Increasing Profitability & Resident Retention in Today's Climate

Latchel Whitepaper

Overview

Over the last couple of years, the property management industry has shown its innate necessity. It's also shown its ability to adapt quickly to more remote working conditions, safety measures, and constantly changing local laws. As property managers seek to continue increasing growth and achieve higher profit margins in these current climates, many have begun implementing new resident programs to increase retention and diversify income streams. This white paper details the profit driving innovations that have come out of the pandemic.

Objective

By looking at the specific changes in trends, we'll highlight the most notable approaches to not only maintain growth, but push it further. We'll focus specifically on increasing resident retention & 5-Star resident reviews, improved operational efficiencies, and new diversified streams of income.

The goal is to give you the knowledge and tools you need to achieve higher than average growth.

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Why The Resident Has Become The Priority

In 2019, just 16% of property managers said that attracting and retaining great residents was one of their top 3 priorities. In 2020, that number has significantly risen to 45%. Today, in 2022, attracting and retaining great residents is now the #1 priority for Property Managers.

The pandemic forced property managers to put residents at the forefront. Adapting to safety measures, staying up to date with local laws, increasing communication, and balancing empathy with business have all been bare necessities in staying afloat.

With residents spending more time at home and the rise of remote work, there's also been an increase in a resident's needs from their living experience. Digital innovation was already raising resident expectations in terms of speed, service levels, and overall convenience, and the pandemic has pushed this expectation further.

Investment in resident experience has always supported these core areas:

- Marketing: resident reviews have a direct effect on attracting quality residents. (data on pg. 6).
- Budgeting: a significant reduction in unit turnover can directly affect the bottom line (data on pg.7).
- Property Protection: Residents who feel taken care of tend to, in turn, take better care of the property (data on pg. 9).

What Residents Expect

In Buildium's 2020 industry report, residents were surveyed about their expectations from their property managers. The results were summarized as below:

> **Today, attracting and retaining residents is less about the flashy appeal of pools and granite countertops, and more about displaying that their needs have been taken into consideration in the place they call home...**
> **... Whether they rent out of necessity or preference, today's hyper-connected, often-stressed residents are searching for amenities that provide...**
> **CONVENIENCE, COMFORT, & CONNECTION.**

Top 5 Priorities For PMs Year Over Year

	2022	2021	2020	2019
1.	Residents	Growth	Growth	Growth
2.	Growth	Residents	Efficiency	Efficiency
3.	Efficiency	Efficiency	Profitability	Profitability
4.	Owners	Profitability	Owners	Residents
5.	Profitability	Owners	Residents	Owners

Buildium State of the Industry Report

The Resident Experience

What Residents Expect

When it comes to meeting the needs of the modern resident, it comes down to speed and empathy. Delivering on these needs requires a balanced mix of software and human touch.

- Higher response times to maintenance calls and a general increase in the level of customer service.
- More than just a convenient software portal. Residents still want to feel a heart to heart human interaction when dealing with matters regarding the place they call home.
- With the combination of technology that provides speed, and a human element providing a sense of genuine care, residents want to feel ease, empathy, and trust.

72%

of renters feel that it's very important that their property manager is easy to get a hold of and resolves issues quickly.

60%

of renters feel that it's very important that their property manager provides great customer service and keeps things running smoothly.

Buildium State of the Industry Report

Service Level Expectations

The heavy and sudden push into a fully digital realm of operating (in a time where frequent communication is vital) has pushed service level expectations even further.

Residents are asking: "If Amazon can deliver me groceries within 2 hours, why can't I schedule a maintenance repair that quickly?", or "Why can't the property management team immediately respond to my requests?"

To keep up with what have become habitually higher expectations, the approach to resident service needs to feel like it's as easy as Amazon for the resident.

Tech innovations for meeting these expectations have already hit the marketplace (details on pg. 8)

"Renters want to experience the goldilocks zone between tech and humanity. Not so robotic that it's cold, but also not so human that it's inefficient."

