Resident Satisfaction, Resident Retention and Improved Business Results in Multifamily Housing

by

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ABSTRACT

In this thesis, multifamily management firms have been interviewed to identify trends and attitudes toward resident satisfaction. This data is then compared to actual resident satisfaction ratings, as measured by a major apartment management firm, from a portfolio comprised of both subsidized and market rate units. Marketing theory is utilized to evaluate the performance gap between resident needs and management's perceptions of such needs. An impending regulatory change by HUD, that will shift project based subsidies to transferable certificates of voucher in Section 8 properties, acts as an example of how measurement of resident satisfaction can be used to prepare a property for increasing competitive fundamentals.

A review of modern theories on quality, value, and customer satisfaction is used to explore ways to create value and improve lease renewals in apartment communities. A contemporary model of resident satisfaction measurement exemplifies the process of gauging and improving management performance. The sources of resident dissatisfaction, the cost of resident turnover, and resource allocation in improvement initiatives are also investigated.

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Introduction

Overview-

Only recently have many apartment owners and managers come to regard tenants for what they really are; customers, the purchasers of the product being marketed. Where at one time the industry was comprised largely of "landlords and tenants" it is now made up of "managers and residents".[1] An unmistakable shift in attitudes toward residents is changing the multifamily real estate business from transaction, leasing based to more of a customer service, retention based industry. This management attitude transition, from tenant to resident customer, is important because it means that in the eyes of many managers and owners residents are now their most important resource. In elevating tenants to the status of customer real estate managers are acknowledging that tenants make leasing decisions by a cognitive process not unlike that of consumers from other industries. Apartments are evaluated by the resident on the overall value they provide in relation to others in the marketplace.

Every year a percentage of people move from one apartment into another. Some move for unavoidable reasons. They may buy a house or find new jobs that require relocation. Then, there are those that move because they are dissatisfied with their experience and perhaps feel, for the money they pay in rent, they will be more satisfied elsewhere. How can those that move out because of this dissatisfaction be enticed to stay? This thesis methodically addresses this question. Multifamily management attitudes to the issue of resident satisfaction are investigated and resident satisfaction data from a portfolio of apartment properties analyzed. In light of modern concepts on consumer choice, the data gives clues as to what makes residents satisfied (or dissatisfied) with their apartments and what can be done to persuade them to renew their leases.

Much has been written over the past twenty five years on the general subject of customer satisfaction and other determinants of consumer behavior. Several concepts have evolved

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[1] Wollinger, William, Winn Management Co., interview, 1995.

that help to explain such behavior, including quality, cost, value, gap theory, and customer satisfaction (although almost none of it dedicated to real estate customers in particular). Many leading companies are beginning to achieve powerful results integrating some of these emerging methodologies into marketing efforts. Now that tenants of the 1990's are becoming properly regarded as customers, the time has come to apply some of these powerful concepts to the real estate industry.

This thesis will first investigate how apartment management firms are approaching resident satisfaction and retention. Through interviews with property management firms and a review of recent literature we observe a changing industry and provide insight into potential rationale for the changes. Although attention to resident satisfaction can hardly be described as a new phenomenon, many firms now view resident retention as a top priority. The role of resident satisfaction in the lease renewal process is explored. By correlating the behavioral characteristics of residents with those of customers in general, the thesis draws upon past research on quality, satisfaction, and value in explaining resident leasing decisions. We appraise the effects of customer satisfaction on key business indicators such as net operating income and market share.

The thesis then outlines and applies a method of measuring resident satisfaction. If the first step to increasing resident retention depends on a deliberate commitment of management, the second step involves the accurate tabulation of resident needs and the extent to which their needs are being met. The data on resident satisfaction levels, obtained from Boston Financial, a leader in the multifamily property field, serves as an example of the process of gauging resident satisfaction. Specific management performance attributes, deemed to contribute to resident satisfaction, have been isolated and scored by a statistically significant sample of residents. Concepts on performance gaps, first identified in the 1980's, are then utilized to illuminate discrepancies between management perceptions of services demanded and resident perceptions of services rendered. Separating the performance gap into identifiable components of property management helps to facilitate a strategy for improving resident satisfaction. Once the areas of management performance are measured and analyzed, the thesis will explore methods of improving resident satisfaction as well as issues surrounding the allocation of resources in resident retention initiatives.

Motivation for the analysis undertaken in this thesis comes partly from a probable shift in HUD policy that will phase out project-based Section 8 subsidies in favor of a comprehensive voucher based system. Project-based, "supply side" subsidies remain affixed to the housing units themselves, making a qualified tenant without a voucher limited to residing in those units. The voucher system, on the other hand, allows the resident the freedom to shop around for a preferred housing unit by using a "demand side" voucher of subsidy for any unit throughout the marketplace. Naturally, many owners and managers of Section 8 properties are curious about the effects of such a policy shift on the financial viability of the assets. Therefore, the resident satisfaction data utilized here has been segmented to isolate satisfaction levels of residents living within HUD Section 8 properties, and compare them to satisfaction levels in other housing types. The data provides a hint of potential defection rates from these properties that may result from the impending subsidy change. While helpful in its application to the Section 8 subsidy situation, resident satisfaction analysis is actually useful whenever market conditions undergo fundamental change. The process and the potential benefits are the same regardless of the particular motivation. Market rate property managers could use the same techniques when, for instance, sharp increases in supply create a suddenly more competitive rental housing market.

The Issue-

In multifamily apartment management there is growing awareness that a reduction in the turnover ratio, achievable through preventative marketing, can have an exponentially positive impact on net operating income (Sheehan, 1994). Preventive marketing takes action to retain existing customers rather than focusing solely on acquiring new ones. In apartment communities, not only is vacancy downtime prevented by retaining residents but costs are also reduced by lower leasing commissions, reduced advertising fees, and avoidance of ancillary charges such as painting and carpet cleaning. The cost of resident turnover will be explored in greater detail in Section 2.

Resident satisfaction plays a critical role in lease renewal ratios. Although market demographics, economics, location, and fixed amenities are vitally important, resident satisfaction is undoubtedly influenced as well by the quality of management at a given property. Interviews and surveys conducted with multifamily managers for this thesis show that a majority of apartment managers believe a certain percentage of vacating residents leave due to dissatisfaction with service. Superior service is therefore viewed within this study as a value enhancing feature because it enhances the perceived quality of the apartment unit as well as the community.

Since service is identified as a component of value, the thesis will attempt to define value and relate this definition to apartment leasing decisions. The perceived value of a product has been directly correlated with business results, including market share and profitability (Rust and Zahorik, 1993; Anderson, Fornell, & Lehmann, 1994). Some property management firms have attempted to improve unit value by offering value enhancing amenities, such as cable television, that are obtained at a discount through the leverage of economies of scale.[2] While these efforts have produced some encouraging results and represent valid approaches to enhancing value, service quality improvement remains one of the least costly and most effective methods available to increase value. This study utilizes data on service quality and the physical facility, as opposed to value added amenities, and will therefore concentrate on this controllable component of apartment management. The thesis posits that by shrinking the gap between expected and delivered service, apartment managers increase the value of their units, improve the competitiveness of the community, and retain more residents.

Much of what follows is an attempt to quantify the perception gap in today's multifamily housing industry. As importantly, a method of confronting expensive resident turnover is

[2] Gable, B., Cohn, T., "Value over Image", Journal of Property Management, Nov./Dec. 1993, P. 26.

proposed. This method, while not without shortcomings, is a fundamental starting point in the formulation of a permanent preventive marketing system. To better understand management perceptions of resident expectations a number of interviews were conducted with multifamily management firms nationwide. Current literature that would lend insight into management attitudes was also researched. Section 2 summarizes the findings from this research. The information provided represents a meaningful sample of how a number of top multifamily management firms perceive the needs of residents. The interviews also lend an historical perspective of how these perceptions have evolved and how they are translating into service delivery goals.

Section 3 then changes direction rather sharply by shifting from a discussion about apartment management to a discussion about the interrelation of quality, value, and customer satisfaction in consumer purchase decisions. A summary of existing literature helps to define the links between customer satisfaction, performance gaps, and business results. A central proposition of the thesis is that apartment residents and customers of other industries behave similarly and that it is logical to apply these cutting edge marketing concepts to multifamily apartment management.

The other defining boundary of the performance gap continuum, the customer's expected level of service, is derived from the resident satisfaction data presented in Chapter 4. From a base of approximately 35,000 apartments under management, 500 residents were sampled by the firm for responses measuring resident satisfaction with specific attributes of the apartment and community. Resident satisfaction is gauged by simple performance based measures of the different attributes. Part of Boston Financial's portfolio is made up of Section 8, project-based subsidy units. Tighter debt coverage ratios in some subsidized properties, when compared to market rate properties, leave the performance of these assets particularly vulnerable to small changes in occupancy. As discussed above, segmentation of the data allows for discrimination of scores by asset type.

Section 5 explores techniques for improving resident satisfaction and creating value in apartment communities. Resource allocation models for resident retention initiatives are presented. Finally, conclusions are drawn and suggestions for future research made in Section 6.

2

A Perspective on Management Attitudes Toward Resident Satisfaction

The interviews with apartment management professionals provide insight into trends and attitudes toward resident satisfaction and the approaches being employed to measure such satisfaction. The responses also explain the extent to which management firms utilize satisfaction feedback to increase the value of the units, improve turnover rates and net operating income, and enhance asset values. In addition to building an historical chronology of how management attitudes toward residents have changed, the interviews also shed light on the causes for such changes.

A total of seventeen multifamily management firms were interviewed (a complete list of these firms can be seen in Appendix A). The size of the companies varies sharply, with units under management ranging from a low of 150 to a high of over 200,000. Some firms manage only market rate units, others only subsidized units, and some manage both types. The management professionals responding to the interview questions drew from an average of 20 years experience managing apartments.

A summary of the responses are framed around the actual questions posed. For organizational purposes, related questions are grouped into categories. Respondents are referenced by name unless requests for anonymity were specifically made due to the proprietary nature of the information. Many of the questions produced contrasting responses for market rate housing and subsidized housing. These differing responses, when applicable, will be discussed directly along with the corresponding question. Other general trends, issues, and observations, mostly drawn from published material or prior research, augment the base responses.

Trends-

Questions in this group generally center on how attitudes within the apartment management industry have changed, why they occurred, and what impact the changes have had on some firms.

1. Do you spend more time and money trying to keep residents satisfied/happy with their home than you did in the past?

Every firm reported spending more resources today trying to keep residents satisfied than they have in the past. Interviews revealed a clear consensus that, mostly during the last decade, the multifamily property industry has undergone a marked transformation and that it continues to evolve toward a pure service based business. The industry, they say, has properly come to regard residents as the most important component of a successful development rather than merely rent paying occupants. "At the heart of the matter is an increasing realization that unhappy residents have a negative effect on both the profitability of the development and the productivity of the management staff. The negative effects reverberate in a damaging spiral throughout the organization."[3] Another manager emphasized the different attitude taking root in the firm, "Now, we make sure that, throughout the organization, 'residents' are never referred to as 'tenants', as they were in the past."[4]

While many managers asserted that they have always treated residents as valued customers, they all maintained that the perception by owners and managers as to the role of the resident has changed. "We have always done things the same, but there is more attention today to providing total quality management. We have figured out how to do the basic things better and now we concentrate on providing better service and services to residents."[5] Another management executive, with 25 years experience, felt that even though his firm spends more money today pampering residents with such things as continental breakfasts and maid service, keeping residents satisfied is not essentially a

[3] William Wollinger, Winn Management Co., Boston, MA.
[4] Jim Mathes, Insignia Financial Group, Greenville, SC.
[5] Judith Weber, Community Builders, Boston, MA.

matter of spending more money. Rather, he felt, as others did, that: "you don't always need to spend more money. It's just a matter of doing the job you are paid to do."[6]

More money is budgeted on resident satisfaction/retention efforts in market rate communities than in subsidized communities. 70% of the market rate managers budget funds for the retention of residents while only 40% of subsidized managers reported doing so. This may be partly because many service enhancement initiatives in subsidized housing focus on improving community relations rather than on specifically retaining residents, although many respondents felt that improved social programs at subsidized properties did, in fact, increase resident retention (examples to follow).

2. If more money is being spent on resident satisfaction and retention, is less being spent on advertising or other promotional activity?

40% of the respondents have shifted funds from advertising to resident retention efforts. A majority of the managers indicated that apartment promotional activities rely less today on advertising and more on referrals and other "word of mouth" resident generating activities. Leasing agents are generally expected to be more proactive by organizing or attending community, civic, and professional functions in order to promote the community. Word of mouth referrals are less expensive to generate and current resident satisfaction levels play an important role. On the other hand, negative impressions about housing can last a long time. As one property management executive characterized it, "We are much more sensitive to resident needs today than we were in the past. Now we have come to understand that, for instance, a local school teacher that had a bad experience in our community could be a source of negative referrals for years and years to come. Satisfied residents are our best form of advertisement."[7]

Many subsidized properties have waiting lists of residents for the apartments. Therefore, advertising to attract residents is not often needed. "Over the past seven or eight years an

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[6] Robert Pickett, Corcoran Management Co., Braintree, MA.
[7] Kerry Mangan, Meredith Management Corp., Newton, MA

increase in supply has shrunk the waiting lists. Way back when, no marketing was required at all. Today, we do rely more on proactive community public relations to attract residents, but we still rarely need to directly advertise our communities."[8] In Section 8 properties (project-based subsidies), a captive market seems to have preserved waiting lists and further reduced the need for direct advertisement.

3. When did you begin to expend greater resources trying to keep residents satisfied?

Notable increases in resident satisfaction/retention spending, and corresponding initiatives to retain residents, began between five and ten years ago for the firms interviewed. The average response to this question was 6.71 years ago. A quick glance at a periodicals index sheds further light on when managers engaged the resident satisfaction issue more fervently. Since 1990, articles devoted to the topic of tenant retention, in journals such as the Journal of Property Management and Multi Housing News, have proliferated. The articles generally explore ways of improving tenant services to produce more satisfied tenants (addressed here in Section 5). Prior to 1990, pieces on this issue were few and far between. If publishers tend to print what caters to their audience then owner and manager focus on this issue has risen sharply.

In 1991, the Arthur Andersen Real Estate Services Group was commissioned by the Institute of Real Estate Management Foundation to report on the condition of the real estate industry. Through the use of surveys the study found that, from the perspective of property owners, the number one responsibility of the property manager should be to retain tenants. Four out of the top five most revered skills that owners sought from managers involved tenant relations.[9]

At Boston Financial, a new mission statement was incorporated in 1987 reflecting a greater awareness of the relationship between satisfied residents, a healthy working

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[8] Doreen Bushashia, Peabody Properties, Inc., Quincy, MA.
[9] Arthur Andersen & Co., S.C., Managing the Future, Real Estate in the 1990's, IREM, 1991, p. 41.

environment for staff members, and the financial well-being of the communities. The statement underscored to people in the organization, as well as people outside, that the product being managed "is actually people's homes" and should be regarded as such.[10] It was revamped as follows;

1. Provide the highest possible quality of life for our residents. Participate actively in the communities in which our properties are located in an effort to improve the quality of life throughout.

2. Operate our properties in an efficient and effective manner in order to ensure that our properties, as part of Boston Financial, are consistently viewed as excellent.

3. Provide a stimulating, rewarding work environment for our employees enabling them to achieve their full potential.

At that time the firm also began engaging in annual measurement of resident satisfaction, recognizing it's importance to renewals and occupancy. By using the results to target improvements the firm has increased the overall satisfaction rating throughout the portfolio to 85% (increasing the rating beyond this point has proved difficult). Today, the firm is extending the commitment. The mission statement will be revised again to actually include the term "resident satisfaction" into the first declaration. In addition, the marketing department is now integrating state-of-the-art preventative marketing systems into the resident satisfaction measurement process. The firm is committed, as evidenced by this thesis, to using the latest technologies to continuously gauge the needs of their residents and tailor their activities to maximize satisfaction.[11] This, they are confident, will not only lead to better communities in which to live but a more competitive position for the firm.

