2023 EDITION

20for20

20 conversations with senior multifamily executives about the outlook for 2023 and beyond

Researched and compiled by
DOM BEVERIDGE

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EXECUTIVE SUMMARY

2022 HIGHLIGHTS

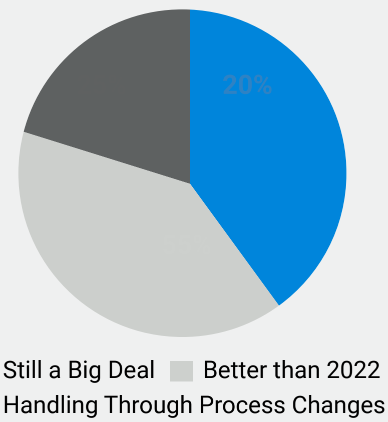
- Great business fundamentals and portfolio growth
- Redesign of property management processes
- Data and Analytics
- Smart/Connected Communities

What tech emerged as a priority in 2022?

- Leasing tech – especially CRM adoption continued to accelerate in 2022
- Centralization caused some to rethink their tech strategies
- The changing vendor environment, and perceived vendor risk grew as consideration factors in 2022
- Smart community tech advanced as operators grew their platforms

Staff shortages are still a challenge, but not as bad as last year.

"How would you characterize the current state of staff shortages?"



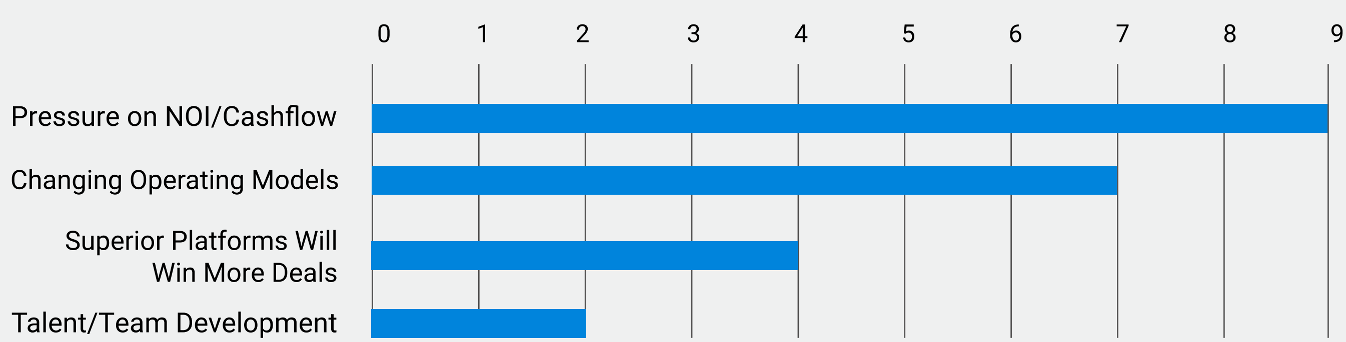
2023 Outlook

For the first time in five years of 20 for 20, more people expect this year to be worse rather than better than last year