The Resident Experience

An Investment In Resident Experience Is An Investment In Marketing

Your online reputation not only informs potential owners and residents of your value, but it also informs Google of your importance.

If there is a large gap in the number of doors you manage and the number of reviews you have online, you have an opportunity to grow in this area. Since people tend to only take the time to leave a review if they have something negative to say, it can be tough to increase positive reviews without prompting residents to do so. Below is how software can encourage more resident reviews as demonstrated through Latchel's software:

96% of renters consider online reviews and ratings when searching for rentals.

85% consult online reviews even if they received a referral from friends or family.

Renter Insight & Digital Engagement Survey

- Start by providing a resident obsessed service with blazing fast response times. Latchel averages 4.8 out of 5 stars for resident satisfaction.
- Use software to automatically prompt the resident to give a private review after every request is completed.
- Automatically push 5-Star reviews to your online profiles. Latchel's platform automates this for managers.

Real 5-Star Resident Reviews:

“Excellent service by knowledgeable employees!

“Didn't have to wait to get someone on a call and Luis got my thermostat working over the phone.

“Was easy to schedule a cleaning and got a reminder before they showed up.

“Swift response, great skilled technician and problem is fixed.

“They did an amazing job. Great communication. And, made sure that I was happy before he left.

“Thank you for your prompt response. Very professional. Again thank you.

*Above reviews posted via Latchel

The Resident Experience

Fiscal Impact of Reducing Resident Attrition by 40%

Investment in the resident experience is not only great for marketing, but also for the direct effect it has on the company's bottom line when it comes to improving resident retention.

Unit turnover is only fiscally advantageous when the market is achieving better than average rent growth.

In all other cases, the national average cost of a unit turnover is at least $1,000 and can easily rise to $3,000, usually making turnover a net negative impact to the company. Turnover costs include:

- Loss of rent for the duration of vacancy
- Repairs and/or renovations
- Unit cleaning and inspections
- Advertising
- Admin hours for listings & showings

While there are a multitude of things you could do to create a more efficient turnover process in terms of standardizing and optimizing the procedures involved, you'll also benefit greatly by having less turnovers to do in a year.

According to RealPage data, the average unit turnover for the multifamily housing sector was 47.5% in 2019.

If that turnover rate were reduced by 40%, you'd be at a 28.5% turnover rate.

The chart below shows what your annual turnover costs would be for every 100 units based on your average unit turnover costs with both the national average turnover rate and the reduced rate, as well as the potential money saved with a 40% reduction in turnovers.

Annual Turnover Costs & Savings Potential For Every 100 Units

Avg Turnover Cost/Unit	47.5% Turnover Rate *(2019 natl. avg.)*	28.5% Turnover Rate *(40% reduction in natl. avg.)*	Savings in Turnover Costs with Reduction
$1,000	$47,500	$28,500	$19,000
$1,500	$71,250	$42,750	$28,500
$2,500	$118,750	$71,250	$28,500
$3,500	$166,250	$99,750	$66,500
$5,000	$237,500	$142,500	$95,000

Stepping Up

The Resident Experience

Resident Amenities In Today's Climate

Residents had their homes become a lot more than just a home during the pandemic. During these times, home to many also became an office, a gym, a restaurant, a bar, a theater, etc. For many, this still remains, and, working from home, in particular, is expected to continue to be on the rise, according to Forbes.

Typical community amenities (gyms, pools, grill areas, etc) had been forced to close, or stay open by reservation and/or at minimum capacity, reducing the quality of the typical resident experience.

As a result, enhancing the resident experience via service-based amenities has taken the forefront. With more time spent at home, a resident's investment in their home became the forefront for residents.

These service-based resident programs come in the form of a 24/7 virtual concierge service for residents to help them tackle in-home projects.

With virtual concierge services, like Latchel's Home Assistant, residents have a one-stop-shop to organize all of their in-home needs, like: cleaning services, furniture assembly, tv mounting, and more. Residents can schedule any in-home service right at their fingertips in 60 seconds or less.