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[10] Donna Gibson, Boston Financial, Boston, MA.
[11] Howard Present, Boston Financial, Boston, MA.

Other firms began to display more commitment to resident satisfaction as well. Winn Management Company, explaining how the precipitous real estate downturn of the 1980's caused greater scrutiny on operating expenses, offered details of their "Residents First" retention campaign (Winn has approximately 13,000 units under management, 65% of which are subsidized). Launched in 1994, the program had evolved over the last six years as the firm has tried to reduce costs by increasing resident satisfaction and resident retention. The firm felt that unhappy residents were having negative effects on both the profitability of the developments and the morale and productivity of the management staffs. They set out in the early 1990's to change the culture within the organization, to become more proactive in addressing the needs of customers. At the heart of the program is an effort at "changing the mind set of the battle wary workers surviving from the old days."

Implemented through the marketing department in 1994, the "Residents First" campaign is highly visible to management staff members, appearing as a slogan on pins and printed collateral materials. Part of the effort involves a computerized system that prompts management to communicate with residents six months into the lease, forcing a visit to the apartment to find out how life is for the resident, uncover dissatisfaction in any areas, allow for preventive maintenance of the unit, and to offer the resident a menu of cost-free maintenance options (such as cleaning of blinds or oven, paint touch, repairs, etc.). More importantly, management wants to find out if people are irritated or unhappy while they still have the opportunity to correct the situation, heading up a lease renewal effort in advance. They believe, and most of the interviewee's concurred, that many dissatisfied residents remain quiet with their problems instead of complaining (Evidently, this phenomenon is particularly characteristic of immigrant residents, who are often wary of authority and timid about making a fuss[12]). All this is done in an efficient manner, according to the schedule of the management staff, and gives Winn a chance to surprise the resident with a memorable event of superior and unexpected service. This, they predict, will be remembered when the decision to renew is being evaluated by the

[12] Peter Noonan, Noonan Associates, Boston, MA.

resident. Quantifying the effects of the program in terms of reduced turnover has been difficult, mostly because the program is new but also because the "benefits must be measured against the competition within the market, at a given time, and not against the turnover or profit of the same development at a prior time." If turnover is measured against that of the same property at an earlier date changes in market conditions would not be taken into account. If measured against competing properties in the same market over a time line then the impact of retention efforts could be observed in spite of market shifts that effect all properties in that market.

In the subsidized units, Winn has a program that relies on quarterly interaction between management and residents. These can be social functions or other events to create a positive relationship with tenants. In this way, management develops satisfaction and alliances within the community and promotes a broad based front to counteract a sometimes delinquent faction within these low income neighborhoods. The unique social problems confronted by residents in these neighborhoods, including high unemployment rates, drug addiction, and high crime rates, often breed unrest in the community directed toward authority or governing organizations. Being the most visible, the management staff may absorb the brunt of such unrest. Alliances with residents help to break down an atmosphere of confrontation that often pits management against the residents, and increases dissatisfaction. This might fall into the realm of good management practice rather than a task undertaken as part of a specific resident retention campaign ("Good" management practice is covered in more detail at the end of this section).

Approaches to building resident satisfaction in low income communities is best exemplified by a program developed at Peabody Properties, Inc. The "Resident Services Program; the link between management, resident, and the community" began in 1984 and was originally aimed at preventing or delaying elderly residents from moving to nursing homes (much of Peabody's portfolio is targeted toward senior citizens). Unlike typical multifamily communities, where most residents move because they bought a home or were relocated by jobs, residents leave senior housing mostly because they either move to nursing homes or they pass on. The program was later expanded to focus on all residents, not just seniors, when the benefits of the services in increasing satisfaction became apparent.

The program is designed to "ensure that residents are linked to the supportive services and programs they may need to continue living in the development." Resident service coordinators, hired for each community, act as the link. Coordinators are "professionals with a social services background that are trained and experienced in property management issues, rules and regulations, legislation, policy, and housing program guidelines." They act to intervene in resident crises, educate and refer residents and staff with regard to the services at their disposal, develop new programs with local social service providers, housing agencies, and professional associations, serve as liaison to these entities, and coordinate resources for the services. Grants are often obtained through such organizations as the Robert Johnson Foundation to set up services for residents, such as:

- Homemakers
- Substance Abuse Education
- Health Screenings
- Managed Care
- Volunteer Service Programs
- Wellness Workshops
- Youth Activities
- Parenting Support Services
- Safety Awareness

For Peabody Properties the program has translated into the following tangible benefits;

> "quality resident relations and enhanced quality of life in the development which, in turn, fosters "word of mouth" marketing of the property; increased communication; good community relations; respect for the property; reduced incidents of disruptive behaviors and lease violations, many of which involve substance abuse; and decreased turnover of residents and staff."[13]

[13] Peabody Properties, Inc. "Resident Services" Promotional Brochure.

The firm thinks that the program has been extremely successful in building resident satisfaction (other firms have contracted Peabody to consult them on implementing resident services initiatives). They do not directly monitor resident turnover, again alluding to the problem of benchmarking this figure against the competition under the same market conditions, but informal tracking assures them that elderly and other residents are preferring to stay at the properties longer. However, through their resident prospect tracking methods, they have directly linked the resident services program to an increase in net referrals to their properties.

4. Why did efforts to increase resident satisfaction increase at that time?

The real estate market downturn, coming after the 1986 tax changes (eliminated real estate loss write-offs for passive investors), a new construction frenzy, and the ensuing credit crunch, was cited most often as the reason for the increase in attention to resident satisfaction and retention. 90% of the interviewees felt that apartment managers expend greater efforts and resources satisfying and retaining residents only in "down" markets. The other 10% was all comprised of subsidized property managers, where waiting lists have historically kept occupancy high even during market troughs. Greater competition for quality residents, and the changing preferences of these residents, is forcing managers to rethink their attitudes toward residents. "The last ten years have been a real dogfight. The recession meant that many owners would lose the property without savvy management. The first thing many managers did was reduce rents, but some realized that simply reducing rents would not be enough. They began to fight hard to retain their residents by boosting the quality and quantity of services."[14] Lower rents increased pressure on managers to reduce costs. The costs attributable to resident rollover, such as leasing commissions, interim vacancy losses, and the physical costs of unit preparation, became budget cutting targets of many managers and owners. Unfortunately, many properties that were too highly leveraged were unable to compete in the new environment and ceded their properties to creditors. The economic make up of society differs today as well, "In 1975 the economy was much different. Turnover ratio's

[14] Nat Ruccolo, First Winthrop Corp., Boston, MA.

were lower due to far less job mobility. With more residents moving because of job transfers managers are trying harder not to lose other residents due to poor service."[15] Resident turnover attributable to job relocation has been shown to approximate 31% of all those that move.[16]

Inertia within the management profession appears to have played a part as well. As the principles of good property management have been analyzed and defined over the years, by such organizations as IREM and the Urban Land Institute, many developers have ceded this function to professional management firms in order to maintain a competitive posture within the marketplace. The refinement of management skills and the standardization of management systems have allowed management firms to devote more effort improving the quality of service provided and focus more attention on keeping residents. One manager, dissenting from the "market down turn" explanation for the change in focus, described it this way, "(the increase in resident retention efforts) is not due to the market crash but to rising standards within the management field. Management firms have been forced to get their acts together because 'the water is rising around them.' They have been forced to increase their own performance standards because their competitors have."[17]

Government intervention and regulation through tenant protection laws have added pressure on management to deliver more quality service. Three interview respondents attributed increasing focus on resident satisfaction to an inundation of disclosure requirements related to environmental protection and fair housing laws, coupled with the propensity of people to sue. The threat of expensive lawsuits has forced a greater degree of assiduousness in addressing the needs of residents and has elevated acceptable standards of property management. Lender compliance standards also add pressure on managers to handle things diligently. "The regulations imposed by both governing bodies

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[15] Kerry Mangan, Meredith Management Corp., Newton, MA
[16] NAHB, **What Renters Want**, p. 30.
[17] Judith Weber, Community Builders, Boston, MA.

and financing incentive programs must be complied with due to the harsh nature of the penalties for non-compliance and the litigious nature of our society."[18]

5. Is resident turnover higher today than it used to be?

In market rate properties, most respondents pointed to increased competition (more supply) and more sophisticated, demanding residents as reasons for the average turnover rate rising from 10 to 30 percent in the 1970's to 30 to 50 percent today. Some reported turnover as high as 60%. This obviously varies depending on economic and market factors. Higher vacancy rates are also experienced by many managers, "In the late 1970's, if you had 2% vacancy that was high. For a while, 10% to 15% was not uncommon. Today, we are at about 5%."[19]

One manager of low income housing indicated that, contrary to some misconceptions, there is turnover in subsidized communities and that most of it is actually the result of evictions. None the less, turnover in these communities is a fraction of what it is in market rate communities. "If turnover in market rate properties is 60%, then our turnover would be about 20%."[20] They average about 3.5% vacancy throughout the portfolio, with a few properties ranging up to 25%.

Resident Satisfaction and Lease Renewal-

The questions now shift to issues related to resident satisfaction and dissatisfaction in today's apartment communities. The responses from question 7 will be integrated into the gap analysis in Section 4.

6. Do you feel that resident satisfaction and retention can be improved at your properties by improving service?

Every response to this question was affirmative.

[18] William Wollinger, Winn Development Co., Boston, MA.
[19] Robert Pickett, Corcoran Management Co., Braintree, MA.
[20] Judith Weber, Community Builders, Boston, MA.

7. What attributes are most critical in determining the satisfaction of residents?

Most firms identified a few attributes that they felt contributed most to resident satisfaction. Others grouped satisfaction drivers into broader contexts, such as "good service". When prodded to specifically prioritize, the responses seemed to cluster around the same theme, "Maintenance is the key."[21] Seven of seventeen interviewees said that prompt response to maintenance requests was the most influential determinant of resident satisfaction. Three others felt that completing maintenance requests "when you say you will" satisfies residents the most. Another maintenance related attribute, "condition of the physical plant" or "maintain the site as a good place to live", was twice mentioned, once as top priority and once as second. One firm insisted that "value, i.e.; when price and quality are in sync" was the only determinant of resident satisfaction. Communication, or relationship building with residents, was cited by two firms as the most critical function of management in maintaining satisfaction. Two firms, exclusively managing subsidized units, felt that quality community social programs kept residents happy. Other satisfaction driving attributes that were alluded to include: amenities, rent relative to competition, qualities of the staff, a live-in superintendent ("Any property over 15 units should have one. It is essential for communication and interaction of management with residents, and allows for quick response to repair requests"[22]), and a good resident selection screening process to avoid renting to some that "will never be satisfied."

The interviews illuminated a distinction of attitudes toward resident satisfaction between market rate and subsidized units. Management perceived the type of services that are important to residents differently. Because subsidized housing requirements were perceived to be quite different than those of market rate housing, management often described differing approaches to building resident relations and keeping residents happy. Most managers of subsidized housing seemed to believe that the residents received significant value for the rent charged and that the challenge for managers was to build better community relations, and hence satisfaction, by providing a more far reaching set

[21] Larry Beasley, Heitman Properties, Ltd., Chicago, IL.
[22] Peter Noonan, Noonan Associates, Boston, MA.

of social services, such as those outlined by Peabody Properties and summarized above. Of the people interviewed that manage both market rate and subsidized units, all of them believe that, on average, renters of subsidized units are more satisfied than renters of market rate, and that this satisfaction is attributable to the low rent being paid and the high level of services being provided. An attitude prevails among subsidized managers that they are "mandated to serve" by the mission of public housing and that resident satisfaction and resident retention is the byproduct of successfully completing this mandate.

In market rate communities, managers more often felt that in order to satisfy residents the staff needed to perform well during "moments of truth". These moments, expounded upon by Harmon and McKenna Harmon (1995, p. 16), include all interaction between management and resident, from service encounters to chance meetings with staff members to property advertisements. These "critical incidents" typically involve front line employees and are "inherently random, subjective, unpredictable, and frequently unsupervised...(They) are especially vivid and memorable to the customer. The results provide a perception of quality." The cumulative impact of these moments form the basis of resident opinions about the community.

8. In apartment communities in general, do you believe that some tenants move out because they are dissatisfied with the management staff or service?

All but one answered affirmatively. The other was unsure. One manager, answering affirmatively, qualified the answer by stating, "But most people (who are dissatisfied with service issues) don't move out, they just complain until things get fixed."

9. Of all those that move out, what percentage move out because they are dissatisfied with the management staff or service?

In market rate housing, where competition is regarded to be more stringent and residents more difficult to retain, managers more often than not felt that a certain percentage of residents could be retained by providing better and more timely basic services to residents. However, none of the managers interviewed were able to accurately identify the percentage of residents vacating due to poor service. Estimated percentages ranged from five to thirty percent, with an average of nine percent moving due to poor service. Accurate data evidently has been elusive to compile. Most companies did have procedures in place for determining reasons for vacating, but these results were often perceived to be unreliable. Because the candor of those vacating can often be questioned, the type of exit surveying being conducted may skew the data. Almost all those interviewed expressed the opinion that people often find it easier to lie about the reason for moving when the reason was tied to dissatisfaction with management and service. Their survey methods would need to entail a more time consuming effort at probing, which is often difficult under the circumstances when residents vacate, and because management budget limitations, or field staff indifference, precludes thorough exit interviewing of residents. It was therefore difficult for them to estimate the potential impact of improved resident satisfaction through service improvement initiatives. In fact, no data could be found that directly linked resident turnover, occupancy, and net operating income to a structured retention campaign.

Most managers of low income housing felt that residents received significant value for the rent that was paid and services received. The number of residents moving due to poor service, they felt, was extremely small.

10. Of the total that move out, what percent are considered to have unreasonable demands in service and therefore are welcomed to move out?

One interviewee recalled from the 1970's, when he started in the management business, that owners and mangers often had the attitude that "if the tenant didn't like it, they could leave. This may still be the case in some smaller companies and comes from an understanding that one 'bad apple' can ruin you."[23] Several mangers indicated a new attitude toward "problem" residents by answering "zero" to this question. Others

[23] Kerry Mangan, Meredith Management Corp., Newton, MA.

reluctantly acknowledged that a small percentage, one to two percent, of the residents were so disruptive to the community and the staff with their unreasonable demands that it was better for them to leave the community. A problem arises, said one manager, "when staff persons are empowered by this excuse and begin treating residents with valid complaints as unreasonable. Under the stress of the job it's sometimes easier to blame the resident when the job of keeping everyone happy becomes too difficult."[24]

Harmon and McKenna Harmon, in their recent book The Resident Retention Revolution, address the issue in this way;

> "We believe that a very few residents-probably no more than 3 percent-consume perhaps as much as 95 percent of the 'emotional labor' that an apartment community has available...Front-line apartment management personnel are especially prone to contact overload...We recommend that an owner or property manager consider 'firing' those few residents whose demands are so overwhelming as to cause burnout among members of the staff. 'Firing' residents is a last resort. It should never be employed as an excuse for poor performance by the staff."

The authors also cite the legal sensitivity of using such measures and suggest the consultation of a qualified real estate attorney.

Surveys-

These responses shed light on the extent of satisfaction measurement being conducted, how often, and the survey methods in use.

11. Does your company monitor tenant satisfaction through the use of surveys? How often are surveys distributed?

Surveying frequency ranged from semi-annually, to annually, to simply asking the resident the reason for moving following management's receipt of the thirty day notice to vacate. Three of the seventeen firms stated that no surveying of residents occurred on a

[24] Peter Noonan, Noonan Associates, Boston, MA.

formal basis. This includes formal resident exit surveys, although all three indicated that on site staffs were encouraged to find out why the resident was leaving. This information is typically logged in the file but is not tabulated on an aggregate basis. All three, however, felt that communication is an important part of servicing resident needs. Maintenance calls to the apartment and visits or phone calls by the resident to the management office provided the main vehicles for such communication. This interaction, they felt, gives management the capability of monitoring the satisfaction of the resident and reacting to situations as they arise. The three firms are also among the smallest firms, in terms of units under management, of those interviewed.

