 to $6,000 NOI hit is 10 to 20 years.

Following are some myths and realities of retention:

Myth No.1: The resident is No. 1.
Reality No.1: The owner of the asset is No.1.

The way to take care of No. 1—the owner—is by treating residents like they are the community's priorities. This is not intended to sound harsh; everyone wins when everyone understands that the community's goal is to retain residents longer. By doing so, any hit to the bottom line because of turnover is delayed.

Myth No. 2: Most turnover cannot be controlled.
Reality No. 2: More than 60 percent of turnover is controllable.

Although home buying and relocation are issues, these typically account for less than 40 percent of turnover, according to the SatisFacts Index. Dissatisfaction, driven by poor communication between residents and office staff—especially regarding service needs, service updates and follow-up—and between the office/leasing staff and maintenance teams (thorough work orders, regarding delays, etc.), drives controllable turnover.

Powerful correlations exist between maintenance issues and satisfaction and between satisfaction and renewal likelihood—and service delivery dissatisfaction negatively impacts perceived value.

Myth No. 3: Typical soft marketing-related resident retention programs and events have a positive impact on turnover.
Reality No. 3: These programs are not effective, according to the 2003-2007 NAA Income & Expenses Surveys.

NAA's annual survey shows turnover has remained high and flat for the past five years, in the 61 percent to 62 percent range. Service delivery education, improved communications with residents (in particular during key touch points), a greater focus on work-order management by the office and leasing staff and ongoing resident feedback programs lead to lower-than-industry average turnover rates. At a cost of $3,000 to $6,000 per move out, reducing controllable turnover pays off in increased NOI.

Myth No. 4: Social activities, newsletters and move-in gifts are important retention program components.
Reality No. 4: Work-order performance and communication, not soft marketing programs, drive retention.

Nothing impacts retention more than service delivery; more specifically, work-order management and related communication drive retention. Soft marketing programs have a minimal impact on retention. Such programs are wonderful as icing on the cake, but it is a mistake to let these programs become a distraction from delivering high-quality service. Can time and funds be better allocated? Absolutely, with a dramatically higher return for anything related to work-order management and communications.

Myth No. 5: The goal of retention programs should be to increase satisfaction.
Reality No. 5: Minimizing dissatisfaction is the key to increasing retention.

A resident retention program's primary goal should be to minimize dissatisfaction in the areas with the greatest impact on renewal likelihood. A SatisFacts analysis revealed that how the office handles work orders and communication between the staff and residents have the strongest relationships with retention and the strongest impacts on renewal likelihood. The top four areas ranked relate to office staff performance during service deliveries. Residents might not notice a job well done, but they certainly remember negative experiences. So, staff members must focus on minimizing dissatisfaction and, when bad experiences occur, the office needs to deliver a remarkable recovery.

Myth No. 6: Residents move because of rent increases.
Reality No. 6: Residents move because perceived value has diminished.

Do residents move because of rent increases? Although such cases do exist, the issue often is that residents no longer see the value in living at that community. This happens because of perceived staff disinterest, poor service, unresolved issues with their homes and apartment wear and tear. Why should residents accept increases if they do not feel they are getting their money's worth? This is even more of an issue if neighboring communities are posting banners that promote newly renovated apartments and specials.

Myth No. 7: A leasing consultant's job is to follow up with prospective residents and lease apartments; work orders are of secondary importance.
Reality No. 7: More than 50 percent of a consultant's time is spent serving residents, so more focus is needed on work orders.

Who is more important: a prospective resident who has made no financial commitment to the community or a rent-paying resident? The answer is obvious. Service typically begins and ends with the leasing staff—they take the majority of work orders. Therefore, more focus is needed in areas that drive renewal likelihood. The SatisFacts analysis showed "follow-up on completed work orders" rated as having the second-highest impact on renewals; just because a work order is entered as "completed" does not mean expectations were met and that the resident is satisfied. Additionally, according to the metrics SatisFacts' Index monitors, this type of follow-up is the area where the industry performs worst. Work-order follow-up must be treated as at least as important as follow-up with prospective residents. The missing link in most leasing staff education programs often is about what drives NOI, the role work orders play in retention and NOI, the leasing staff's critical role in the work order process, what is needed to improve work order submissions and the need for communication with residents throughout the process.

Myth No. 8: Communities communicate with residents.
Reality No. 8: The typical community struggles to communicate with its residents.

Good service is dependent on a community's ability to communicate, and the key to being able to communicate is having current contact information for residents. However, the typical apartment community has only home phone numbers and e-mail addresses for 50 percent and 15 percent of its residents, respectively. Of those, many are out of date. The norm is that leasing consultants load contact information for move-ins from the application. But what if the resident moved from another area or changed jobs? In that case, even if contact info is loaded, it often has changed and no longer is valuable. Because there is a direct correlation between current phone and e-mail coverage in the system and satisfaction scores, staff should check contact info at move-in and during every communication with the resident. If something has changed, it immediately should be entered into the system.

Myth No. 9: The industry's accepted norm of one maintenance technician per 100 units is sound.
Reality No. 9: That ratio presents a risky situation during turnover season, which begs for seasonal support staffing.

Heavy make-ready efforts and work orders compete for staff attention during the rental season, which also is when most leases expire. Given the impact outstanding issues have on dissatisfaction and retention, this means work-order delays can occur at the worst time—when rent increase letters are sent. To limit exposure to dissatisfaction at renewal time, focus on work orders and outstanding maintenance problems prior to and during the heavy rental and expiration seasons. A clear return comes with hiring seasonal maintenance tech support. Reallocating $4,800 from low return on-investment soft-marketing programs permits for hiring a part-time tech for 320 hours (20 hours/week) prior to and during the expiration season.

Myth No. 10: Renters, especially in C-class communities, do not use the Internet.
Reality No. 10: Computer use is high among all demographics, according to the 2006 NMHC/ SatisFacts Resident Tech Preference Study.

When this national preference study was conducted a year and a half ago, 78 percent of residents from A, B and C-class communities reported using a computer at home. Regardless of home usage, 74 percent reported they used the Internet at least one day a week at work. In other words, the vast majority of all residents have access to the Internet. What are the implications? Communities should have portals that include online functionality for work orders, rent payment programs and the ability to communicate with the staff. SatisFacts' research shows these opportunities are highly desirable.

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