Common Virtual Concierge Requests

House Cleaning

Lawn Care

All House Chores

Carpet Cleaning

Move-Out Assistance

Junk/Furniture Removal

> "A blend of technology and white glove customer service."

Ian Joseph
Miller Laine Property Management on Latchel's Home Assistant

The Resident Experience

Maintenance in Today's Climate

The necessary adaptations to safety measures when running work orders has pushed maintenance operators to search for contactless solutions. For Latchel, this came in the form of creating a video-based troubleshooting feature that has also created significant savings in maintenance costs.

By giving residents the option to chat with a troubleshooter via easily-accessed video chat, Latchel has been able to resolve, or de-escalate 30% of all requests, saving the time and cost of unnecessarily dispatching a vendor. This helps in 3 main ways:

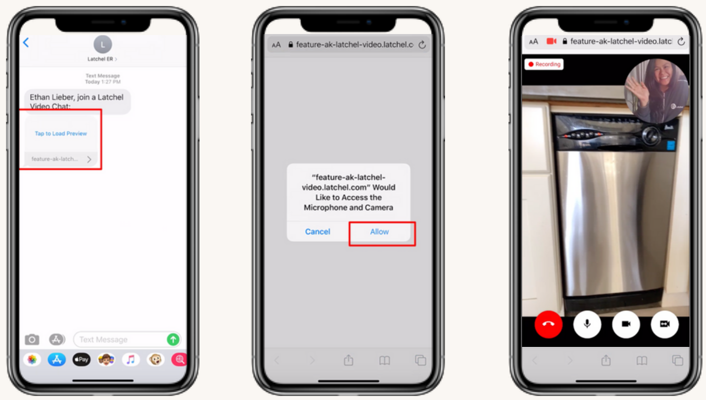
- Can save an average of 30% per year on routine maintenance & can save tens of thousands of dollars by mitigating emergency risk quickly.
- Limits safety risks for residents and service providers by reducing dispatching wherever possible.
- Creates a smoother experience for the resident, and optimizes opportunity for more 5-star reviews.

Avg Monthly Rent	Maintenance costs/unit/year	Potential Annual Savings/Unit	Potential Annual Savings for Every 100 Units
$1,000	$1,500	$450	$45,000
$1,500	$2,250	$675	$67,500
$2,000	$3,000	$900	$90,000
$2,500	$3,750	$1,125	$112,500
$3,000	$4,500	$1,350	$135,500

Average Maintenance Costs & Savings Potential

Contactless Solutions:

Video-Based Troubleshooting



Step 1: Resident receives a link sent via SMS after request is sent.

Step 2: Resident allows Latchel video & microphone access.

Step 3: A recorded video chat opens for proactive troubleshooting.

The Benefits of Contactless Solution

A contactless solution, like video based troubleshooting, can have a massive impact on your bottom line. The general rule of thumb for annual maintenance repairs costs is 1.5x the monthly rent of a property (for properties 5 years or older).

The chart to the left shows the annual cost of maintenance, based on this rule of thumb, varied by different monthly rent prices. It also shows the potential savings on maintenance repair cost per unit and for every 100 units under management.

These savings are assuming that you're able to resolve 30% of maintenance requests over the phone without dispatching a vendor.

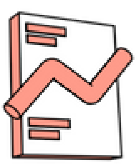
Diversifying

Income Streams

2022 Profitability Outlook

Rent has begun to rise again, specifically for new leases in single family rental communities, low-middle income rentals, and popular metros in the South and West. One of the main reasons for this increase is the need for property managers and owners to balance out the rent payments that were dismissed over the last year. The high demand and low supply of rentals also plays a huge role in this increase.

In general, property management companies struggle to increase profitability (growing only 2.7% year over year), because of the operational burden of their existing units. For 2021 and beyond, property management companies have had to take a second look at budget and profitability opportunities, with large optimism for growth beyond industry averages (pg 11) despite the changes.



21% of surveyed PMs said that their expenses increased by at least 50% post COVID.

20% of surveyed PMs said that their expenses increased by 25 - 49%.