The remaining majority of the firms performed formal surveying of residents either once or twice per year. The surveys are not always written but sometimes entail a mandatory visit by management to the residence to gauge resident satisfaction and anticipate any potential problems. Four of the firms conducted only exit surveys. Six firms surveyed resident once per year plus formal exit surveys (that managers were required to have completed by the resident before security deposits were returned and, in one case, before the leasing commissions were paid if the unit had been re-let). The remaining four firms conducted two formal surveys per year, plus exit surveys. Several firms also reported surveying residents on an event basis, such as leaving a short resident response form to inquire whether a service visit was conducted in a timely, professional, and thorough manner.

Equity Residential Properties, a recently formed real estate investment trust, stakes a claim as a leader in resident satisfaction benchmarking and resident service,

> "EQR is one of the few apartment operators to regularly survey residents for their opinions on such key areas as maintenance, responsiveness, and perceived value. Preventative maintenance efforts are... aimed at improving residents' comfort, safety, and enjoyment. The result is lower-than-average turnover."[25]

[25] Equity Residential Property Trust, Marketing Brochure.

The firm aggressively trumpets their attitude toward resident satisfaction as a means of both developing a service oriented culture within the organization and attracting investors to their stock. When acquiring new properties, existing managers that are not properly focused on resident satisfaction are replaced by Equity trained managers. All managers have regular training in "E.S.P., Equity Service Philosophy."

It seems that many owners today are quicker to replace property managers when dissatisfied with the financial performance of the asset,

> *"In today's environment, owners and management companies are changing property managers with increasing frequency...Institutions have changed their mentality and are much more prepared to change managers at properties not meeting expectations. This is largely because of pressure from underlying investors that are unsatisfied with underperformance."*[26]

12. If yes, is the surveying handled in-house or by an independent market research firm?

Only two firms stated that they employ independent market research firms to conduct comprehensive or sample surveys for the purpose of measuring resident satisfaction. These were the only two firms that reported using factor analysis and multiple regression techniques to score resident satisfaction and weigh the importance of management attributes to the residents. The other firms that did systematically survey residents performed the surveying tasks in-house by the management staffs themselves and many firms left it up to the regional offices to decide how and when surveys would by conducted.

13. What is the cost per survey?

[26] Norwell, William D., and Stevens, Victoria., "Tracking Retention Efforts", Journal of Property Management, March/April 1992, p. 24.

The firms that conducted the surveying in-house most often were not sure of the exact cost, that the cost was hard to quantify, and often small enough to be negligible. Basically, the costs entail the staff's time in preparing the survey, the postage (if surveys are mailed), and time in reviewing the responses. The other two firms, using independent contractors, reported costs of $1.50 and approximately $2.00 per survey. CEL & Associates, a company specializing in the measurement of tenant/resident satisfaction, stated that firms employing their services end up incurring costs of $2.00 to $4.00 per survey, depending on the asset type and the nature of the survey. Furthermore, they felt that internal surveying methods were often plagued with problems that the managers were unaware of (good surveying procedures are reviewed in Appendix B). The internal survey process can seem less costly but often include "too many open ended questions that result in statistical unreliability." Never the less, many managers conducting internal surveys felt that the feed back was sufficient for reviewing the performance of the management staff. "If the same complaints come up repeatedly, this helps us to know where our staff is lacking and where improvements are needed." [27]

14. Do you feel that the results of the surveys are being used effectively within your company to target improvement areas?

Many participants were somewhat ambiguous as to the effectiveness of their organization in translating the survey responses into tangible improvements. Even though most managers expressed the need to retain residents by providing service that satisfied the standards of the residents, the research indicates that thorough measurement and benchmarking of tenant satisfaction for the purpose of identifying specific delivery improvement areas is still not widespread. Some firms have identified, through one way or another, key attributes that they feel drive resident satisfaction and have instituted regular systems for surveying and recording residents satisfaction within these performance attributes. Still fewer firms have developed systems for converting these scores into strategies for improving performance. One firm that surveys residents on a regular basis, when asked what improvements have been made as a result of the surveys,

[27] Robert Pickett, Corcoran Management Co., Braintree, MA.

responded, "We have lots of room for improvement here."[28] On the other hand, some firms have targeted and improved performance as a result of surveying, "Our surveys have been revealing. We have made improvements in responsiveness to work order requests, amenity upgrades, benchmarking of service levels, and rules and regulation provisions."[29]

Some companies have adopted apathetic postures toward structured preventive marketing systems for a few reasons, the difficulty of measuring intangible service components being one. The costs associated with data collection and analysis must be weighed against the value of the resulting information. Confidence in the data collected and successful translation of results into action are important in stemming inter-organizational pressure to avoid measurement. The returns from quality improvement campaigns are also elusive to measure. It appears from this study that economies of scale also come into play, as the sophistication in resident satisfaction programs correlated with the number of apartments under management. In spite of his basic belief that property management has evolved into a customer service based business and that it will become even more important to future competitiveness to meet the needs of customers, one management executive anonymously and somewhat satirically claimed, "Sometimes I'm not sure we even *want* to know what the residents think of us. The owner of our firm has always done things this way and has been successful. He is resistant to making wholesale changes to the way things are done, that also cost money, just because of claims by the latest experts."

The Cost of Resident Turnover in Apartment Communities-

Once an apartment building is designed and built in a particular location, service quality is one of the most controllable features at the disposal of management that can be manipulated to increase resident satisfaction and relative perceived value of the product within the marketplace. The retention of *only* one more resident per year, paying $500 per month, could increase revenue by $103,500 over a five year period, including vacancy

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[28] Fred Chaney, Lincoln Property Company, Dallas, TX.
[29] George Cvijovic, Forest City Residential Development, Inc.

and turnover cost savings. At the very least, if the market is strong and occupancy high (i.e., the unit is re-leased fairly quickly) revenue would increase by the amount that it would have cost to update the apartment for a new resident, leasing commissions saved, and lost rent due to rollover vacancy. If the average cost of apartment turnover of $900 (including rollover vacancy, advertising, and leasing commissions) that would translate to a savings of $13,500 over five years from *only one* more resident retained per year. The savings associated with increased resident retention can be calculated as follows:

Average turnover cost (figures inserted as examples):		
Painting	$200	
Cleaning	$50	
Carpet Cleaning	$50	
Maintenance	$25	
Sub-Total		$275
Average Vacancy per Turnover X Average Rent		$1,000
Advertising and leasing fees per rental		$225
Total Cost per Resident Defection		**$1,500**

With tens of thousands of apartments under management, the larger firms could experience substantial increases in net operating income as a result of increased resident satisfaction alone. Although the managers interviewed could not confirm the number of residents that vacate due to dissatisfaction with service quality, some of the market rate property managers estimated the figure to be at ten to twenty percent of those that move out. If fifteen percent of vacating residents could be retained in a portfolio of 20,000 units, with an average turnover of 40%, the firm could add $1.8 million per year to revenue.

15. In the costliest regions, what is your average cost to "turn around" and release an apartment (not including leasing fees and lost rent due to vacancy)?

Responses to this question ranged from a low of $300 to a high of $1700. The median response was $500 and the mean was $705 to prepare a vacated unit for a new resident. The wide range is apparently attributable to variations in costs of labor and materials in different regions of the country.

Management Staff-

These questions were designed to uncover how resident satisfaction is viewed to be impacted by the performance of on-site employees.

16. What is the most important quality you look for when hiring a management/leasing representative?

The responsibilities of management staff people, and therefore the qualities required, have changed over the years. "When I started, a rental agent was a housewife looking to make a few dollars and get out of the house. They would answer the phone and show apartments. Today things are far more sophisticated. We have career oriented college graduates vying for jobs. Agents must be much more proactive in prospecting for residents and in heading off resident problems before they arise."[30] Qualities sought when hiring field representatives differ somewhat for market rate and subsidized staffs. Noting that "the social fabric of the clientele must be addressed and managed",[31] subsidized managers most often cited the ability to "wear many hats", or possess a wide range of problem solving abilities, as the most important quality of a field staff person. In these communities staff people are viewed more as social service providers that need to be able to council, teach, and administer in a "tough but gentle" manner. Other revered qualities for subsidized staff members include: fairness, communication skills, interpersonal skills, computer skills, vision, and personality. One interviewee commented on the sometimes frustrating position of many subsidized staff members, "These people don't make all that much money, sometimes not much more that the residents themselves. But they make enough more to exclude them from the great benefits that the residents get.

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[30] Robert Pickett, Corcoran Management Co., Braintree, MA.
[31] William Wollinger, Winn Management Co., Boston, MA.

I've seen this issue effect the attitude of some of our workers. We have to be wary of it."[32]

In market rate communities the basic qualities such as personality and communication skills were also required, but more emphasis is placed on sales related skills than on social service skills. 'Sales skills' and 'closing ability' were mentioned most often. Other qualities in demand include energy, enthusiasm, competitiveness, assertiveness, intelligence, marketing skills, experience, and empathy. As evidence of the increased importance that management places on the personalities of its staff members, a few firms reported using personality profile tests to measure the traits of applicants.

17. Is compensation for field managers tied to resident retention?

Two firms reported that on site managers are now directly compensated for lease renewals. Three others have programs being developed that will tie compensation to resident retention. Three more compensate based on the performance of net operating income, of which, resident retention is a contributor. The remaining firms have no performance based compensation other than leasing commissions. One manager expressed the opinion that all employees should have compensation tied to performance and that this should definitely include resident retention for field managers. However, resistance to change within his organization has prevented him from implementing such a system. In another firm, compensation of on site managers is tied to five performance factors, including resident retention, that is designed to keep company goals aligned with employees. Their approach is based on a team concept whereby all staff members have incentive to focus on the renewal process. Communication and quality service is stressed. The compensation plan also incorporates safeguards to guaranty employees a fair income in the event of very poor market conditions.

In one subsidized management firm, compensation just recently became tied to reductions in rent loss and bad debt when the firm realized that regulatory agencies in Washington

[32] Kerry Mangan, Meredith Management Corp., Newton, MA.

would not be allowing any further rent increases. With the ability to increase revenues limited, the company felt that this was the best method of improving performance.

Regulation Change in Section 8 Subsidies-

18. If you manage low income housing, what effect do you feel a change from project-based subsidies to resident vouchers will have on the properties?

This is a complicated economic issue and therefore was difficult to answer completely given the time constraint of many interviews. However, firms responding to the question basically agreed that the shift in policy would "open up" the Section 8 housing market, making it more competitive as communities vie to attract and keep good residents with vouchers. One firm anticipates a temporary period of instability as the markets seek a new level of equilibrium with new, lower rent levels. Three interviewees voiced the opinion that a certain amount of resident defections were inevitable as renters exercised their newfound freedom to "walk" with their vouchers to what they perceive will be greener pastures, only to return at a later date when they realize the services offered at the new property are no better after all.

Several firms confirmed that debt coverage ratios for subsidized properties are tighter than they typically are for market rate properties, "on average, 1.1 to 1.15 for low income vs. 1.25 or higher for market rate."[33] All subsidized units, including Low Income Housing Tax Credit deals, were included in this estimate, not just Section 8. The low DCR's could conceivably expose some low income developments to severe ramifications from small changes in occupancy. However, many Section 8 properties are several years operational, with debt service now relatively low compared to the property value. Some properties would therefore be sensitive to small cash flow changes, while others fairly resistant. One manager foresees a process whereby rents at properties effected by the change will be "marked to market" and that the resulting rent structures will force property owners to refinance their debt in order to survive. She went on to predict that the government would

[33] Cindy LaCasse, Boston Capital Corp., Boston, MA.

be forced to provide relief for these owners, possibly in the form of guaranteed mortgage insurance.[34] Regardless of the financial structure of the properties, few owners will be happy with reductions in income due to the subsidy shift.

When will the change in subsidy regulations take place? All respondents that manage low income housing were aware of the issue and felt that conditions in the federal government made the changes inevitable. Opinions ranged from six months to two years, with some managers feeling that HUD would implement the changes gradually over that time.

The issue of discrimination by managers against Section 8 renters surfaced more than once during the interviews. "Systematic discrimination against Section 8 voucher people definitely exists in the marketplace. A process of 'creaming', whereby the good tenants are able to get the good units in the better neighborhoods, is now practiced regularly by owners. Those holding vouchers are not necessarily free to go wherever they want. This problem is more widespread in tighter markets when owners have more choices of who to rent to." Although presence of discrimination is not directly related to resident satisfaction, because the regulation change would increase competition in these markets, the inference is that, in order to combat falling rents and occupancy, owners will no longer be able to afford such selective leasing practices.

A Note on Resident Satisfaction and Good Property Management-

Over the years much has been written about those elements that constitute good property management. In 1974, The Urban Institute published *Keys to Successful Housing Management* that presented certain guiding indicators of good management.[35] With particular focus on subsidized housing, these characteristics included:

1. Management's strictness in enforcing rules;
2. Management's responsiveness to tenant needs;

[34] Judith Weber, Community Builders, Boston, MA.
[35] Isler, M., et al., 1974.

3. Coordination between central office and project management staff;
4. Decentralization of decision-making authority to the project level; and,
5. Tenants' concerns for the project and their positive involvement in project operations.

Undoubtedly confronted by management on a daily basis, the axioms stress the importance of balancing firmness and responsiveness in dealing with residents. Managers are actually responsible for placating two customers; the resident and the owner. This results in what could be considered a "double bottom line".[36] On one hand, satisfying the social concerns and practical needs of residents requires service aptitude and resource commitment. On the other, financial realities mandate strict attention to rent collection and the well being of the physical facilities. In *Confronting the Management Challenge*, the authors found that the "most successful" developments were more effective at collecting rents and reducing arrears (Bratt, R., et al., 1994). Ironically, resident turnover and eviction rates were significantly lower at these communities as well. The results underscore the fact that satisfying residents is very difficult when the community is financially unstable. It also suggests that firmness in dealing with residents is not incompatible with treating them fairly and responding to their needs. However, there is a difference between responding to resident needs and proactively engaging in maximizing resident satisfaction. While good management practices may sustain a property most of the time, a very competitive environment may require more aggressive, preventive marketing efforts. Furthermore, for those firms seeking to differentiate their properties from the competition good management practices alone are not enough.

The benefits of a successful resident retention program, if conducted in a fiscally responsible manner, will be reflected in the financial health of the development. While acknowledging the importance of the other tenets of good property management, the focus of this research is on satisfying residents and increasing lease renewals. Some of the ideas may seem impractical to property managers, particularly in view of the demands

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[36] Bratt, R., et al., 1994.

imposed by public housing. However, increasing competition in the marketplace is challenging managers to enhance the value of the community to residents, in spite of the obstacles.

Summary-

The apartment management industry appears to have undergone some fundamental change over the past ten years. Not only do firms now view residents much more as customers but they now spend more time and money trying to determine what makes them happy and how to retain a greater percentage of them. Because the industry today is regarded as much more service based that in the past, firms are now investigating ways to better service residents and to find and motivate employees to serve. The surveying of resident satisfaction is becoming more commonplace, although sophisticated marketing methodologies have yet to incorporated by many firms into structured preventive marketing programs. The following section will review some modern concepts related to consumer choice in order to better understand the dynamics involved in the leasing renewal decision.

3

Customer Satisfaction, Quality, and Relative Value

Preface-

This section provides a brief overview of the extensive literature on customer satisfaction, quality, and value. The content results from empirical research done on consumer behavior by leading practitioners and is not the result of interviews conducted with multifamily management firms nor of the data collected on resident satisfaction for this thesis. Because the premise is made in this thesis that resident leasing decisions are grounded in consumer choice, modern concepts about value, quality, and customer satisfaction would therefore be applicable to the real estate industry. Literature drawn upon in defining these concepts relies on the profiles of consumers from various industries and not residential apartment consumers in particular. The term "customer", used throughout this section, is deemed to be interchangeable with the term "resident" when crossover applications of the concepts are made to multifamily real estate. Likewise, the term "product" could be interchanged with "apartment".