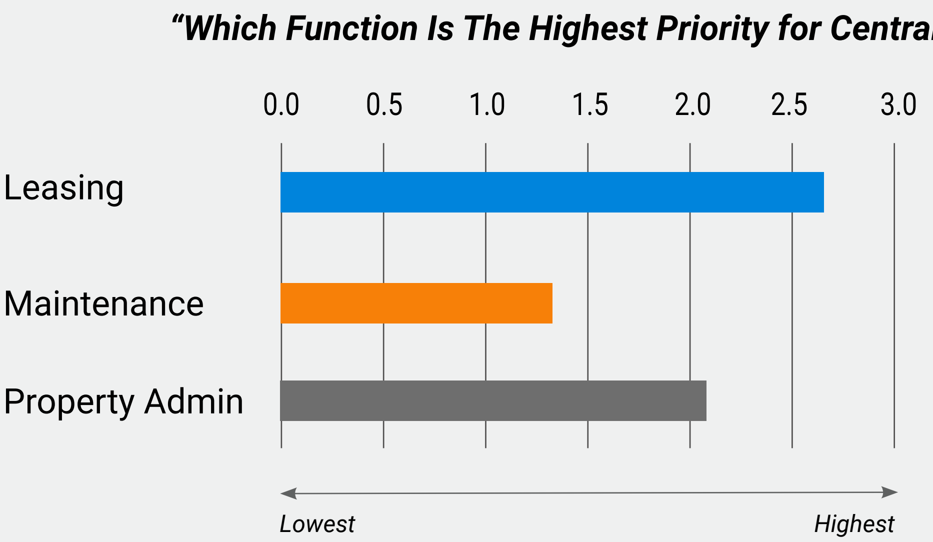
Top priorities for 2023

Priority	Responses
Delivering new processes/staffing model	11
Capitalizing on Tech Investments	5
Team/Exec Development	3
Weathering the storm	1

"What Will Be Different in 2023?"



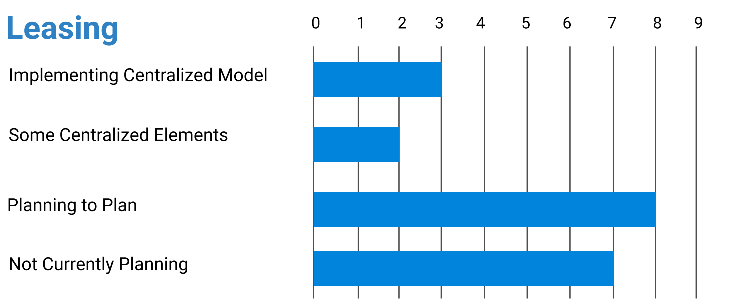
WHAT'S HAPPENING WITH CENTRALIZATION?

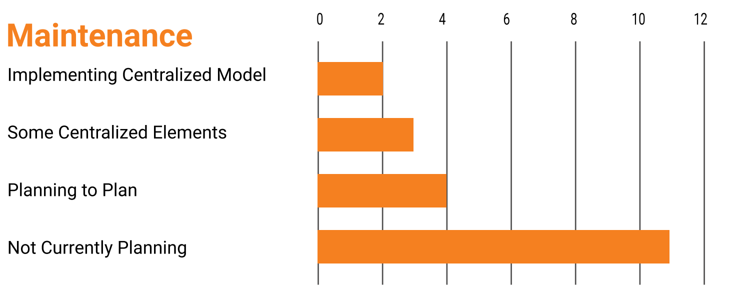


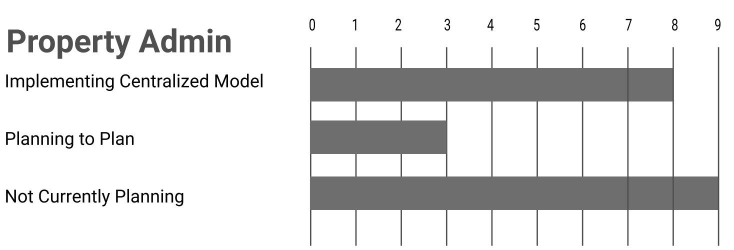
The slowdown in acquisitions is creating some breathing space for operations in 2023.

Property management has a window to deliver more centralized processes. They are particularly interested in centralized leasing.

But the activity isn't taking place at quite that rate:







20 FOR 20 TAKES ON THIS YEAR'S FINDINGS:

- The thing that property managers are calling *"Centralization"* is a big deal, but it's also a misnomer, based on companies' current initiatives.
- Maintenance is a **big** opportunity for operators, and one that they can learn about from single-family rentals.
- After years of indifference, Business Intelligence appears to be maturing in multifamily.
- AI is doing more stuff in multifamily property management, but operators need to ask "what *should* people do?"
- For most multifamily companies, ESG is a reporting function. To make a difference, operators should move responsibility for it from ops to construction.

1 INTRODUCTION

20 for 20 is an annual survey based on 20 interviews with senior executives in multifamily. It combines the perspectives of ten heads of technology and ten COOs, providing a unique viewpoint on the current state of multifamily operations and technology.

Now in its fifth year, the 20 for 20 White Paper synthesizes detailed findings from 20 interviews taking place at the end of each year for publication at the beginning of the next. It provides an opportunity for senior leaders to share their firms' accomplishments during the previous year and what they plan to do in the foreseeable future.

The contrast between forward-looking plans, retrospective accounts, and the consistent annual processing of the same information provides a reliable view of what is changing in our industry.

