LCOR Insights

Operational Tech in Multifamily- the Key Differentiator in the Next Cycle

As an institutional owner of apartments, have you invested adequately in technology?

After a decade-long growth cycle in multifamily, cap rates are widening[1] and interest rates have dramatically altered the financing costs and with it the expected returns for owners. We have entered a new paradigm of multifamily ownership - with a likely recession on the horizon, investors can no longer depend on cap rate compression or outsized rent growth to drive returns at the asset level. Combining this fact with the reality that many operators have under-invested in operational technology, those who do not evolve to meet this new paradigm will struggle to compete for the most sought-after residents. Future returns will be driven by asset level improvement from those owner operators who are early adopters of new technologies that drive new revenue streams, reduce expenses, and enhance the resident experience.

> *"Among our multifamily strategic investors, LCOR is on the leading edge of technology adoption, both from the critical identification of optimal providers, but also the proven track record to efficiently roll out implementation across its portfolio"*
>
> - Christopher Yip, RET Ventures

The acquisitions and sourcing roles were historically of paramount importance, now it is the expertise of operators who can merge the digital and the physical that is the new sought after skillset for successful managers. The use of technology in property management will be a key element to provide the alpha amongst apartment buildings competing for the best residents and extending resident retention through a relentless focus on the 'resident experience'. Owner-operators who are able to deploy leading-edge technology into assets to meet the needs of the modern renter will outperform their peers.

Historical investment of technology into real estate has lagged most other sectors, as the same model was used for decades. However, application of technology in best-in-class apartment buildings has changed dramatically in the past five years as investment into "proptech" has soared across all aspects of operations - leasing, maintenance, and staffing. Leading the charge from the owner/operator perspective, is RET Ventures., a venture capital firm that invests in next-generation of real estate technology, via funds capitalized by a group of 50 strategic investors representing over 2.5 million units under management. Accelerated in many respects in response to the Covid pandemic, much of the

---

[1] Green Street Cap Rate Observer

experimental technology applications during that period have proven equally relevant in the post-covid environment. Centralized management and leasing is no longer aspirational, but necessary to compete.

Many of the most desirable residents, especially those in the millennial age and younger, are comfortable interacting via text or email during the initial information gathering phase of the apartment rental process versus the prior model of phone calls or in person visits with a traditional leasing agent. Technology deployment allows owner-operators to provide optionality between in-person or self-guided tours utilizing apps such as tour24; the ability to interact with a professional leasing agent during working hours and an artificial intelligence leasing agent outside working hours via software providers including FUNNEL ; and the ability to quickly procure renters insurance via a provider like Covered . Upon move-in, these renters place a premium on building wide access control leveraging facial recognition and curb to kitchen seamless access via a provider like SmartRent or 1VALET They also prioritize access to public transit, or the ability to have Electric Vehicle charges on site, if they own a personal vehicle, via a provider like PLUGZIO. With the recent uptick in workplace flexibility and work from home, those buildings offering enterprise Walk-With-You Wifi with enterprise grade connectivity and built in redundancy through providers like SINGLE DIGITS and combined with thoughtful amenity spaces designed for co-working, will outshine competitors that lack these technology-driven amenities.

Acceleration of Operational Technology Applications		
	Typical 2017 Vintage Apartment Building	Leading 2023 Apartment Building
EV charging stations	✗	✓
Follow-me managed wifi	✗	✓
Centralized management	✗	✓
Virtual leasing capability	✗	✓
App-based self-guided tours	✗	✓
Tenant valet consoles	✗	✓
Enhanced tenant screening	✗	✓
AI screened maintenance requests	✗	✓
Unit leasing visualization software	✗	✓

Residents also demand app-based technologies for interacting with their property management company during the length of their lease – having a personalized app that allows them to submit work orders, communicate with the on-site team, make rent payments, and secure amenity space reservations from their mobile device via providers such as MOBILE DOORMAN or 1VALET have become "must haves" in the eyes of today's renter.   Managing delinquencies and delays in the court system is increasingly critical to landlords, as resident right protections continue to expand scope in many municipalities in the country. The best way for a landlord to prevent issues is to increase the effectiveness of the verification and fraud prevention processes during the prospective resident application period, using services like checkpoint, a high-tech ID verification service that integrates into the touring and application process, and Docuverus an income authentication and verification service.

Owner-operator deployment of technology has also extended to the maintenance teams with mobile-centric solutions, such as SightPlan to help technicians more efficiently respond to requests, solicit feedback from residents post work order closeout, and strategically plan unit turnover schedules and preventive maintenance schedules, which helps operators address items before they are even received

from a resident – allowing owner operators to be much more proactive with a quicker response time at appropriate staffing levels.

The intersection of technology and environmental sustainability is evident as well with the new prevalence of EV charging stations and Fitwell designations. Not surprisingly, locations close to transit are performing better than non-transit locations on both nominal rents and occupancy. The benefits of transit not only address the 'E' in ESG as many residents choose to not have cars, but a follow-on benefit to the 'S' is that they can use the savings from not having a car payment to more productive uses.

In conclusion, growing assets under management and going long into a market where all assets were rising was a strategy that worked well for investors in prior cycles; however, under-investing in technology and not focusing on resident retention will be exposed as we enter a potential recession. In today's environment, the operation of the real estate has become the most critical area for success. Owner operators who successfully and strategically deploy technology will be able to create new income steams while reducing expenses to maximize NOI and returns, but will also effectively use the same technology to create the best in class environment for the desirable renter by choice cohort of today.