Overview-

During the 1970's, marketing became a discipline that transformed the way many companies conceived, developed, and sold their products. Transcending the traditional manufacture-and-sell mentality, firms began to utilize the "voice of the customer" in design and servicing of their products. In doing so, they found that the product was better targeted toward the market and more units were sold. In the 1980's, "quality" emerged as a dominant theme as companies sought to provide a better product to a more discriminating consumer. Many companies set out to incorporate total quality into their design, manufacturing, and service as a way of differentiating themselves from the competition. The proliferation of Japanese products (perceived to offer superior quality) into American markets forced American manufactures to further acknowledge the importance of quality in consumer purchase decisions. Not only were products being made with a greater emphasis on quality but firms had also become aware of the need to satisfy customers, making them more loyal and more likely to buy again.

Today, the focus of American marketing efforts seems to have evolved and shifted. Many firms now regard overall value, relative to the competition, as the key to marketability. Quality remains a factor in how the customer perceives the value of a given product, but it is only one factor. Empirical research, as well as corporate marketing campaigns, have recently shown that consumer behavior is driven not merely by the perceived quality supplied by a product but by the cumulative value that is received. If the 1970's was the decade of marketing and "quality was the buzzword of the eighties, (then) Value is becoming the focus of the Nineties."[1] This section explains the interaction of quality, customer satisfaction, and value in terms of the ultimate goals of profitability and market share. We also discuss the origins and relevance of gap theory in meeting the needs of customers. To better understand how these variables impact business results it is useful to start with some basic definitions.

Value-

Webster's dictionary defines value this way, "An amount regarded as a fair equivalent for something, esp. goods and services. Worth in importance or usefulness to the possessor." In his book "the Value Network", DeRose interprets value in its close relationship to satisfaction:

"Value is the satisfaction of customer requirements at the lowest total cost of acquisition, ownership, and use."

Value, believed to be the ultimate determinant of consumer purchase decisions, is now commonly understood to simply comprise perceived quality and perceived cost, relative to the competition (Band, 1991), or,

Figure 3-1

$$\boxed{\text{VALUE} = \frac{\text{QUALITY}}{\text{COST}}}$$

[1] A Total View, Total Research Corporation, v. 1, no. 67

In most businesses, some elements of perceived quality are beyond the control of the supplier. In the real estate business, for example, the location of the property plays into the tenants perception of perceived value. If the location is thought to be inferior in quality, the numerator becomes smaller. If the location is inconvenient to get to (more costly in terms of aggravation) then the denominator becomes larger. In both cases perceived value is diminished. Unfortunately, management is unable to pick up the building and drop it in a better location.

The weights of importance between quality and price may vary for different consumers in their perceptions of value. One study asserts that quality plays a bigger role than price in consumer perceptions, "Value perceptions are 80 percent quality and 20 percent price. A brand cannot have a strong value image without having a strong quality image."[2]

Cost-

"Cost" does not refer to the manufacture or sales cost, but to the buyer's cost, of which, price is only part. Buyer cost is a function of acquisition, use, maintenance, and replacement. It is tabulated in terms of money, time, and effort. Costs incurred to the buyer from product failure must be included in this sum. This would include the cost of aggravation and lost utility while the product is being repaired.

Quality-

Quality, as quantified within the value equation, encompasses everything other than cost. It is a universal judgment of the "overall excellence and superiority" of a good or service (Zeithaml, 1988). As perceived by the customer, quality depends on the overall fitness of the product and accompanying services in relation to comparable products available in the marketplace. Customer perceptions of service quality are included in the evaluation, as are design features, suitability for intended purpose, visual appeal, status associations, and the like. By focusing on customer satisfaction and customer needs a

[2] A Total View, Total Research Corporation, v. 1, no. 67

company can preempt a loss of perceived quality. Conversely, "The current level of quality as perceived by the market should have a positive effect on overall customer satisfaction." (Anderson, Fornell, and Lehmann, 1994). Most companies strive to offer high quality at a low price, but this is not always feasible. The trick is to maintain the tenuous balance between quality and cost resulting in the highest return on investment.

Reasons for a shift in attention by many companies from total quality to relative value become evident in reports on total quality conducted in the early 1990's. These studies reviewed the overall effectiveness of the many service quality programs initiated during the ten years prior. While service quality is admittedly a rather abstract and difficult construct to measure on trend lines, surveys have concluded that a number of service quality initiatives failed to improve market share or return positive net present value returns. One study found "no significant impact as a result of TQM" by 100 British firms (American Quality Foundation, 1992), and another found "zero competitive gains" by almost two thirds of 500 American companies employing service quality improvement programs (The Economist, 1992) .

Misguided quality improvement programs sometimes actually prove fatal for the firm. The 1990 Malcolm Baldridge National Quality Award winner, the Wallace Company, incurred a two million dollar increase in overhead from quality enhancement efforts. Customers were unwilling to pay higher prices to compensate and, in 1992, the company filed for bankruptcy.[3] Quality improvement efforts are now construed to provide diminishing returns that, for companies already supplying superior quality, may be a waste of time and resources. The threat to business competitiveness implicit in these results is that firms will abandon quality improvement campaigns altogether. On the contrary, the customer value of low quality products, in some cases, may be inexpensively improved by strategically allocating resources in targeted performance areas (Section 5 of this study will explore strategic allocation of resources in more detail). In fact, service quality is a vital component of overall value. It should be managed, however, to ensure

[3] Speech by Roland T. Rust, American Marketing Assoc. Seminar, 1995

that strategic quality improvements are directed at specific areas (identified by the customer) that will have the greatest impact on the perceived value of the product. Assuming that the price of such improvements must be recoverable through increased revenue, the resulting quality/cost ratio, as perceived by the buyer, must also be improved. In other words, there must be a sufficient investment "return on quality".

Customer Satisfaction-

Through the voice of the customer, customer satisfaction scoring tells a firm how well it is performing its tasks. When indexed, this simple measure of performance differs from traditional accounting based measures that track business results in terms of operating income and return on investment. The challenge facing any manager is how to utilize the information provided by one index, customer satisfaction, to positively influence the other, economic returns. Customer satisfaction measurements provide a snapshot, at a given time, detailing the degree to which customer needs are being met. In addition, the measure prioritizes the features that make customers happy (or unhappy) in order of importance to the customer, not the firm or it's employees. This information is invaluable, as it sizes up the gap between management perceptions and actual customer desires.

Customer satisfaction is the "measure" of quality and price as perceived by the customer.[4] When accurately quantified and benchmarked against the competition customer satisfaction becomes a predictor of perceived relative value. Because the expectations of customers are constantly changing, cutting edge firms that measure satisfaction on a regular basis are gaining a competitive advantage in the fight to narrow the performance gap, retain more customers, and increase profitability. A study done on the hotel industry revealed that, on average, 92% of satisfied customers were retained while only 45% of dissatisfied customers returned (97% of "delighted" customers were repeat customers).[5]

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[4] Speech by Raymond E. Kordupleski, American Marketing Assoc. Seminar, 1995

[5] Rust, Roland T., Subramamian, Bala, and Wells, Mark, "Making Complaint a Management Tool," Marketing Management, No. 3, pp. 40-45.

Customer service and customer satisfaction go hand-in-hand,

> *"In the simplest of terms, customer service is that set of activities that ensures customer satisfaction with company product or service offerings...Customer service is an implied customer requirement. Unlike quality, quantity, and time requirements, it is rarely specified. What determines its scope and importance are customer perceptions of its worth in value terms."*[6]

Customer satisfaction is distinguishable from quality mainly because perceptions on quality can be acquired without actually purchasing or using the product (Oliver, 1993). Naturally, in new business development, the potential buyer lacks the ability to feel satisfied or dissatisfied for lack of direct experience with the product. This does not imply that potential customers are not influenced by the satisfaction of existing customers. On the contrary, testimonials from existing customers play an important role in non-customer perceptions of quality. Existing customers, on the other hand, have their own experiences on which to draw for quality perception formation. Customer satisfaction is based on experiences from the past, present, and those anticipated in the future (Anderson, Fornell, and Lehmann, 1994). Repeat purchases often depend on the satisfaction level of the current customer. To the extent that satisfaction produces loyal customers, reduces turnover costs, and influences the quality perceptions of potential customers, it impacts profitability. [7]

Market Share-

"Perceived customer value is the leading indicator of market share."[8] Market share of AT&T was shown to lag customer value perceptions by four months. As perceived value rose, whether due to capital improvements to phone lines or due to public

[6] DeRose, Louis J., The Value Network, 1994, pp. 139-140.
[7] Conversely, customer satisfaction is determined, in part, by perceived value, as defined by the quality/price ratio (Kotler an Levy, 1969). This feature establishes satisfaction's dependency on price and further distinguishes customer satisfaction from quality, which is not dependent on price. A number of studies have established quality as an antecedent of customer satisfaction (Churchill and Suprenant, 1982, Cronin and Taylor, 1992).
[8] Speech by Raymond E. Kordupleski, American Marketing Assoc. Seminar, 1995

relations advertising, market share followed four months later. Likewise, market share was unaffected by lower perceived value for four months.[9] However, customer satisfaction and market share have not been empirical linked. An increase in market share may actually have a reverse, diluting effect on customer satisfaction. The strain on customer service activity levied by demands from a larger, and possibly more diverse, clientele may result in a temporary degradation of customer satisfaction scores (Griffin and Houser, 1993). Therefore, customer satisfaction is not a fair barometer of market share. There is, however, good reason to believe that improved customer satisfaction will aid in the quest for market share by improving perceived quality and enhancing the reputation of the firm (the benefits of higher customer satisfaction are detailed below).

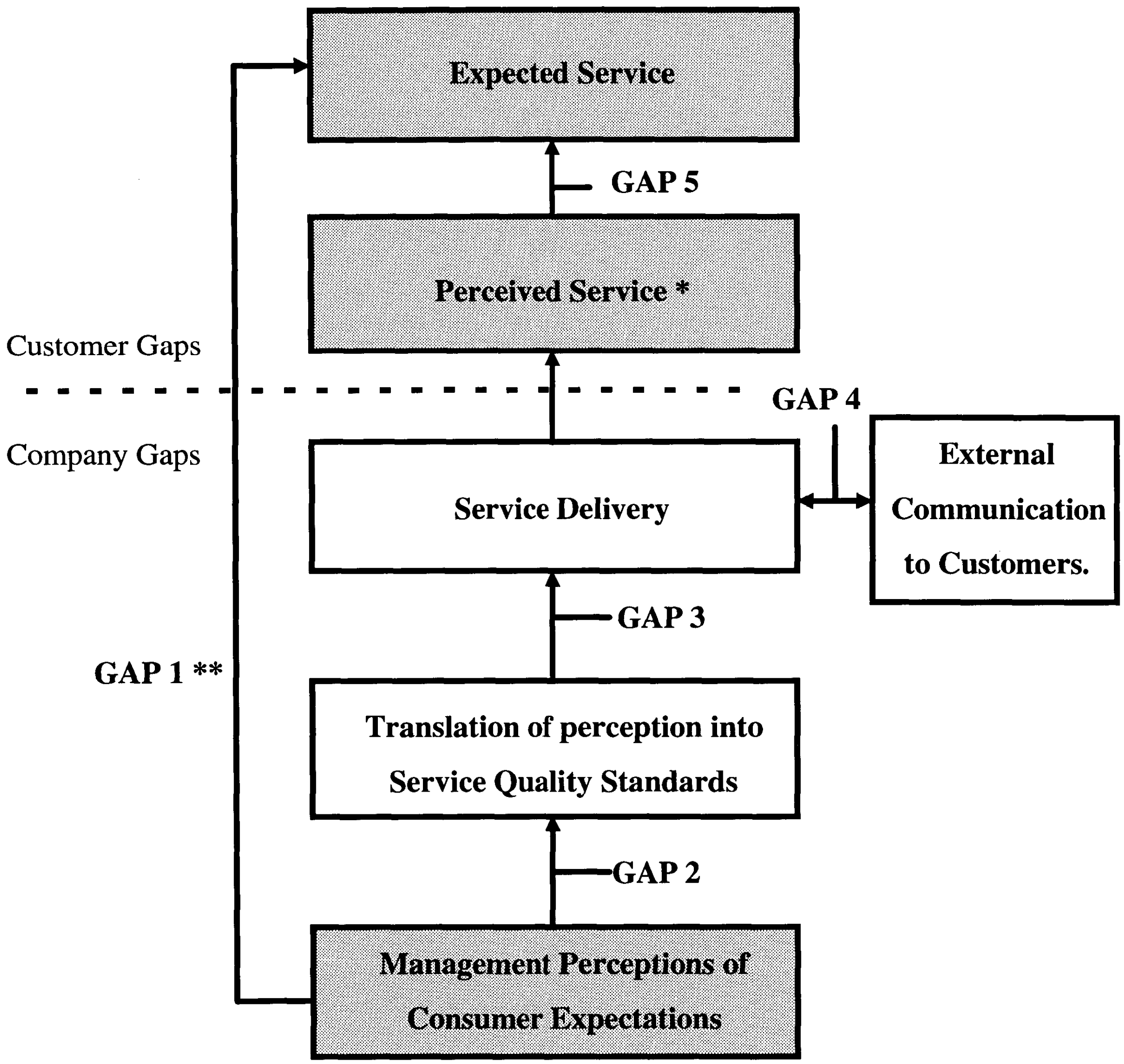
Gap Theory-

Gap theory suggests that customer satisfaction lies in the difference between customer expectations and customer perception of services rendered (Parasuraman, Zeithaml, and Berry, 1985). The authors outlined a group of characteristics that were measured and indexed on a scale, termed SERVQUAL. SERVQUAL was designed to provide quantifiable benchmarks of service quality, as perceived by the customer. Through a process of "disconfirmation of expectations", SERVQUAL conceivably would measure the gap between expectations and perceptions. Disconfirmation occurs as the customers perceptions are changed, either positively or negatively, by their experiences with the product. The measurement characteristics, or determinants of satisfaction, were identified through a series of "focus group sessions and industry applications undertaken by the authors" (Cronin & Taylor, 1992). The focus groups allowed *the customers* to decide what is important to their own satisfaction with the product. Factor analysis then grouped the resulting 22 characteristics into the following components: tangibles (the appearance of physical facilities, equipment, staff, etc.), reliability (performance as promised), responsiveness (willingness to help promptly), assurance (the conveyance of knowledge, courtesy, ability, and trust), and empathy (caring and individual attention to

[9] IBID

Figure 3-2

Service Quality Gaps Model



* The dimensions of service quality, as identified by Parasuraman, Zeithaml, and Berry, include: Reliability, Responsiveness, Assurance, Empathy, and Tangibles.

** By the process of elimination, if gap's 2, 3, 4 , and 5 are eliminated then this overlying gap would disappear as well.

customer needs). As displayed in figure 3-2, the components of quality, as perceived by the customer, and the customer's expectations, determine the size of gap 5. The gap existing between the actual service provided by the firm and the perceived service received by the customer (gap 4) depend on the extent to which quality is being communicated to the customer. Gaps 2 and 3 depend on the ability of the firm to both define the expectations of the customer and convert this definition into performance. The culmination of all gaps determine the overall, critical gap between management's understanding of expectations and actual customer expectations (gap 1).

Business Rationale for Improving Customer Satisfaction-

Business rationale for the improvement of customer satisfaction abounds. The compounding benefits of increased customer retention are intuitive. First and foremost, improved customer satisfaction should produce greater customer loyalty and retention. Satisfied customers come back. Since it costs up to five times more money to acquire new customers than to retain current customers, keeping existing customers can have substantial impact on profitability. The firm saves money on advertising, commissions, and any number of other things that make sales to existing customers more convenient.