1.1. ABOUT 20 FOR 20: 2023 EDITION

In preparing for this latest set of interviews, it became clear that a few things are shaping priorities in multifamily property management. As we approach 2023, a slowdown in property transactions and the prevailing industry narrative of centralization mean that operators are at least considering more radical change than they have for some time.

Technology appears to fall downstream of the more important decisions about what we are asking our people to do. On that basis, we have made some changes to the structure of this year's White Paper to focus more on the processes and the roles in property management rather than technology, which has been more central to the previous four editions.

This Year's Sponsors

This year 20 for 20 welcomes six sponsors who have agreed to take part in the publication. As usual, each provides a unique and compelling viewpoint about how the industry is changing.

- **Domuso** explains how a more contemporary approach to payments supports site teams and, ultimately, centralization.
- **AppFolio** considers the role of technology in the *"pivot to profitability"* in multifamily in 2023.
- **Grace Hill** describes the evolution of property management roles, and the skills organizations need to nurture them.
- **REBA** (Real Estate Business Analytics) discusses the nature of *insight* and how it can change companies in 2023 and beyond.
- **Dwelo** reflects on an eventful couple of years in multifamily technology and discusses the maturing of the smart technology sector.
- **EliseAI** (formerly known as "MeetElise") grasps the intriguing question of the role AI *should* play in property management and introduces the concept of being "*AI-first.*"

1.2. RESEARCH RATIONALE

The multifamily industry has some unusual characteristics. It is extremely fragmented, comprising thousands of companies of all shapes and sizes with different business models, economic drivers, and, ultimately, different strategies.

With such variety in context, it is hard to characterize the industry using conventional survey tools. So, the rationale of 20 for 20 has always been to collect data through a series of conversations where the questions are open-ended and exactly the same for all participants. The findings summarized in this paper are the result of a post hoc synthesis of detailed responses to interview questions.

In deciding which 20 companies take part, the objective, as always, has been to form a cross-section of the industry from large-fee managers to small owner-operators to public REITs. The overall sample represents more than 1.7 million apartment units, ranging from companies with 5,000 units to companies with well over 100,000 units each.

The 20 respondents represented were ten heads of technology and ten COOs (or the equivalent title) for the participating companies. Finally, 20 for 20 is intended as an indicator of the general activity trend in the multifamily industry, not a forum for getting participants on the record. No reference is ever made to who took part in 20 for 20, and where quotes appear they are always unattributed.

SPONSOR VIEWPOINT

HOW PAYMENTS IMPACT CENTRALIZATION PLANS

Domuso

The property management industry is currently awash with talk of centralization, which, at its heart, is about what jobs should be done by which people, using which technologies. As operational leaders consider ambitious plans to transform traditional property operations in 2023, the way that we collect rent should be central to that conversation.

Centralization Is not a new Idea.

It's been many years since the first companies started to remove admin roles and bookkeeping from property operations. While most of the industry has yet to follow suit, we should expect more companies to explore similar steps in 2023 as the centralization drive continues.

Companies that establish specialist teams to handle bookkeeping usually enjoy the double benefit of greater efficiency and better career paths. Associates who are good at bookkeeping get the opportunity to specialize, while site team members spend more time delivering service to residents and prospects.

But in its consideration of property admin tasks, the C-suite still often underestimates the amount of time wasted on rent collection. Even if 90% of payments are electronic, scanning checks and money orders and reconciling payments to the ledger for the remaining 10% represents a substantial workload and an obstacle to centralization.

Supporting a Changing Site Team

It's helpful to reframe the concept of centralization by focusing on what a company can do to support its evolving site teams.

When framed this way, the opportunities with payments become obvious to anybody with intimate familiarity with property operations. The time wasted rectifying errors, such as payments returned by the bank, for example, or payments that cannot be applied to a resident's account in the PMS, provide good examples.

In either case, a property team member must take considerable time to follow up with either a PMS vendor or a bank to resolve the issue. A better solution is to hand over the payment process to a dedicated provider specializing in it.

Technology Should Do More of the Work.

Residents like to interact with slick functionality that works in the same way as other leading payment applications. But it's not simply about customer experience: technology can do the work of reconciling payments between accounts so that the work never touches the site team's desk.