NAA Operating Income & Expenses Report

91% of surveyed PMs said that they expect their revenue to increase over the next 2 years.

86% of surveyed PMs said that they plan to expand their portfolio over the next 2 years.

Buildium 2022 State of the Industry Report

Multifamily:

According to Buildium’s 2022 State of the Industry Report, 33% of property managers plan to make value-add updates to the properties they manage, particularly those who manage multifamily rentals. What do these value-add updates entail? Particularly, Property Managers plan to improve the way maintenance issues are handled to help justify rent increases.

With increased expenses and investments in maintenance coordination, new revenue streams are a key focus in increasing profitability. Resident Benefit Packages and fees for ancillary services have always been a route to increase revenue per unit and overall profitability, and they're now being adjusted to what fits in the current climate.

Single Family:

According to Buildium's 2022 State of the Industry Report, there is a strong optimism for growth with 91% of surveyed property managers noting that they plan on increasing their revenue in the next two years, 12% higher than the year prior.

86% of property managers said they also plan on expanding their portfolio, 9.1% higher than the year prior.

Single family property managers have started following in the multifamily property managers' footsteps by investing in ways to increase their revenue per unit with resident benefit packages and other ancillary fees.

Diversifying

Income Streams

2022 Profitability Outlook

When determining profitability goals for 2022, we can look at the industry averages compared to the top 25% performing property managers. If you're already within the stats of the top 25%, it's important to note that many are achieving numbers far beyond the averages within that top 25 percentile. These numbers can help you define benchmarks in your 2022 strategy.

To get an idea of realistic benchmarks, we recommend referring to the benchmarks set forth by Property Management Profit Coach. More details on this here.

Industry Averages for Fee Managed Property Management Companies

6%	$171	$10	$2.74
Profit Margins	Revenue Per Unit	Retained Profit Per Unit	Revenue per $1 in Labor

Averages for the Top 25% of Fee Managed Property Management Companies

25%	$238	$48	$3.48
Profit Margins	Revenue Per Unit	Retained Profit Per Unit	Revenue per $1 in Labor

The above stats are composed of a hybrid of multifamily and single family fee managed property management company.

If you're an owner/operator including rent in your NOI, this will look different. According to NAA's 2020 Operating Income & Expenses Report, the average NOI is around 61% in rental apartment communities. This falls in line with the industry average profit margin being around 6% if you're charging a 10% management fee.

The top 25% of performers have a significantly higher profit margin largely due to the revenue per unit income. As a general rule of thumb, if your average rent price is over $1,500/month, your revenue per unit should be 10 - 15% of the rent/month. If your average rent is under $1,500/month, your revenue per unit should be 15 - 20% of the rent/month.

So what can property management companies be doing to increase their revenue per unit?

Diversifying

Income Streams

New Income Streams

Diversifying income streams has become another top priority to property managers. As entrepreneurs, we know that new income is directly tied to new and/or enhanced services. Those services have to be in demand, or desirable enough for people to be willing to pay for them. So what is in demand and desirable in today's world?

Leveraging technology to improve customer experiences and property management processes has become widely adopted since the pandemic and as the world continues to go digital. According to Buildium's Property Management Trends for 2022-2023 study, property managers have digitized customer interactions that they're used to conducting face-to-face.

"They're keeping the tools that have increased their teams' productivity and their customers' satisfaction, with 30% of property managers saying that using technology to drive efficiency is a key aspect of their revenue generation strategy this year."

As mentioned previously, residents have voiced the importance of feeling taken care of and the need for amenities that provide convenience, comfort and connection. Implementing a tech-enhanced virtual concierge service has become a high demand as this combines technological convenience with resident satisfaction.

Virtual Concierge Services

$7,200 increase in annual revenue for every 100 units

Virtual Concierge

At Latchel, we've been able to increase monthly revenue by up to $40 per unit per month with a resident paid virtual concierge service.

With virtual concierge services, residents pay a small monthly fee for 24/7365 access to a virtual concierge, even at midnight on New Years Eve.