Firms with higher customer satisfaction may also be able to charge higher prices than the competition due to lower price elasticities (Garvin, 1988). Satisfied customers would be willing to pay more for the perceived higher quality, still keeping the value ratio at competitive levels. "Price elasticity measurement can serve as an indirect, bottom line way of measuring value perceptions. It can show what a brand is worth in the buyers mind. For instance, upscale consumers are willing to pay 10 percent to 15 percent more for a Sony TV than an identically featured RCA model."[10] Lower product failure costs would also be implied by higher satisfaction. Preventative maintenance increases satisfaction and reduces costs associated with complaint handling and inefficient scheduling of repair crews (TARP, 1979).

[10] A Total View, Total Research Corporation, v. 1, n. 67

One of the most beneficial advantages of enhanced customer satisfaction is derived from word-of-mouth testimonials. In their book *Satisfaction: How to Maximize, Measure, and Market Your Company's "Ultimate Product"* Hanan and Karp explained this critical marketing component:

> *"At its best, (word of mouth advertising) replicates an exchange of confidences between a trusted source and a trusting prospect. Who can be trusted? The most trustworthy source is never you, the manufacturer, or supplier. The most credible persuader is another customer who has always been satisfied. This permits new customers to identify with the same satisfaction, apply it to their own situation, and rehearse the enjoyment of its benefits for themselves."*

The advantages of positive word of mouth are also the most elusive to accurately measure. Surveys conducted upon purchase could reveal the buyer's source of referral to the product or firm, thereby keeping track of the word of mouth component, but how would the firm tabulate the number of prospects that did not buy as a result of negative referrals from current or past customers? One phenomènon, detected by the Technical Assistance Research Project (TARP, 1979), puts the consequences of negative word of mouth into perspective. The study found that the average dissatisfied customer tells eight to ten other people about his or her experience. Thirteen percent of dissatisfied customers spread their negative message to twenty or more people. Unsatisfied customers suddenly become ambassadors of disaster for the company. The negative messages then become more likely to be reiterated in the media. It becomes more expensive to attract new residents, as objections are more difficult to overcome.

On the other hand, satisfied customers are more inclined to engage in positive word of mouth. Therefore, customer satisfaction should lead to an overall enhancement of the reputation of the firm, lowering the buyers' perceived risk of purchasing (Robertson and Gatignon, 1986). If communicated effectively, the reputation of the firm, and the implied quality of it's product, can act as a differentiating mechanism that builds band equity, further reinforcing loyalty and retention efforts (Keller, 1993). Traditional marketing efforts are vastly augmented when satisfied customers are compelled to spread the good word.

It is, therefore, reasonable to conclude that customer satisfaction has a positive net impact on economic returns for the firm. By tracking satisfaction levels the firm sets the upper boundary of the gap, expectations of the customer. Since expectations change continually, satisfaction must be measured on a routine basis for the firm to keep abreast of gap size variance and to regularly update strategies for meeting the new expectations. In the absence of a regular system for measuring customer expectations and satisfaction a firm may be blindly supposing the relevance of satisfaction characteristics and the magnitude of the gap.

How important is it to comprehend in detail the mercurial expectations of the customer? The great Henry Ford, architect and benefactor of early assembly line innovation at Ford Motor Company, discovered the answer to this question not long after he lamented the fateful words, "You can have any color you want, boys, as long as it's black." General Motors knew that customers had come to expect color choices in their automobiles. GM gave them choices and, since 1936, Ford has yet to recover it's preeminent market share (Band, p. 29).

Defensive Marketing-

Improved quality initiatives of the 1980's had been grounded in the notion that it is less expensive to keep existing customers than it is to acquire new ones. Known as defensive marketing, this concept has been studied and shown to be a valid compliment to concomitant acquisition marketing programs. While traditional views had linked sales and market share to offensive promotional activity, many companies are finding that, in the absence of customer retention efforts, marketing becomes bogged down in a ubiquitous and harmful culture of "conquest" marketing that ignores the needs of existing customers (Harmon and McKenna-Harmon, 1995). Exclusive attention to the "closing" of new customers while neglecting the current customers, has been shown to have negative effects on customer satisfaction and "its relationship to choice and market share" (Rust and Zahorik, 1993). Offensive marketing is not deemed to be counterproductive within this thesis, only that defensive retention mechanisms can substantially enhance it's effectiveness.

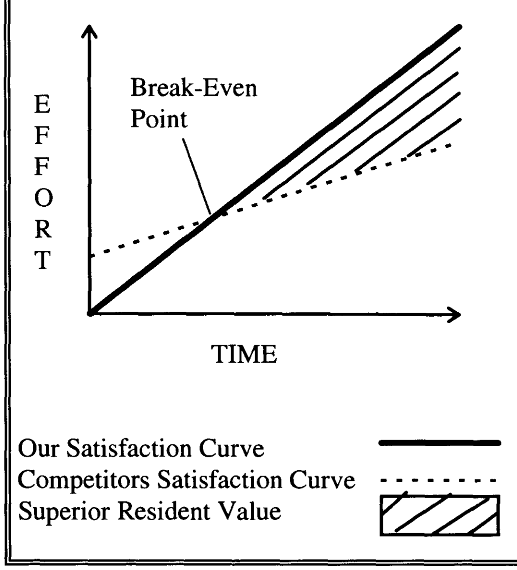
This section has talked about marketing theory in general. The vocabulary is sophisticated and often complex. For this study it is important to understand how the concepts and terms relate to the world of property management. In apartment communities, lateral defection occurs when residents move to competing units within the marketplace (Kelley 1981). Economic defections, on the other hand, are systematic and occur due to factors beyond the immediate control of management, such as job relocation or new home purchase (although multifamily managers have begun to more adamantly tout the benefits of renting as a long term, risk free alternative to buying a new home, particularly since many homeowner values plummeted during the recent real estate crash). The performance gap analysis of this study is intended to expose attributes of the community that, if improved, will increase resident satisfaction and reduce lateral defections. Only to the extent that improved resident satisfaction bolsters the resident's perceived value are retention programs affecting key business indicators like market share and net operating income. Regardless of how sure management thinks they are of resident expectations and satisfaction, the shrinking of the performance gap requires a more unambiguous and precise grasp of resident attitudes. This begins with an awareness of gap theory parameters and ends with the development, management, and implementation of a resident satisfaction measurement system that systematically translates into actionable improvement strategies. Many multifamily real estate firms do not practice sophisticated preventative marketing. Therefore, it is not unreasonable to conjure that firms mastering the processes stand to gain considerable competitive advantage in doing so.

4.

Measuring Resident Satisfaction.

Resident satisfaction data is critical feedback, for use by the entire firm, and should be considered a "part of the overall management information system that guides the decision making of top-level management outside the marketing department."[1] (Band, 1991, p.74) Many firms expend considerable effort researching only their competition and competitive products. This allows for a realistic assessment of how the company compares in terms of services rendered and product features being offered. It also uncovers emerging trends in the marketplace that help guide strategies for the future. However, without assessing the needs of the customer the firm is omitting key information from their strategic planning process. The research methods outlined in this section incorporate both the voice of the customer and competitive benchmarking in the same process. This allows the firm to find ways of improving the value of the product by keeping pace with the customer rather than the competition.

Figure 4-1



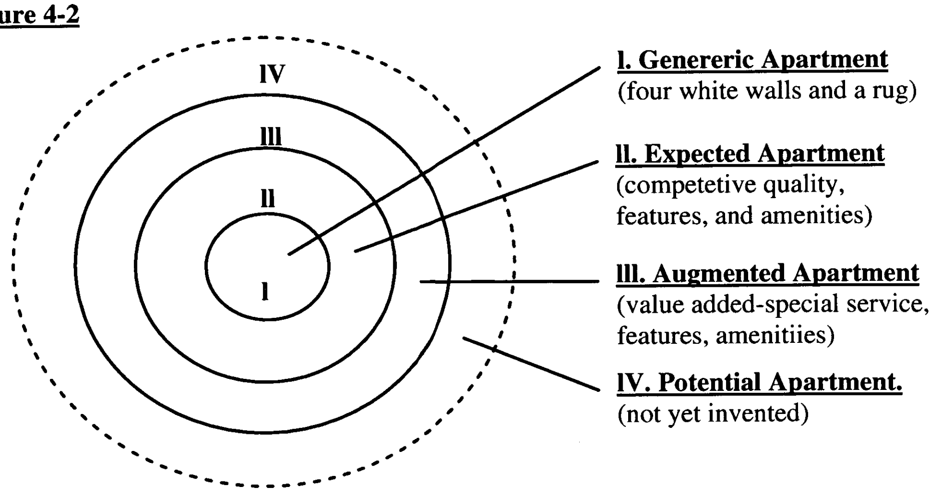
Competition within the marketplace takes one of three forms in the fight for residents: 1) They satisfy residents less than you, in which case they are a potential source of new residents, 2) They satisfy residents more than you, thereby drawing residents away, 3) They equally satisfy residents and therefore dilute your ability to differentiate the community (Hanan & Karp, 1981, p. 128). Resident satisfaction measurement and improvement initiatives are proactive methods of elevating the property into the first category. Time and effort are necessary but, if implemented

[1] Band,p.74

effectively, the added value eventually propels the community into the enviable position. As shown in Figure 4-1, the return on effort and resources expended is not immediate. However, with methodical persistence and a commitment by the entire firm the benefits of increasing satisfaction by focusing on "the voice of the customer", and by targeting specific and cost effective improvement initiatives, should produce positive returns.

The concept of superior value in apartment communities is also well illustrated using the Levitt Paradigm[2] (Figure 4-2). The model emphasizes the different grades of value offered in the marketplace. The generic apartment is just that, basic shelter at the lowest possible price. The expected apartment offers features and services that are expected by the average resident, and no more. The augmented apartment adds value to the expected apartment by providing superior services, features, and amenities. The attractiveness of the augmented apartment is it's superior quality provided at a competitive cost. The potential apartment has not been invented yet and, by definition is constantly changing. Since it is not yet invented, the best means of differentiating the community in the marketplace is through an augmented offering.

Figure 4-2



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[2] Levitt, T., 1980.

The resident satisfaction research outlined in this section is intended to present a method of achieving the augmented status by describing the links between resident and management, emphasizing the effects that employees of the firm have on resident satisfaction, and isolating the characteristics of service that determine such satisfaction. Such characteristics, or attributes, of service quality have been scored by surveying a random sample of residents and then grouped into categories, like they are in the SERVQUAL metrics employed by Parasuraman, Zeithaml, and Berry (1985).

The Data Source-

The data measuring relative value was obtained from Boston Financial, a full service real estate firm that manages approximately 35,000 apartment units nationwide. The firm has made a commitment to developing a system that will quantify the value of the apartments in their communities on a continuing basis (The firm also uses the same approach in measuring value provided to customers in other business units within the firm). The purpose of the system is to understand how well the business process is working, determine where to initiate improvements, if necessary, and to provide a mechanism to measure the effectiveness of such initiatives. A longer term goal of the project is to differentiate the firm from the competition on a national scale by providing superior value.

Managers at the firm understand that the process of developing a system to measure performance, and translating the results into improvement initiatives, is an ongoing process that will require refinements in order to achieve maximum benefit. Being only the first year of administering this particular system, management acknowledges the lack of a few important components and plans to enhance the system for the next run, scheduled for the upcoming year. The process used in quantifying value, represented here, comprehensively measures resident perceived quality. However, not measured by this run were either perceptions of the "cost" dimensions, or satisfaction levels of residents in competing communities. Because the relative value index depends on the relationship between quality and cost the measurement of perceived costs will eventually allow the firm to track perceived resident value from year to year. Satisfaction levels of residents in other communities will then allow the firm to index the relative value of the competition and, when compared with their own resident scores, evaluate the competitive position of their portfolio. Notwithstanding, quality often considerably outweighs cost in the value relationship and this data, together with ratings that reveal the importance of each performance attribute to the resident, will be used to demonstrate the benchmarking process.[3]

Using an independent market research firm, a random sample of 500 residents was chosen. The portfolio from which the residents were drawn contains various types of subsidized properties as well as market rate properties. From the aggregate data the following subsets were segmented for analysis of potential ramifications of the Section 8 subsidy shift; HUD Section 8, project-based subsidized properties (70 samples); Low Income Housing Tax Credit (LIHTC), IRS Section 42 properties (98 samples); mortgage insured, HUD Section d(3) and Section 236 properties (219 samples); and mortgage insured, HUD Section d(4) properties (53 samples). A number of properties are actually a hybrid of the subsidy programs and could not be definitively categorized. These were excluded from the segmented samples. In addition, many properties rely on state subsidies in order to make the investment viable to developers. These subsidies were considered insignificant when categorizing the properties for the purpose of this study.

The Survey-

As with all surveys, the integrity of the data relies on statistically valid and properly executed surveying techniques. A general overview of commonly used survey methods is presented in Appendix B. For the data used in this study, residents were asked specific questions designed to measure satisfaction levels with certain characteristics of the communities in which they reside. Surveys were conducted by phone in January of 1995 and averaged 14 minutes in length. The resident whose name appeared on the lease was interviewed, resulting in the following demographic make-up of the sample; 73%

[3] A Total View, Total Research Corporation, v. 1, no. 67

male, 27 % female; average age: 38 years; average number of years residing in the community: 4 years; geographic distribution: all parts of the United States; ethnicity: 58% White, 27% African American, 7% Hispanic, 3% Asian American, 1% Native American, 1% other, 3% refused to specify. Respondents indicated satisfaction levels, for close-ended questions, using the following scale; 1: extremely satisfied, 2: very satisfied, 3: somewhat satisfied, 4: neither satisfied nor dissatisfied, 5: somewhat dissatisfied, and 6: very dissatisfied. For example, residents ranked their satisfaction in response to questions such as; "How satisfied have you been with your apartment community on the courtesy of the office staff when you write or call the management office?" Certain open-ended questions were also asked, including; "What other factors contribute to your overall satisfaction with the apartment community you live in?" Interviewers probed for reliable responses by posing such follow-up questions as; "Could you tell me a little more about that?"

The Quality Attributes-

The attributes of quality perceptions are illustrated by the "value tree" in Figure 4-3. Reading from right to left, "value" is the relationship between quality and cost. "Quality" is derived from office staff, maintenance, safety issues, and characteristics of the physical facilities. Each of these performance areas are comprised of a group of attributes, listed in the left column. For instance, "response to issues involving safety" and "safe and healthy environment for children" combine to determine the score for "safety" at the community.

The scores for each quality attribute are determined by the responses to the survey questions. Scores for the entire sample, as well as the segmented scores have been tabulated in Figure 4-4.[4] A ratio of 1 means that service delivery is equivalent to the

[4] The raw scores for each *attribute* are based on the six point scale used on the survey questions (extremely satisfied to very dissatisfied). These scores were then converted to a ten point measurement scale. This allows for easier interpretation since most people are more familiar with ten point scales than with six point scales. All scores above 5 are positive, with 10 being the best. Scores below 5 indicate an average dissatisfaction in delivery of that attribute, with a score of 1 being extremely poor. The scores are then converted again, into a ratio of the firm's score over the satisfaction score of the competition. In doing so, the firm's performance with respect to the competition in each delivery category is readily observable.

Figure 4-3.