As functions continue to be more centralized, technology should enable all modes of property support, from streamlining rent collection at the property to supporting more centralized models. Whatever the support model, technology should provide a single pane of glass across the whole organization, providing visibility and ensuring consistency of execution.

Few property management team members would regret the removal of these mundane tasks from their jobs. And the technology handling transactions can also automate more complicated processes, like split payments and late payment handling, to a far greater extent than they currently are.

Financial services have and will continue to become more complex as customer demands and new technologies and services emerge. The right approach to centralization is to support teams by allocating activities wherever they can be handled most effectively. The same is true of payments, which operators should increasingly treat as a financial service in 2023 and beyond.

2

2022 RECAP AND 2023 OUTLOOK

After a few years of interviews dominated by the pandemic and its aftermath, the 2022 interviews felt like a welcome return to business as usual.

We invited our 20 interviewees to recap the highlights of 2022, with a focus on the technologies that took more of their focus than they had anticipated. They shared their predictions for 2023 and their top priorities for the year to come.

The results are quite different from previous years and foreshadow many of the more detailed findings later in this paper.

2.1. HIGHLIGHTS OF 2022

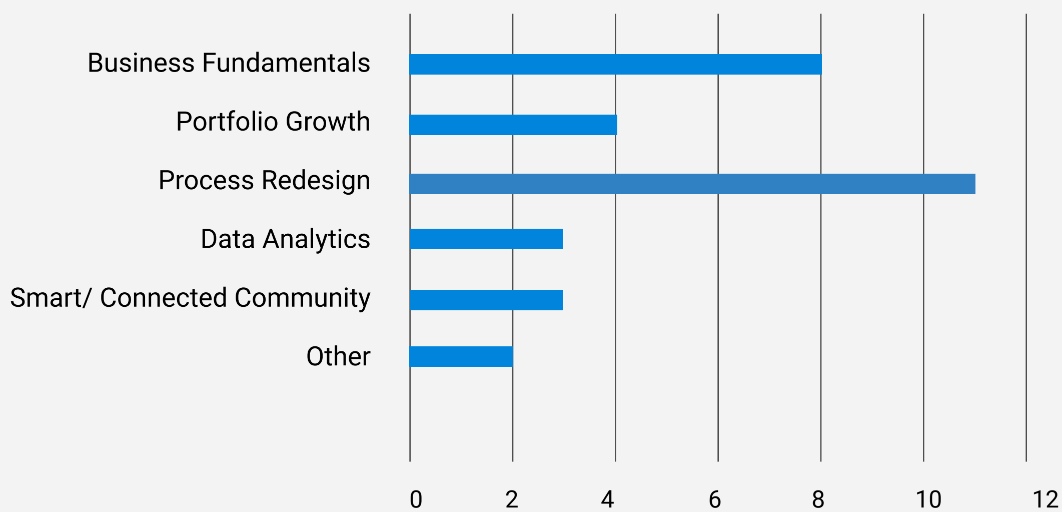
The interviews started with an open-ended question: *"What were the highlights of 2022?"* Respondents could answer in any way they wanted. Figure 1 summarizes the responses.

More than half of the respondents cited business fundamentals or portfolio growth as their main highlight of 2022. Of business fundamentals, most reported high rent growth in the first half of the year, with a dramatic slowdown after the summer. While rents grew, so did expenses—especially insurance, taxes, and FTE costs. Collections were also positive, contributing to a solid overall NOI picture, particularly for operators not exposed to floating rate debt.

A few leaders said that relative stability and high rent growth provided some opportunities to consider substantial changes to their operating models after COVID. One shared: *"It felt like we hunkered down for a couple of years. This year we came out of our shell and were able to try out some new things: stuff that we were getting into in 2019 before COVID shut us down."*

The largest single group of responses was from interviewees whose number-one 2022 highlight was some form of **process redesign.** The confluence of a slowdown in deals (meaning less time spent onboarding new properties), the maturing of supporting technologies, and a general industry vogue for *"centralization"* seem conducive to operational change.

Figure 1: "What Was the Biggest Highlight of 2022?"



Those who saw portfolio growth as a highlight described some combination of rapid growth in fee management business, record acquisitions or delivery of new projects. A few had their biggest ever development pipeline at the time of the interviews. In several cases, hindsight had shown the dispositions completed in 2022 to have been exceptionally well-timed.

