

WHITE PAPER:

Independent International  
Consulting Firm Validates

Archstone's Increased Revenue  
Per Unit While Using

Level One's Central Leasing Office

and

Rainmaker's  
LRO Revenue Management  
System

FEBRUARY 2010

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## Executive Summary

In 2009, a top-tier international consulting firm reviewed a nine-month test of the financial impact of the Level One Central Leasing Office ("Level One") in conjunction with The Rainmaker Group's Lease Rent Options ("LRO") revenue management software at Archstone Communities.

The validating consultant is one of the world's leading business consulting firms. Their core consulting competencies include growth strategy, performance improvement, customer strategy, change management and information technology. Archstone Communities ("Archstone") sponsored the consultant's analysis and validation of results.

### *Test Results at a Glance:*

- LRO and Level One captured, analyzed and converted new incremental leads from existing marketing sources – no new marketing was purchased – into an expanded demand curve. This expansion of demand translated into higher asking rents and higher revenues per unit;
- Level One and LRO turned increased demand (prospect guest cards) into a 1.5% lift in revenue per unit vs. an incremental annual cost of \$9,600 per property;
- Extrapolated to typical portfolios, Archstone's results could mean an additional \$45,000 - \$67,500 in annual revenue per property or potentially millions of dollars annually per portfolio;
- The test results contradict traditional industry thinking which has held that new or excess demand in fully occupied properties is wasted because the property has no ability to raise rents in a competitive market. This results show conclusively that with sufficiently granular insight from LRO, Archstone was able to turn incremental demand into higher rents and revenue per unit; and

- NEW DEMAND =  
150 BP OF NEW  
REVENUE PER UNIT

- NO NEW  
AD SOURCES

- IMPLIED ROI ON  
TIMEWISE OF  
460 - 700%

- POTENTIALLY  
MILLIONS IN NEW  
REV. FOR A TYPICAL  
PORTFOLIO

- Level One captured significantly more prospect guest cards than the control properties - while saving time at the communities. This gave Archstone’s leasing professionals more time to handle more traffic and to close leases at the higher rents set by LRO.

### **Test Environment – Archstone, LRO and Level One**

The test was conceptually simple: 20 properties used Level One's TimeWise product where all property prospect phone calls were handled by Level One. The test properties were compared to 20 similar properties that did not use the service. Test and control properties already used Rainmaker’s LRO revenue management system. The test and control properties were located in the Los Angeles, San Francisco Bay Area and Washington, DC markets.



There were approximately 7,200 units in each of the test and control groups. Archstone’s marketing program and lead sources remained constant throughout the test.

#### *Archstone's Portfolio*

Occupancy averaged 93.5% at the start of the test across the portfolio and ranged from 92% - 96%. Rent averaged \$1,852 across this portfolio at the start of the test. There were 360 units per community on average. The test was conducted in a declining rent environment at the height of the recessionary environment from January to early September 2009. The purposes of the test were to determine:

- Level One’s measurable, incremental capture of existing lead traffic;
- Whether incremental or “excess” leads can be converted into higher rents in a revenue-managed portfolio;
- The property- and portfolio-level financial impact of using the Level One and LRO in combination.

Professionals from the independent consultant reviewed the test data and performed the calculations reported from the test.

### *LRO Revenue Management System*

All of the communities involved have used the LRO revenue management system since 2003 or since their acquisition by Archstone. LRO is a state-of-the-art revenue management system built specifically for the multifamily industry. LRO uses advanced mathematical modeling delivered in a hosted application in order to maximize net operating income by:

- Providing discipline to the pricing process and by making pricing decisions the same way, every day;
- Leveraging high demand periods for increased effective rents and rationally responding to softening markets without emotion; and
- Enforcing pricing and optimization compliance across all properties in a portfolio.

LRO's optimization model explicitly factors the prospect guest cards as revealed demand. This data is used in addition to market data, prior year lease data, the lease expiration schedule and other algorithmic factors. Lead traffic data reveals real-time demand. Lead data is electronically ported from the property management system and incorporated into the demand forecast.

### *Central Leasing Office with Level One*

The test properties were supplied with the services of the Level One TimeWise product. TimeWise provides 24-hour a day, seven days a week, phone and email engagement from trained specialists. Their intent is to set up visits and solicit guest cards. This coverage means the phones are answered 98% - 99% of the time. By comparison, typical multifamily communities answer 50% - 60% of calls - as did the control properties in this test. (Although the TimeWise service provides for handling email inquiries, Archstone did not engage Level One to respond to email traffic. Email results are excluded from the results of this test.)