The Value Tree

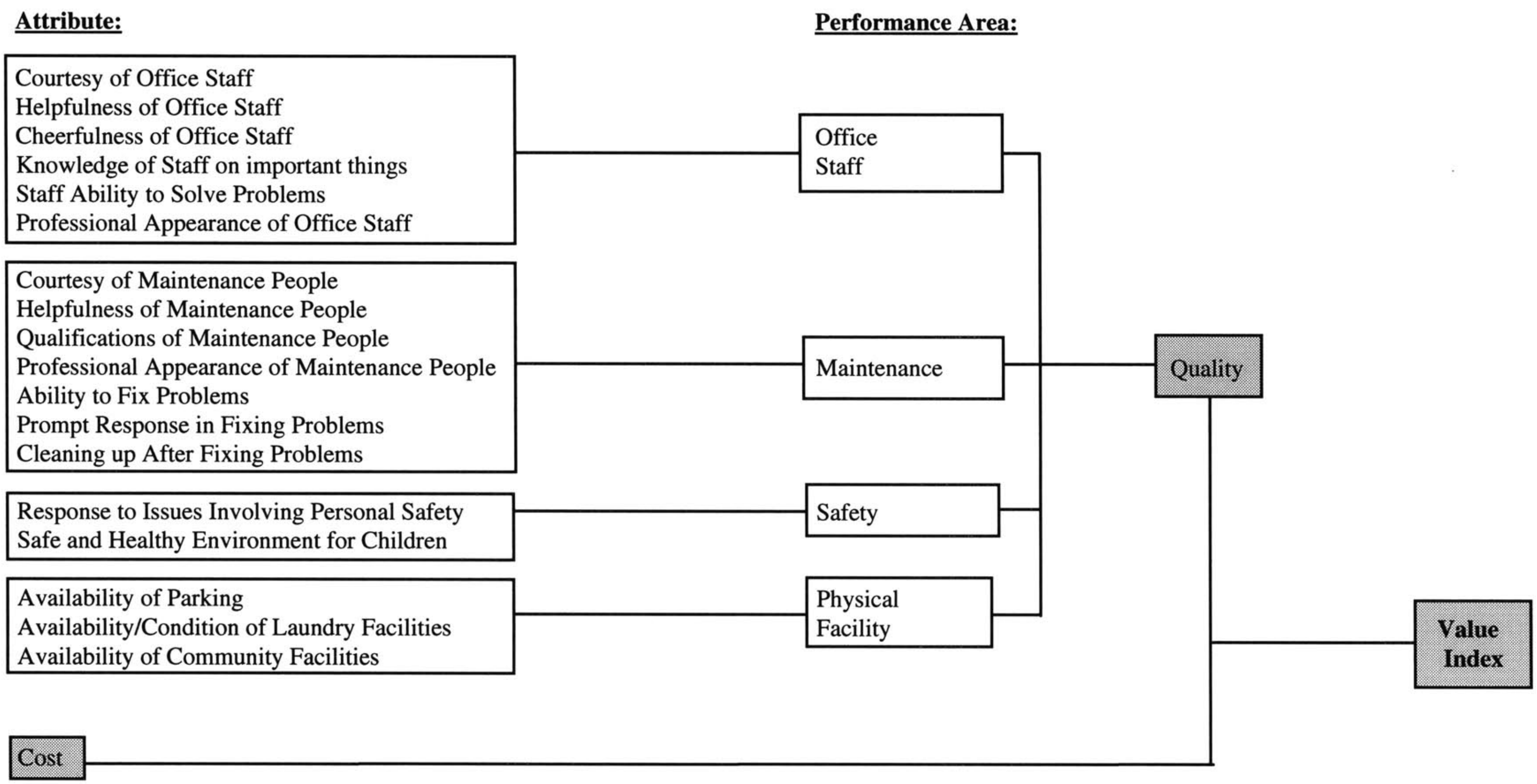

Figure 4-4- *Segmented Resident Satisfaction Data*

Community Type	**Full Sample**		**Section 8**		**Section 42**		**d(3) & Sec. 236**		**d(4)**	
Attribute	Weight	Ratio	Weight	Ratio	Weight	Ratio	Weight	Ratio	Weight	Ratio
Courtesy of Office Staff	15%	1.05	16%	1.05	18%	1.05	15%	1.04	13%	1.07
Helpfulness of Office Staff	15%	1.04	15%	1.04	13%	1.02	15%	1.04	14%	1.04
Cheerfulness of Office Staff	16%	1.03	19%	1.02	17%	1.03	15%	1.04	17%	1.05
Knowledge of Staff on Important things	18%	1	18%	.99	17%	.99	20%	.99	18%	1.01
Staff Ability to Solve Problems	20%	.97	17%	1.01	17%	.96	20%	.97	23%	.98
Professional Appearance of Office Staff	16%	1.07	15%	1.03	18%	1.09	16%	1.07	15%	1.06
Courtesy of Maintenance People	12%	1.06	11%	1.06	12%	1.05	12%	1.07	14%	1.03
Qualifications of Maintenance People	13%	1.03	13%	1.01	15%	1.04	12%	1.03	15%	1.04
Helpfulness of Maintenance People	12%	1.06	13%	1.05	10%	1.06	12%	1.06	10%	1.03
Professional Appearance of Maintenance People	14%	1.05	15%	1.05	17%	1.02	13%	1.05	12%	1.03
Ability to Fix Problems	14%	1.01	13%	1.02	18%	1.02	15%	1	13%	1.02
Prompt Response in Fixing Problems	18%	1	18%	1.01	15%	1.04	19%	.99	21%	1
Cleaning up After Fixing Problems	17%	1.03	18%	1.02	14%	1.05	18%	1.03	15%	1.03
Response to Issues Involving Personal Safety	50%	.97	53%	.98	49%	.97	51%	.97	50%	.97
Safe and Healthy Environment for Children	50%	.92	47%	.95	51%	.93	49%	.92	50%	.94
Availability of Parking	39%	.87	43%	.89	41%	.8	37%	.9	41%	.85
Availability/Condition of Laundry Facilities	34%	.87	35%	.87	30%	.89	35%	.88	36%	.83
Availability of Community Facilities	27%	.97	22%	.97	29%	.97	28%	.96	23%	1
Office Staff	21%	1.02	19%	1.02	28%	1.02	20%	1.03	21%	1.03
Maintenance	22%	1.03	24%	1.04	24%	1.05	22%	1.04	21%	1.03
Safety	28%	.95	29%	.96	22%	.95	29%	.95	27%	.95
Physical Facility	29%	.9	28%	.9	27%	.88	30%	.91	31%	.88
Quality	100%	.97	100%	.97	100%	.99	100%	.98	100%	.96
Cost	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Value Index	100%	N/A	100%	N/A	100%	N/A	100%	N/A	100%	N/A

competition. The higher the score is above 1, the better the firm is performing relative to the competition. In general, a ratio of 1.1 or better is superior, 1.02 to 1.1 is strong, .98 to 1.02 is neutral, .9 to .98 is weak, and a score below .9 is inferior.[5] Multivariate analysis is used to determine the degree to which each attribute contributes to overall satisfaction (The more significant attributes "drive" satisfaction and the weights help to guide the firm in selecting an appropriate improvement strategy. Resource allocation is covered below). The "weight" of importance for each attribute is derived from the responses of the residents (They are not determined by the property management or marketing staff). Each group of performance attributes equals a combined 100% weight, as do the four performance *area* attributes. The scores for each *area* of performance are derived from the weighted average of the specific quality attributes in that group. "Quality" is then quantified by taking the weighted average of the four groups.

Data Analysis-

Every performance attribute measured by the survey had an average positive satisfaction ranking. The blended average score was 7.86 which, on a ten point scale, indicates that overall performance for the firm is quite strong. In addition, the segmentation of the data reveals a consistent level of service being provided over a broad range of property types. As mentioned above, for the purpose of this analysis the ratios were derived using the overall average performance score in place of the score from the competition (See Figure 4-4 for weights and ratios.). This means that when describing performance as "weak", "neutral", "strong", etc., this is in relation to the average performance of the firm and not to the competition. When satisfaction scores for the competition are obtained the actual ratios may show much better performance, or vice versa. The entire survey of 500 residents reveals that, while office staff and maintenance are important to residents, safety and physical facility weigh most heavily on resident satisfaction. These two areas also produced the lowest performance scores. Improvements

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[5] Since this data set is without satisfaction ratings from the competition, and for the sake of example, the average of all of the firm's scores are substituted for the competition score. Therefore, these ratios actually depict how closely that attribute compares, above or below, to the performance average of all the attributes. This alteration does not diminish our ability to evaluate the gap between resident and management expectations.

to these areas pose unique problems to any management firm. Providing a safe and secure environment not only requires a substantial funding commitment but also potentially exposes the firm to legal problems. The question arises, and undoubtedly would be presented in court, that if management is expending resources to provide a "safe environment" is the firm also liable in circumstances when residents or their guests are victimized on site? A few of the interviews with managers disclosed an awareness of this issue and, due to the potentially enormous liability, a propensity to refrain from overt improvements in this area, in spite of it's importance to residents. One of the most important questions arising from this research is; If security is becoming more of a concern for residents, how can management confront this issue in a responsible manner that will also increase satisfaction and create value at the community? The issue will be revisited in upcoming sections.

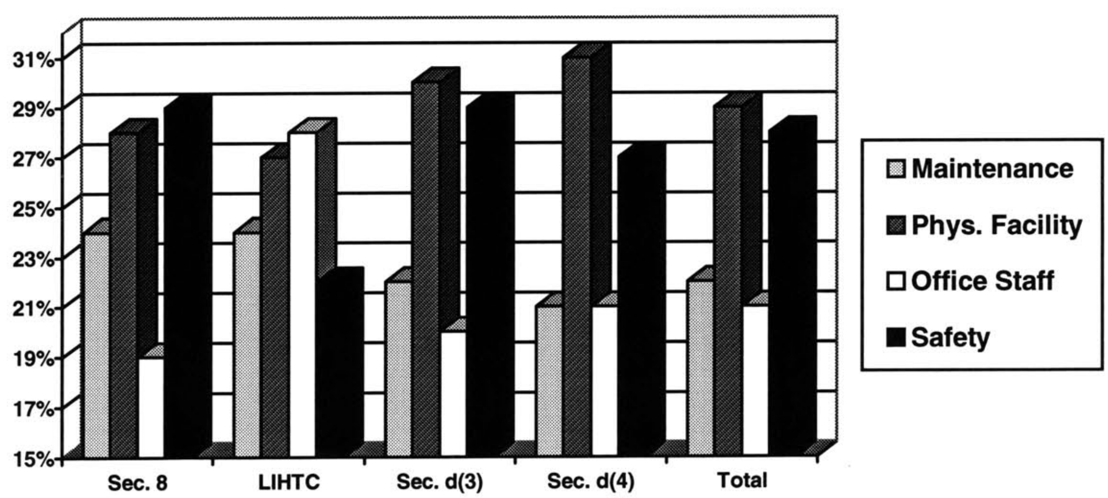
One of the obstacles to improving the physical facility score arises from the fact that "availability of parking", which also scored poorly, is regarded as the most important attribute in this performance group. For most communities this is a feature that cannot be altered, save for major undertakings such as the construction of a parking garage, that quite possibly will not provide a positive return on investment. "Laundry facilities" (inferior score) and "community facilities" (weak score) may be more attractive prospects for improvement.

In the category of "office staff" all of the scores were strong except for "ability to solve problems", which was weak. This may indicate a low level of staff empowerment to solve problems in a timely manner. In the "maintenance" category, all attributes scored from neutral to strong, with "prompt response" scoring the lowest. Both "ability to solve problems" and "prompt response" were also the most heavily weighted by residents in terms of importance within their respective categories.

Section 8 Data Analysis-

The scores and importance weights recorded for the Section 8 properties correlate quite closely with those recorded for the entire sample. In fact, the blended average satisfaction rating, based on the ten point scale, is higher for Section 8 residents than it is for the sample as a whole, 8.16 for Section 8 vs. 7.86 for the aggregate. Performance in the Section 8 sample compares favorably with the other subsidized categories as well. As illustrated by Figure 4-5, which shows the importance weights for the four determinants of "quality", the importance placed on performance areas by the residents of Section 8 properties also mirrors those of the aggregate sample. "Safety" and "physical facility" are most important in both groups, although in Section 8 "safety" is a bit more important. Likewise, the performance of the office staff is significant, but least important in both samples. "Maintenance" is a bit more important in Section 8.

Figure 4-5- *Performance Area Weights by Property Type*



As discussed in Section 2, managers of central city Section 8 housing face unusual challenges when dealing with the issue of safety. The properties are typically located in neighborhoods plagued with high poverty, drug abuse, unemployment, vandalism, and gang activity. Even if management is somewhat successful in preventing these problems from infiltrating the community, perceptions of safety can be negatively influenced by the surroundings. For those properties that are able to overcome this problem, by projecting a safety image superior to competing properties, a significant opportunity to create value exists.

The fact that the satisfaction ratings for Section 8 residents are favorably comparable to those of the other property segments is a reassuring sign for Section 8 property owners. Project-based subsidies currently provide a captive market. As this captive market is released by the shift to certificates of vouchers, the strong satisfaction levels and quality perceptions among these residents should prevent mass defections and may even produce a relatively stable transition period. Firms anticipating the subsidy change that are able to isolate attributes highly effecting satisfaction, and initiate improvements to these attributes in time to impact perceived quality, quite possibly could experience little effect on resident turnover, based on this data. Actually, those communities that are successful in perception enhancement may actually benefit by attracting residents from those properties with poorly perceived value. The key for most communities will be to consolidate satisfaction improvement efforts in time for enhanced perceptions to be generated.

It is conceivable that resident expectations in Section 8 properties were lower to begin with. If so, that would result in greater satisfaction even if actual service performance was the same across the various property types. This would be consistent with gap theory and further emphasizes the benefits of satisfaction measurement over simply comparing service performance across property types. Satisfaction, although predicated on performance, is the actual construct upon which quality perceptions are based. When supply side, voucher subsidies are introduced it is possible that the overall expectations of Section 8 residents may grow, thus pushing satisfaction ratings down. Without satisfaction measurement, this would result in an even wider gap between management perceptions of resident expectations and actual expectations; i.e., lower perceived value.

The most evident anomaly in Figure 4-5 appears in the Section 42 (LIHTC) property class. In comparison to the entire sample and to the other subsidy segments, residents in

LIHTC communities regard safety as much less important and the attributes of the office staff as much more important. The relative importance of both maintenance and physical facility, on the other hand, is fairly consistent. Section 42, the Low Income Housing Tax Credit Program, is new in comparison to the other subsidy programs. Section 8, d(3), d(4), and 236 date back several decades while the LIHTC was initially enacted in 1986. The LIHTC requires that the units be new, either original development or rehabilitation, and therefore the properties are about three years old, on average. Most properties in the other subsidy categories are many years older. Furthermore, at least for those represented in this sample, many LIHTC properties are located outside the central business districts and often in suburban communities with neighborhood characteristics much different from the inner cities, including lower crime rates. Such property type differences may explain the variation in weights of the satisfaction determinants.

It should be stressed that resident satisfaction with "cost" has not been measured in this data set. Since price plays the major role in the formulation of "cost" perceptions, the "value index" is highly dependent on price perceptions. In a separate study, done in 1984 for the Boston Housing Authority, resident satisfaction was measured in four public housing communities in Boston, one in South Boston, one in Charlestown, and two in Mission Hill.[6] The research found that, when asked what they liked the most about the development, the highest percentage of residents (30%) noted the price (rent and utilities) to be most important. The next most frequent response was "accessibility to services and transportation." Residents were also asked what they disliked the most about their apartment unit; "By far the most common complaint was lack of maintenance (38%)." When added to the third most common complaint, the presence of vermin (15%), maintenance related issues made up 53% of dissatisfaction with the apartments. When asked about dissatisfaction of the community and its surroundings as a whole, fear of crime and personal safety was cited most frequently (25%). This data supports our findings that safety and maintenance are important determinants of quality perceptions. However, the value index, when figured using cost components, could possibly show that

[6] Camayd-Freixas, Y., & Amaro, H., "A Survey of Tenant Needs in Boston Public Housing.", 1985.

the low rent paid by residents compensates for dissatisfaction in these areas, thereby resulting in high overall satisfaction.

Gap Analysis-

Although the attribute performance in the maintenance and office staff categories ranked as important to residents, 21% and 22% respectively, safety and physical facility were considered even more important at 28% and 29% weights. The interview responses in Section 2 suggest that management professionals typically view maintenance as the most important determinant of satisfaction. On the other hand, safety was not cited in any interview as a key determinant to satisfaction, while "physical facility"/"amenities" was mentioned twice as being of secondary importance to satisfaction. This suggests a sizable gap with respect to safety issues. Within the maintenance category itself manager perceptions were actually closely aligned with the data. The most frequent management response (10 out of 17) as well as the highest resident ranking (18%) was given to "prompt response to maintenance problems", indicating a rather narrow gap in this area.