But the kinds of projects the leaders described were not always consistent with the industry narrative. As one put it: *"There's been a lot of discussion of centralization, but we've taken a different approach, focusing on business processes instead. There's no point centralizing something that's broken; that just moves broken stuff closer to the mother ship."*

There was considerable variety in the scope and the objectives of process initiatives. Some companies were developing a strategy to inform their longer-term technology decisions. Others focused on efficiency, as one leader shared, *"We want greater efficiency, not just for our operations, but also residents. We want them to have a frictionless experience with us where we are accessible wherever they need us to be."*

Most of the 2022 projects were exploratory or focused on plans that will not come to fruition until 2023. A few companies are further ahead, having invested heavily in a more centralized model over recent years. These companies reported 2022 initiatives that broadened the scope of previous innovations. Extending centralized, often AI-enabled leasing into service delivery is an increasingly common example.

Data analytics was the top highlight for three respondents. One had rolled out a brand-new BI platform. One had conducted a major upgrade to an existing platform. And a third had broadened the organizational scope of existing BI capabilities into their firm's investment management function.

"Smart or connected community," the combination of smart tech and managed Wi-Fi, was the main highlight for three respondents. One had made significant progress rolling out managed Wi-Fi in 2022. The others had rolled out a combination of smart technology across a majority of their properties, and the degree of automation it enabled made it a highlight.

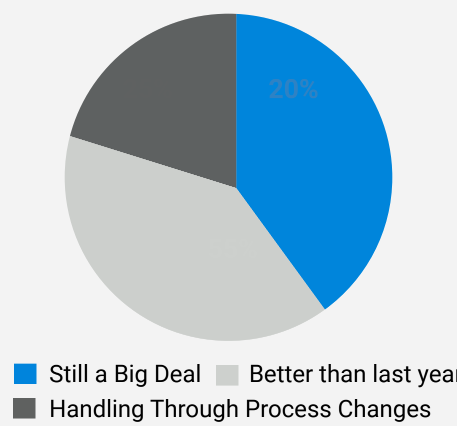
Of the two *"other"* items, one operator had continued to exceed growth expectations in their BTR portfolio. The other saw the relaunch of meaningful short-term rental activity as an important 2022 accomplishment. As one of the participants in the Airbnb-friendly apartments program announced in November, they saw this development as a way to get sub-letting under control.

The State of Staff Shortages

A year ago, post-pandemic staff shortages were the unmistakable backdrop to the 20 for 20 interviews. The difficulty of retaining and attracting staff influenced not just operations but also technology decisions. To understand the ongoing impact of staff shortages, we asked each interviewee to compare the current state to that of a year ago. The responses fell into three categories, which are summarized in Figure 2, with some example quotes below.

"Still a Big Deal" means that staff shortages continue to be a significant problem and a high priority for the respondent or their company. For these organizations, the problem seemed pressing—especially hiring and retaining maintenance staff. It is a problem that still consumes management time and begets creative solutions, as these sample quotes indicate:

Figure 2: "How would you characterize the current state of staff shortages?"



- *"We have positions that have taken six months to find the right candidate."*
- *"We're still struggling in the operations and maintenance areas—we're doing some local stuff, e.g., apprenticeships to bring in talent."*

- *“We’ve formed affiliations with a couple of non-profits that I hope will bring some folks into the organization.”*
- *“Staffing remains a Sisyphean task for us. At any time, about 14% of our positions are open. In our budget, I’m allocating money that I already know I won’t be able to spend.”*
- *“It’s a motivator to focus on the people already here. We double down on development because people become brand ambassadors and bring more people in.”*
- *“In the last 12 months, we hired more people than ever. That means we’ve been filling many roles, but it also means we’ve turned over a lot of staff.”*
- *“It’s hard to find industry experience. At the same time, we’ve been trying to let the prospect choose how much human interaction they have to have. But we still need people and operational skills, so we’ve been looking outside of the industry, especially in the lodging sector.”*

“Better than last year” means that while staff shortages are still a factor, they no longer represent the same priority that they did a year ago, as exemplified by the selected quotes below:

> ***“Some of the REITs have been approaching centralization from an efficiency perspective, but staff shortages have emerged as a bigger driver for us.”***