### Archstone's Test Results at a Glance

	UNIMPROVED (CONTROL) PROPERTIES	LEVEL ONE (TEST) PROPERTIES	LEVEL ONE'S IMPACT
GUEST CARD APPOINTMENTS (VS. 2008)	+21%	+ 53%	+26.5%
MOVE-IN RENTS (REFLECTS RECESSIONARY ENVIRONMENT)	-2.3%	+1%	+2.4%
REVENUE PER UNIT	-.6%	+.9%	+1.5%
PHONE CALLS ANSWERED	50 - 60%	98 - 99%	+40 - 49%

### Financial Benefit of Level One in its LRO Revenue-Managed Portfolio

Archstone's test measured the incremental benefits of Level One on a portfolio of revenue-managed properties. Evaluating the cost of Level One against the realized benefits on an annualized basis appears to be the simplest method of creating a useful analysis.

Every company's performance will differ. Below we've created a table that summarizes the expected benefits based on the average rents at a typical property, assuming a similar percentage of lift in revenue per unit.

**Incremental Revenue Created During Test -  
Extrapolated to Sample Properties**

	\$/MONTH	TOTAL MONTHS	\$/YEAR (250 UNITS PER COMMUNITY)	INCREMENTAL GROSS REVENUE
(NOTIONAL) AVERAGE RENT	\$1,000	12	\$3,000,000	\$45,000
	\$1,200	12	\$3,600,000	\$54,000
	\$1,500	12	\$4,500,000	\$67,500

*Assumptions*

Incremental Revenue: the consultant established the differential financial performance at 1.5% or 150 basis points of revenue per unit (RPU). RPU is defined as the average new rent from the last ten leases times the occupancy rate, divided by total units.

Cost: Level One's TimeWise product is priced according to a number of factors including size of property and seasonality. Although this cost ranges from \$600 – \$1,000, for the sake of estimation, we use the average in the range provided by Level One - \$800.

We use a twelve month estimation period because it conveniently accounts for substantially all of the expected lease renewals and new leases at a community. In a revenue-managed environment, renewals are expected to be tracked and brought to market levels at the expiration of the lease period.

**Estimated Return on Investment in Level One's TimeWise**

AVERAGE RENT	INCREMENTAL REVENUE	COST OF TIMEWISE	ROI ON TIMEWISE
\$1,000	\$45,000	\$9,600	468%
\$1,200	\$54,000	\$9,600	562%
\$1,500	\$67,500	\$9,600	703%

Under these types of results, we expect that a 40-property portfolio will see a portfolio-wide net revenue increase of \$1.4 - 2.1 million, net of the cost of TimeWise. From the tables above, readers can easily input their own average rents and number of units to determine their expected impact and ROI on the investment. The return on investment will remain constant no matter the number of properties, but the total revenue impact will hinge in part on the size of the communities as well as average starting rents.

# NEW LEADS = INCREASED DEMAND = HIGHER REVENUE PER UNIT & NOI

## Conclusions and Further Discussion

1. Level One's TimeWise service captured Archstone's significant number of unanswered prospect phone calls;
2. Capturing those calls and converting them into prospects is equivalent to the creation of new leads and new revealed demand from existing advertising sources;
3. The LRO revenue management system translated increased demand into increased rents and higher revenue per unit – without Archstone increasing its investment in other marketing services;
4. Level One's Central Leasing Office is transformative – it takes a low-value repetitive task from the leasing office and maximizes guest card leads – a two-headed efficiency gain; and
5. Archstone's test validates ad publishers and internet listing services that have long claimed that they are delivering far more leads than they "get credit" for. Further education and research are warranted to underscore the marketing dollars that are currently wasted by sub-optimal lead handling.

This test answered the question "what happens if we can generate 'excess' demand for a property." Level One did capture significantly more lead traffic than Archstone. That incremental increase in demand was observable and actionable within the structure of the LRO revenue management system. LRO recognized new demand and increased asking rents relative to the control properties, enabling Archstone to capture the revenue potential as actual new rents.

Archstone's findings of increased revenue per unit contradict traditional industry thinking which has held that new or excess demand in fully occupied properties is wasted because the property has no pricing power in a competitive market.

This test shows conclusively that with sufficiently granular insight from LRO, Archstone was able to turn incremental demand into higher rents. Extrapolated across their portfolio, Level One and LRO will likely generate many millions of additional revenue dollars in the next twelve months from picking up the missed calls and feeding the demand information into the LRO revenue management system.

This test was conducted in a environment of declining rent and occupancy. In future years, readers may fail to remember the daily sense of urgency - even panic - about economic and rental market conditions that pervaded industry thinking. Achieving these test results under these conditions shows the ability of the LRO system to help multifamily owners segment prospects and identify the presence of those with less price sensitivity than the general market. A rising tide lifts all boats, but in tough market conditions it appears as if having the right tools brings in incremental millions in revenue.

## **About this White Paper**

This white paper was drafted with the cooperation of Archstone Communities, Level One and The Rainmaker Group.

Data was provided primarily by Archstone Communities, with assistance from The Rainmaker Group and Level One.

The national independent consultant does not permit the use of its name or trademark in third-party publications.

The white paper was sponsored by Level One and The Rainmaker Group.

Any errors or omissions in preparation are the responsibility of Joshua Tree Consulting.

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