In a separate exercise, a group of eight management professionals were asked to rank the four performance categories in the order that *they* felt were most important to resident satisfaction. This was done prior to disclosing the actual weights as reported by the residents. The results, along with the actual resident rankings, are inset to the right. Again, the importance of maintenance, compared to our data, was over estimated and physical facility was under estimated by management. Office staff was also under estimated. In contrast to the interviews, safety was actually *over* estimated in this exercise. In explaining this disparity, it should be pointed out that in this excise the managers were given a list of attributes to prioritize. Alternatively, the managers interviewed in Section 2 were not given a list but were asked open-endedly what they felt was most important in determining resident satisfaction. It appears then, that while safety

	Manager Weights	Resident Weights
Office Staff	15%	21%
Maintenance	30%	22%
Safety	33%	28%
Physical Facility	22%	29%

is understood by management to be important to residents the issue itself does not immediately come to mind. Is this because the safety issue has yet to be fully confronted by managers due to the liability problem and, because it is not part of management's ongoing satisfaction activities, is overlooked as a determinant of satisfaction? Although this exercise indicates a rather narrow gap between management perceptions and resident needs in the area of safety, it also indicates a large gap between service delivery and such needs. This being true, the "safety" gap revealed here is consistent with the interviews, indicating an opportunity for apartment property managers to create superior value.

A different study, conducted by the National Association of Home Builders in 1992, *What Renters Want*, offers additional insight into the importance of certain attributes to residents. A national survey of 1,360 market rate renters were asked to rate problems they currently experience in their homes or neighborhoods. As depicted by Figure 4-6, the safety issue once again ranked as a bigger concern than maintenance. This further supports the view that the issue of safety is a significant component of resident needs. It is also an area, as indicated by our satisfaction data, that residents are relatively dissatisfied with.

Figure 4-6- *Problems Occurring in Present Apartment/Neighborhood (% of Survey)*

Rank	Attribute	Major Problem	Minor Problem
1	Crime	14	40
2	Heavy Traffic	15	36
3	Quality of Maintenance	10	29
4	Unsatisfactory Parking Space	12	21
5	Neighbors	9	27
6	Trash/Litter or Junk in Area	8	27
7	Street Roads in Need of Repair	6	27
8	Poor Street Lighting	7	25
9	Airplane/Train Noise	4	21
10	Unsatisfactory Shopping	5	18
11	Unsatisfactory Recreational Facilities	5	18
12	Unsatisfactory Public Transportation	6	14
13	Unsatisfactory Schools	5	10
14	Unsatisfactory Commercial Bldgs. Nearby	4	12

5.

Initiating Improvement

Allocating Resources-

The frequent lack of support by upper level management toward resident satisfaction research often occurs because the results of many surveys either fail to be converted into cost effective action or no follow-up research ever measures the success of initiatives that are implemented. In many respects, the most difficult work begins once all the data has been collected. Old habits in the real estate business are resilient and traditional methods of doing business are not easily changed. As the interviews indicate, however, things *are* changing and many firms are beginning to put greater stock in new methods of improving resident retention. In reality, real estate management firms, some more than others, have always concerned themselves with reducing costs while maintaining good resident relations. The principles of good business have not changed, but residents are now considered a much more integral part of succeeding in the business. The new marketing techniques merely extend this notion by integrating the changing expectations of residents into management decisions and operations.

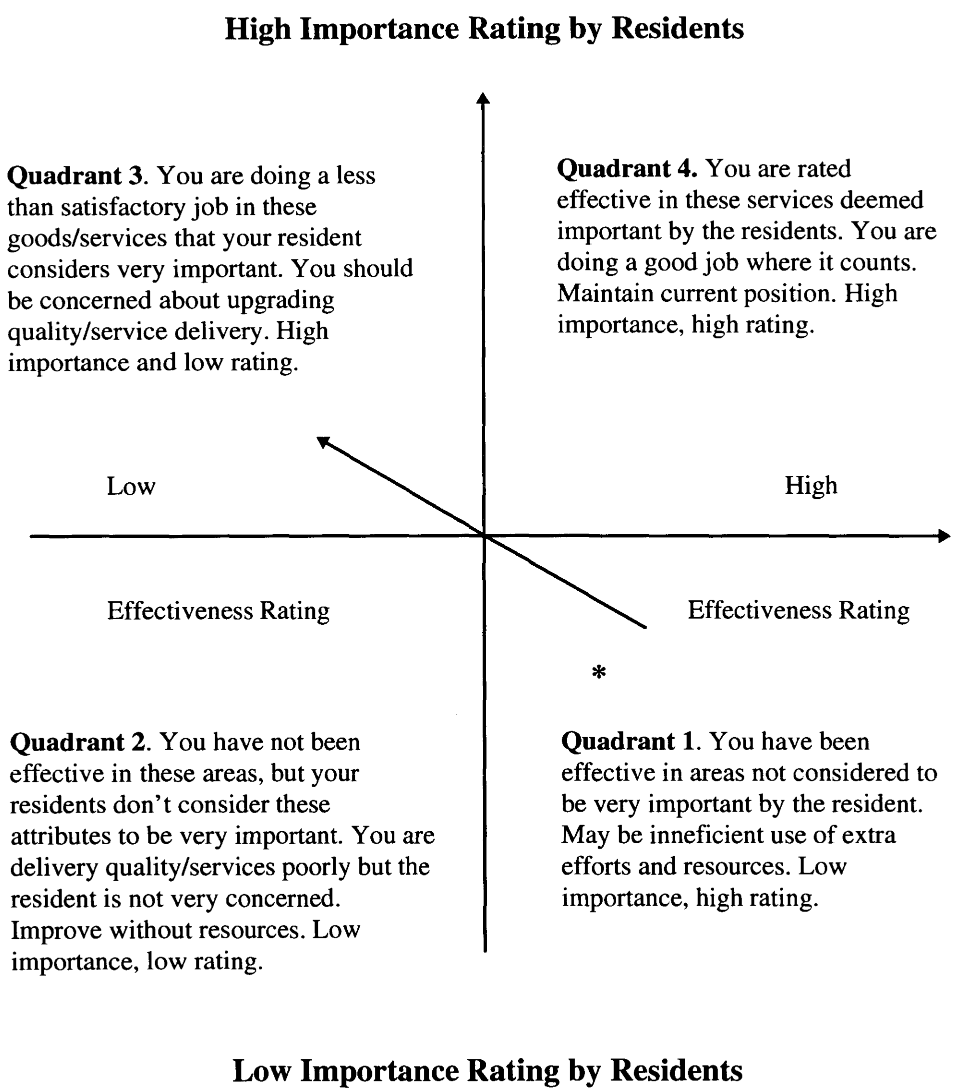
Different approaches may be used in different circumstances when devising strategies with resident satisfaction data. Based on the feedback, what action should be taken that will most improve the satisfaction of residents and also maximize the return on investment? This is not an easy question to answer and it ultimately depends on the particular managers to experiment with using various strategies while searching for the optimal one. In some cases it may make sense to maintain the current level of service, in others, to initiate targeted improvements by dis-investing in one area and investing in others. The firm may also decide to mount a consistent effort across the entire range of performance areas. In Figure 5-1, consider the data from Section d(3) subsidized housing of satisfaction scores and weights for the attributes that make up "maintenance".

Figure 5-1

Sorted by Weight			Sorted by Score		
Attribute	Weight	Score	Attribute	Weight	Score
Prompt Response in Fixing Problems	19%	7.71	Courtesy of Maintenance People	12%	8.36
Cleaning up After Fixing Problems	18%	8.03	Helpfulness of Maintenance People	12%	8.24
Ability to Fix Problems	15%	7.78	Professional Appearance of Maintenance People	13%	8.18
Professional Appearance of Maintenance People	13%	8.18	Qualifications of Maintenance People	12%	8.06
Courtesy of Maintenance People	12%	8.36	Cleaning up After Fixing Problems	18%	8.03
Helpfulness of Maintenance People	12%	8.24	Ability to Fix Problems	15%	7.78
Qualifications of Maintenance People	12%	8.06	Prompt Response in Fixing Problems	19%	7.71

The attributes on the left are sorted in descending order by importance (weights) to the resident, those on the right by satisfaction score (ten point scale, not the competition ratio) as tabulated from the survey responses. Although all of the satisfaction scores are good, the attribute with the lowest performance score, "Prompt response in fixing problems", was also the most important to residents. "Cleaning up After Fixing Problems" and "Ability to Fix Problems" also rank lower in performance than they are valued by the residents. On the flip side, the three highest scoring attributes are also the lowest in importance to residents. This type of data analysis helps managers to decide where to put improvement resources. It would hardly make sense to devote resources improving performance in areas that are of very low importance to the resident, particularly if the firm is already performing well in that area. Figure 5-2, from the book *Creating Value for Customers* by William A. Band (1991), suggests how importance ratings by residents might be used in resource allocation strategies. In this model, resources are shifted from areas where importance weights are low and satisfaction ratings are high to areas where importance weights are high and satisfaction ratings are low. This is not always practical when attributes are intangible and relatively cost free, such as "courtesy" of staff, or when all attributes are relatively important to the resident. In other instances, where hard costs are allocated to the attributes, the model proves quite

Figure 5-2



* The arrow indicates the direction in which to shift resources.

useful and serves as a general guide to resource allocation in creating value.

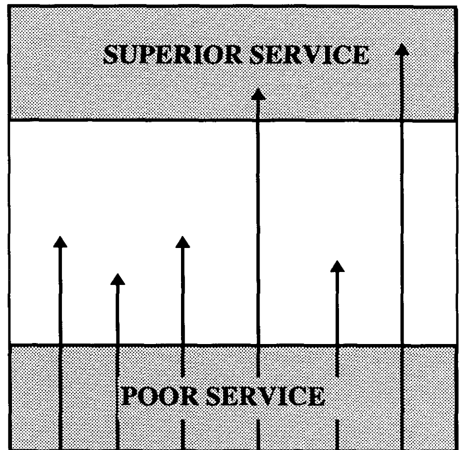


Figure 5-3

It should be noted, however, that in this example all of the attributes are relatively important to the residents, with none being of so little importance as to be negligible. The firm may nonetheless decide on a strategy that will maximize the performance of one or two attributes rather than trying to make only small improvements to all of the attributes. This strategy, sometimes referred to as service "spiking", is illustrated in Figure 5-3.[7] The arrows represent attribute performance. Some of the attributes spike into the range of superior while others remain in the acceptable (white) range. Residents often only expect to receive service levels in the acceptable range. When service delivery exceeds those expectations, the resident is delighted. These incidents are naturally beneficial to quality perceptions, being considered a positive "moment of truth". Resident perceptions of quality may be more heavily influenced by periodic incidents of truly exceptional service that are otherwise dispersed among consistent levels of acceptable service, rather than by one level of acceptable service for all quality dimensions. The strategy may be particularly useful when the firm concentrates on improving attributes that "drive" satisfaction. Drivers of satisfaction are critical determinants of quality perceptions that most impact lease renewal decisions. For example, resident satisfaction research may indicate that resident perceptions of quality are heavily determined by maintenance performance. In this case, the firm might decide to surprise the resident with a personal visit from the maintenance staff to repair any nagging problems the resident may have. If the units are well maintained the visit should be brief and the cost relatively low, but the impact on satisfaction and retention could be substantial.

[7] Howard Present, Boston Financial, 1995.

Other forms of superior intermittent service that have been used effectively include; complimentary car washing, periodic maid service, courtesy gifts, and meals delivered to the apartment. Many firms already do similar things, but have no way of tracking their effectiveness. These activities are most productive when reliable resident satisfaction data reasonably predicts a positive return on the investment through enhanced value perceptions.

Since "security" and "physical facility" are now considered important to residents it makes sense for managers to consistently strive to find creative ways to improve in these areas at reasonable costs. All high costs are not automatically unreasonable. If resident satisfaction benchmarking can be used to forecast the potential increase in revenue generated by the enhanced value then even expensive outlays may be validated in traditional accounting terms. To provide satisfying parking facilities, management might seek to augment existing spaces by entering into agreements with neighboring land owners, cities, or towns. Shuttle service to public transportation could also ease the demand for spaces.

"At some point, we are going to need to address the safety issue."[8] The security issue may offer more creative possibilities for creating value because concerns about security, while often based on actual events, are basically perceptions. Fear among residents can sometimes fuel itself until perceptions far outweigh the actual threat. This is not to insinuate that crime and violence are not real problems, particularly in the inner cities. However, studies have shown that, even in inner cities, perceptions quite often overshadow reality.

> *"An important distinction exists between the level and nature of crime and the depth of residents' fear of criminal activity. The level of fear in a given*

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[8] Donna Gibson, Boston Financial, 1995

development may have little relationship to the actual incidence or likelihood of crime."[9]

These perceptions could sometimes be altered merely by making the community appear safer. Signage, lighting, cleanliness, and other physical features could be strategically altered to improve the feeling of safety. Certain styles of doors, windows, locks, and the like may instill a higher sense of safety than others styles do. Regular seminars, community events, or printed materials could be sponsored by management that educate residents on methods of crime protection. This also conveys management's basic concern for resident safety, and that this concern is supported by action. Concern for resident safety, while improving perceptions, does not imply a guarantee of safety, which may trigger liability.

Other techniques to improve resident perceptions of safety (as well as actual safety) have also been employed. The extent to which they expose liability on management may vary and requires legal interpretation. For instance, resident crime watch groups could be initiated by management, but coodinated and implimented by residents. The mere presence of residents taking an active and visible role in community safety would surely improve perceptions. Good managers also have the ability to build strong relationships with the local police. Given the size of the perception gap, this should become a prime task of the value creating process. The greater the visibility of police in the area the safer residents will feel. Forging these relationships requires tact and diplomacy. All staff persons need to be wary of alienating the police force either in conversation or, especially, in the media. Considering the sensitivity of the police to their image as protectors, it may not be wise to publicly criticize them even if the situation warrants it. On the other hand, if the community is being neglected by police details, this may be the best method of gaining more attention. "Street-wise managers, organizers, and tenant leaders have a highly developed sense of how to play both sides of the media card in a

[9] Keyes, L., 1992, p. 35.

way that does not alienate the police."[10] Again, those communities able to resolve the safety issue in a manner that is both legally sound and adds perceived value would appear to gain a distinct advantage in the marketplace.

Managing the Value Creation Process-

Creating value by monitoring and acting upon resident satisfaction feedback does not begin and end with the marketing department. A commitment by top level management is critical in allowing the marketing department to develop, systematize, and integrate the process into the framework of operations. Maximum benefits occur when reliable measurements are indexed over a time-line that explains the progress from one period to another. Without a commitment to resource the project and incorporate it into the culture of the firm the process may fail before it impacts business results. A successful resident-focused marketing campaign requires the following:

- It must come from the top down-beginning with the policy makers.
- It requires full support/money, people, deep personal involvement, and proper tools.
- It requires knowledge-of the resident, apartments, community, and services, and of the firm and its staff.
- It demands flexibility in responding to the changing needs of the residents.
- It must be equally accessible to all.
- It requires empowerment of front line individuals to be able to satisfy the needs of the residents. (Harmon & McKenna Harmon, 1995, p. 107.).

The success of the process hinges on full acceptance by the property management staff. Initiatives to improve performance relies heavily on those employees at the point of contact with residents. These employees assist management in identifying where and how improvement should be made. They are also the people that most determine the success or failure of such improvement initiatives. Increased resident satisfaction and retention

[10] IBID., p. 174.

has been linked to lower levels of stress among field employees (Harmon and McKenna-Harmon, 1995). Furthermore, many firms are now realizing the benefits of compensating on site staff members for reducing turnover and keeping residents satisfied. This should help galvanize support for the process. Slogans, such as "Residents First" employed by Winn Management, help to maintain focus on the goals of the program, but full implementation has required motivating employees on a deeper level.