Because Latchel can also include free maintenance coordination with virtual concierge, maintenance costs are reduced, making profitability look more like the below:

Industry Average

$10 Retained Profit Per Unit → **~$39** Retained Profit Per Unit

Top 25%

$48 Retained Profit Per Unit → **$77** Retained Profit Per Unit

Diversifying

Income Streams

Resident Paid Amenity Programs

Even prior to the recent economic downturn, implementing resident paid programs hasn't come without hesitation. Though, we know that people, in any circumstance, are willing to pay more money for a better experience.

In a blind taste test between McDonalds and Starbucks coffee, Consumer Reports results showed that McDonalds coffee beat out Starbucks in terms of quality.

This came as a surprise knowing that people pay much more for a coffee at Starbucks than they do at McDonalds.

The conclusion to draw here is that people are willing to pay more for a better experience. Starbucks creates a better overall experience than McDonalds for the avid coffee-drinker, regardless of quality.

This is not to say that property management companies should offer sub-par quality products wrapped in a better experience. That specific goal would blur lines of integrity within the business.

The conclusion here is to prove that if you're offering quality services and wrapping them in a quality experience, residents will be happy to pay more for that option to exist within their living experience.

The airline industry is further acknowledgement of the willingness to pay more for a better experience. Passengers pay more for access to WiFi, more leg room, alcohol, and other in flight benefits that improve the in flight experience.

With new resident habits, come new resident needs. Needs that we've seen residents are more than willing to pay a little bit extra for.

Implementation

- Residents are sent an offer letter notifying them of the new benefits and when services will start.
- Residents under current leases are given the opportunity to opt out, if desired, until lease renewal date.
- The benefits program will be automatic for all new leases.
- You start earning more profits.

Summary

The challenges of the new normal have created innovations that can take Property Management companies to new level of excellence. As Henry Ford put it, "an airplane takes off against the wind, not with it". In the New Year, with many of challenges 2020 came with behind us and a strong vision for the path forward, entrepreneurs in Real Estate can push our industry forward into higher levels of growth.

With the blend of tech automation and white glove customer service, Property Managers are able to launch light-weight benefit packages that can be implemented quickly, and rolled out over the course of a lease cycle as renewals and turns occur.

These resident programs create higher quality experiences for residents, improving retention, marketing efforts, revenue growth, and operational efficiencies.

Property managers are the entrepreneurs of real estate with the unique opportunity to creating a better experience for owners and residents, and by effect realize personal dreams. With new experience enhancing, and revenue driving initiatives, property managers can achieve faster growth and more personal freedoms.

About Latchel

Latchel is a Proptech startup company, backed by Y-Combinator and Bain Capital, that provides virtual concierge and maintenance coordination services to residential property management companies nationwide. We are unique in that we offer no-cost services that help property managers in 3 main ways:

1. Increase Monthly Revenue Per Unit by up to $40/month
2. Reduce Resident Attrition by 40%
3. Improve Online Reputation With More 5-Star Reviews

Customers who also sign up for our zero cost maintenance coordination services save 80% of the time they normally spend on maintenance, and reduce the operational costs of maintenance coordination.

Latchel is used in over 100,000 units nationwide by over 400 property management companies, and growing quickly. Latchel is built to help property management companies grow and scale. Below are just a few of the ways in which our customers benefit from our services:

	Profit per Unit	Revenue per $1 in Labor	Online Reviews out of 5 Stars
Top 25% w/ Latchel:	$77 (+$29)	$4.64 (+$1.18)	4.8
Avg w/ Latchel:	$39 (+$29)	$4.56 (+$1.72)	4.8
Top 20%:	$48	$3.48	3.5
Industry Avg:	$10	$2.74	1.8

Managers using Latchel grow units 25% annually.
8x faster than the industry average of 2.7%.

Interested in learning more about Latchel's services? We'd love to chat with you about how we can help you grow and scale your business.

Click the button below to schedule a call with a Latchel team member.

Request Demo