When value is being created it is necessary to communicate such value to the resident. After all, resident *perceptions* of value drive satisfaction and renewals. It is often not enough to simply create more value, or for the *firm* to know that additional value has been created. The resident must know it too. Sometimes residents need to be made aware of how important their satisfaction is and of the efforts of management to enhance such satisfaction. The simple act of conducting regular surveys helps to show residents that their needs are being addressed. It indicates an awareness by management that the resident is the customer and not merely a rent payer. Surveys conducted on a per-event basis add to this effect. Sometimes the best way to tell residents of the added value they are receiving is to ask them. For instance, after a maintenance call is complete, the staff may leave a response card asking for the resident's opinion as to the service rendered. Good service is reaffirmed to the residents as they respond to questions such as, "Was the repair made upon schedule?" and "Was the area cleaned properly following repair?" This assumes, of course, that service quality has been sufficiently established so that the answers to these questions are "yes". Perhaps nothing is more damaging to resident perceptions then claiming one level of quality and delivering another, lower level.

By making sure that quality improvement tasks are performed in full view of the resident also helps to communicate value. Some activity, when not obtrusive to the resident's quiet enjoyment of the community, have more impact on perceived value when performed in early evening or on the weekend when more residents are coming and going. Visible service is a more valuable service. Otherwise, it may only be recognized when not performed. The quality and value provided to those living in the community is also reflected in advertising and promotional pieces. Newsletters can be used to discretely educate residents by highlighting value enhancements or through testimonials by satisfied residents. Advertising may further be used in this manner. Current residents as well as prospective residents are influenced by advertising. The messages need not be blatant or come across as swaggering. Rather, the intent is to subtly reinforce the notion that management is serious about satisfying residents and that this attitude is reflected by the success of the community and the superior value enjoyed by the residents. Potential residents envision themselves as recipients of such value and current residents are less inclined to experiment with another apartment at renewal time.

Other ways of staying in touch with residents to reaffirm superior value include social events, visits from management and maintenance, and personal letters or telephone calls. If all employees are geared toward the retention effort and motivated by a shared fate, then the responsibility of communicating with residents is shared by people other than the property manager. Regular communication is vital to uncovering potential obstacles to renewal as well as resident value reinforcement.

Personnel-

Gourmet chefs use only the finest ingredients. If today's apartment properties compete in a service oriented business then they must employ people that are more inclined to serve. Some people are simply not cut out to serve others, perhaps finding the role demeaning. Managers trying to create value through superior service would naturally be better off screening for the right personality when hiring staff members. The satisfaction scores above reveal that many residents regard attributes defined by the personality traits of the staff, such as friendliness and appearance, almost as importantly as maintenance responsiveness or security. Improvements to this area need not be costly, although a firm may be wise to pay a bit more for the right kind of employees. A commitment to hiring nice people may be the most basic and effective quality improvement initiative available to apartment management firms.

"At its most basic common denominator, the formula for our company's success is that we have more nice people than our competitors do. Niceness is among our highest priorities because nice people do better work."[11]

As acknowledged in Section 2, "niceness" alone will hardly prepare an employee to confront the varied demands of apartment management, particularly in subsidized housing. However, even under the most difficult circumstances, satisfying residents and creating value starts with the respectful and apathetic posture of staff persons. For many residents this alone is enough to override dissatisfaction in other areas.

Applicants should also be screened for their propensity to work in teams. Cross-functional solutions are demanded by the resident retention effort and those individuals unable to work with others in solving problems act as a barrier to the value creation process. Other skill sets and prior experience naturally add to the effectiveness of the employee in serving residents. However, with the help of resident satisfaction feedback, the firm must prioritize exactly what is most critical to creating value and renewing residents. These priorities can then be embodied into hiring and training procedures. Further study may reveal that methodical selection of individuals with the right personality profile, coupled with a refined and focused training process, more effectively reduces costs in the long run than a policy of hiring chiefly based on experience that may have counter-productive impacts on the resident renewal campaign.

Once the right people are hired for the job at hand they need to be trained and motivated on an ongoing basis to serve residents and create value. Training procedures should be as specific as possible, even addressing such situations as how to greet residents around the community or what questions are best asked by maintenance during calls. While these interactions may traditionally be viewed as trivial, satisfaction research now shows that the ways in which they are handled have a real impact on resident perceptions of quality. Employees also need to be empowered to make timely decisions that create value for

[11] Rosenblut, Hal & McFerrin Peters, Diane, (1992), p. 26.

residents (this also increases motivation as employees are challenged and responsible for the outcome). If an on-site employee is saddled by restrictive procedures that require management approval on decisions involving costs then many opportunities to demonstrate added value may be lost. Resident perceptions can be fickle and delays may seriously damage an otherwise positive reinforcement of perceived value, even if the ultimate decision is in the residents favor. If it is costing the firm money to satisfy residents then the maximum benefit may as well be gained.

Resident Selection-

It stands to reason that the more value the community provides the higher lease renewals will be and the higher occupancy levels will be, relative to the competition. This should allow management to create and maintain a more diligent resident selection process. By screening out problem residents the community avoids both undue stress on employees and dissatisfaction felt by some residents when neighboring with problem residents. The study *What Renters Want* reports that 8% of renters have a major problem with their neighbors and 32% have a minor problem. By screening out some of the problem residents these problems may be diminished and satisfaction among these residents may go up. This system could be augmented by a policy of non-renewal of leases to residents that prove unreasonable. As discussed in Section 2, this policy must be carefully managed and should never be confused with poor service performance. Residents, if asked to leave, are apt to be very vocal against the community and the benefits must outweigh this cost. All efforts at intervention to remedy the problems need to be attempted prior to exercising this last resort option. The critical point at which a resident has crossed the line should be seriously debated.

6.

Conclusions

The techniques and concepts presented in this thesis reflect a growing awareness among multifamily property owners and managers in becoming more sophisticated at attracting and renewing residents. For a number of reasons, including a shifting demographic makeup, supply and demand factors, and more discriminating residents, efforts to lower costs and become more competitive in the marketplace have been bolstered. An attitude shift throughout the industry seems to have raised the status of tenants to that of resident customer. The impending changes in Section 8 subsidy policies has further heightened owner interest in competitiveness by introducing market forces into a once captive domain. Advanced marketing methods, developed and utilized extensively in other industries, are now beginning to be curiously evaluated by mangers for their potential in the apartment business.

Many marketing executives strive to differentiate the firm by creating the perception of unique and superior value in the marketplace. Multifamily properties successfully do this by providing service and/or amenities, at a comparable price, that become acknowledged by renters and brokers as exclusive. With American populations becoming ever more mobile and market boundary lines increasingly blurred, the notion of a national apartment manager differentiating themselves on a national basis is an intriguing one. Over the past fifteen years residential developers who sell their homes have been somewhat successful in establishing brand equity across market boundaries. K. Hovnanian on the east coast, Kaufman & Broad on the west coast, and Toll Brothers in the northeast are a few examples. As apartment management firms become larger, extending their activities to all areas of the country, and the marketing capabilities within these firms become more advanced, the goal of differentiation is now becoming more and more realistic in the multifamily management business. Treating residents as customers instead of tenants is a good first step in the process.

A differentiated product is often correctly thought of as commodity designed with features that provide unique capabilities. However, products with very similar features can also be differentiated. Management behavior itself is capable of separating the product from the field;

> *"The way in which the manager operates becomes an extension of product differentiation...What they 'sell' is the claimed distinction of their execution-the efficiency of their transactions on the client's behalf, their responsiveness to inquiries, the clarity and speed of their confirmations, and the like. In short, the* offered *product is differentiated, though the* generic *product is identical."*[12]

In apartment management, we have shown how the actions of the management staff do in fact contribute to resident satisfaction, perceived quality, and the relative value derived by the resident. The image of the firm, crafted by its ability to create and communicate such value, determines either eventual differentiation or mediocrity. Further research in this area will help to systematize the value creating process and allow the firm to fully craft it's image.

Future Research-

In trying to incorporate resident satisfaction methods into business operations, probably the biggest challenge facing marketing professionals is justifying the effectiveness of the initiatives in traditional accounting terms. When resources are devoted to the improvement of certain performance attributes, identified as important to residents yet scoring poorly in satisfaction, how can the results be quantified to show the return on investment? By indexing resident satisfaction and relative value against the competition the firm has a frame of reference for the effectiveness of the initiatives. However, establishing a link between satisfaction and value indexes to market share and net operating income will be the key to placating the financial watch dogs of the firm.

[12] Levitt, T., 1980.

This will require systems for monitoring occupancy, turnover, and income before, during, and after initiatives are undertaken. The same data for competing properties is necessary as well. A larger firm may consider running a pilot retention program at one or two properties prior to implementation across the portfolio to test it's systems for thoroughly recording this information.

Ultimately, a truly efficient preventative marketing program will not only be able to isolate improvement areas, allocate resources, and initiate targeted improvements, but will also be capable of defining how much it will cost to improve satisfaction by the desired amount, and therefore, what the investment return on a particular allocation is likely to be. The firm will also want to know the point of diminishing returns for improvement strategies at their disposal. At what point should initiatives be discontinued because further costs are not recoverable by the rents dictated by the marketplace? Future research may center on "cataloging" the many ways of improving performance, what specific tasks are entailed for each, and the cost of each effort. The catalogue could be continuously updated as creative ways of impacting value are derived and tested.

In predicting return to investment it will also be important to know exactly how many residents move due to poor service, or for other reasons under the control of management. A statistically reliable survey of residents, after they have moved from one community to another, could help in understanding this phenomenon and provide a benchmark during service improvement campaigns. This data, along with reliable resident exit surveying, will be necessary to accurately monitor the effectiveness of the campaign; i.e., exactly how many residents are being retained as a result of the service improvement effort. Further research with this data could also determine how long it takes for the improvement initiatives to begin increasing satisfaction, value perceptions, and retention. If the firm knows how long it will take to achieve certain levels of results then strategic allocation of resources becomes easier.

As indicated by this research, a window of opportunity exists for firms capable of effectively confronting both actual safety and resident perceptions of safety. The gap between resident needs and performance delivery warrants full investigation into the legal ramifications of safety enhancement initiatives. Exactly what actions expose the firm to what level of liability? How far apart are resident fears of crime from the real threat of crime in the community and the neighborhood? How effective are efforts to alter resident perceptions of safety at the property? What are the most effective means of doing so? What are the costs to the firm? These are all legitimate questions for those firms seeking to differentiate their portfolio.

Further research may also better quantify the effects of negative word of mouth. To what degree do dissatisfied residents damage the marketability of a given development? Although admittedly difficult to measure, this information would greatly assist efforts to secure resources for resident renewal programs by measuring it's direct impact on net operating income. Sample surveys of residents in competing communities could be designed with questions that uncover reasons for not choosing the subject community. The idea of communication itself could be explored in more detail. Many times increasing resident satisfaction is not a matter of improving performance but of communicating such performance until putative within the community and throughout the marketplace. What are the most effective ways of conveying the message of value?

The issue of motivation is also deserving of more attention. How are on site employees best motivated to provide superior service? What qualities among staff members are most consistent with high resident renewal rates? Some of these qualities are outlined in this research. However, future study could conclude the effects of personality traits on retention and income. Furthermore, communities that compensate staff members directly for increased retention rates could be observed for the motivational effectiveness of this tactic.

As "costs" are made up of everything other than "quality" in the value equation, the attributes of cost should be studied for accuracy in the value index. For certain, rent is the biggest component. What other factors contribute, such as cost of transportation to work, and how important are these factors? Focus groups with residents could uncover these attributes. Questions for accurate measurement could then be developed and added to the survey. During the focus sessions the firm may also want to investigate and rank in importance other amenities or services that, if offered, would add value to the community. If offered on a national scale at discounts to the resident a good amenity package could help to differentiate the portfolio and the management firm. Further research could also confirm the return on investment such value adding programs produce for those firms now using them.

APPENDIX A

The following firms were interviewed in June and July, 1995:

1. Boston Financial, Boston, MA, Howard Present, Donna Gibson.
2. Boston Capital Corp., Boston, MA, Cynthia Lacasse.
3. CEL & Assoc., Los Angeles, CA, Chris Lee.
4. Community Builders, Boston, MA, Judith Weber.
5. Corcoran Management Co., Braintree, MA, Robert Pickett.
6. Edward Rose & Sons, Southfield, MI, Randy Shelley.
7. Equity Residential Property Trust, Chicago, IL, Fred Tuomi.
8. First Winthrop Corp., Boston, MA, Nat Ruccolo.
9. Forest City Residential Development, Inc., Cleveland, OH, George Cvijovic.
10. Heitman Properties, Ltd., Chicago, IL, Larry Beasley.
11. Insignia Financial Group, Greenville, SC, Jim Mathes.
12. Lincoln Property Company, Dallas, TX, Fred Chaney.
13. Meredith Management Corp., Newton, MA, Kerry Mangan.
14. Noonan Associates, Boston, MA, Peter Noonan.
15. Peabody Properties, Inc., Quincy, MA, Doreen Bushashia.
16. TFG, Boston, MA., Richard Williams.
17. Winn Management Co., Boston, MA, William Wollinger.

APPENDIX B

Survey Protocols-

Surveys should be conceived and executed properly to provide comprehensive data on performance competencies. Three incumbent steps include; the determination of customer requirements, development and evaluation of the questionnaire, and execution of the questionnaire. "Customer requirements are those characteristics of the product or service which represent important dimensions. They are dimensions on which customers base their opinion about the product or service."[13] Some standard dimensions exist, such as those reviewed in Section 3, but other dimensions will only apply to the specific business. Two techniques for identifying the appropriate dimensions have been used in different circumstances; The quality dimension development approach (management determines the dimensions) and the critical incident approach (directly involves the customer, through interviews and focus groups, in determining dimensions) (Flanagan, 1954). The quality dimensions measured by the survey used in this thesis were developed using the former approach. The dimensions were formulated by drawing on the experiences of key employees involved in the critical processes, as well as from industry publications that have researched and reported certain determinants of resident satisfaction.

In formulating the survey, fundamental issues must be considered that relate to the reliability of the scores (freedom from random error) and the validity of the scores (degree to which the questions actually measure the dimensions) when developing the questionnaire. Furthermore, statistical procedures used to interpret the satisfaction scores, such as factor analysis, correlation analysis, and analysis of variance (ANOVA) require accuracy. A full discussion of these concepts is beyond the scope of this thesis. However, the survey used here has been adequately tested, to the satisfaction of Boston Financial, by the independent market research firm executing the phone survey.

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[13] Hayes, B., 1991, p.6

Appendix B (Cont.)

Surveying can be done by mail, telephone, or in person. Most random surveying is done by phone due to the combined advantages in efficiency and reliability. Sampling biases may result from mail surveys as, "those who take the time to respond to a mail survey often feel strongly about the issue at hand, so that you get very polarized responses. Those who are more neutral on the subject may not fill out a questionnaire, but will often participate in a brief telephone survey" (Band, 1991, p. 92). In-person interviews, although certainly reliable, are often cost and time prohibitive. The data demonstrated in this study was obtained using a phone survey.

The frequency with which companies engage in satisfaction measurement often depends on the type of business and the sales cycle of its product. While resident perceptions of value accumulate on a continual basis through the disconfirmantion process, yearly leases are the norm in the multifamily management business. The physical demands of moving to another apartment make the sales cycle relatively long in comparison to many other industries, such as consumer products. Federal Express, for example, competes for customers that have the ability to change providers on a daily basis. They prefer to gauge satisfaction monthly so that deficiencies in performance are revealed while there is still time for corrective action. (Hanan & Karp, 1989, p. 102). As evidenced by the interviews, most apartment management firms regard yearly monitoring, coupled with exit surveys, as sufficient admonition in allowing the firm to take corrective action.

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