- *It got better: jobs are a bit less plentiful than last year, although maintenance remains difficult.”*
- *“Much better than last year, with lower turn over and people seem to be more stable than before. We tried to be proactive on compensation which probably helped.”*
- *“It came to a head in late 2021, but things seemed to stabilize in the 3rd and 4th quarters of this year. With talk of a recession, people may be choosing to stay in their current job or returning to the workforce after a COVID break.”*
- *“Hiring has improved recently—as people have returned to the office, we’ve seen a slow return to a normal candidate pool.”*
- *It’s still hard to fill roles, but not as bad as last year, and it feels like tech roles, in particular, will get better given tech company layoffs.”*

A few respondents shared that they were **handling staff shortages through process changes.** In these cases, staff shortages had either motivated a centralization initiative or coincided with an existing one:

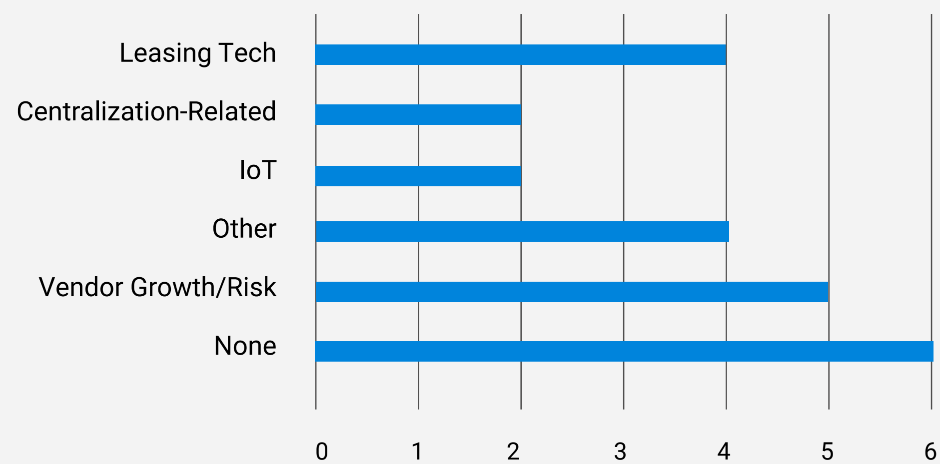
- *“Some operational initiatives, e.g., self-serve leasing, are intended to reduce our exposure to hiring pressure. We haven’t been doing any “centralization,” per se – our efforts still have people affiliated to properties.”*
- *“The stars aligned for us as we were struggling to get people into roles at the same time we were trying to progress towards a more centralized model.”*
- *“Some of the REITs have been approaching centralization from an efficiency perspective, but staff shortages have emerged as a bigger driver for us.”*
- *“Staff shortages continue to be an issue and one that we are trying to address through our ‘future of work’ program.”*

2022 Technology "Surprises"

Each year in completing the 20 for 20 interviews, it has been instructive to ask if any technologies played a bigger role in the previous year than the interviewee had expected. Since the answers indicate a change in direction, they often provide clues to some of the more significant trends currently at play. The results are summarized in Figure 3.

Of 20 respondents, six reported no significant deviations from 2022 technology plans. From the others, a few things stand out. **Leasing Tech** continued to see rapid acceleration, both in the number and nature of projects. Digital leasing assistants and lead-nurture technologies featured in the responses as operators experimented with automation. But the real story is the continued rise of best-of-breed CRM.

Figure 3: "2021 Did Any Technologies Play a Bigger Part Than You Expected in 2022?"



CRM is central enough to the leasing process that decisions to change systems are typically infrequent and planned long in advance of implementation. Multiple respondents shared that they had either accelerated a CRM project in 2022 or started one that had not been in their plans at the start of the year.

The reasons included the desire to explore a prospect-centric leasing model, a requirement that had emerged with companies attempting to redesign their customer journeys. Others had started experimenting with digital leasing agents and, having learned how well the AI handles communication, wanted to integrate it more deeply into their leasing process.

Two other respondents shared that **centralization,** not limited to leasing, had emerged as a priority in 2022. For one, it occasioned a thorough review of their technology stack and the technologies that must be integrated into core systems as processes and roles evolve. One technology leader described a program of centralization that they had largely accomplished without implementing any new technology.

Contrasting accounts of **IoT**-related projects made this a high priority for two respondents. One was in the process of sourcing a network of vendors that could support the variety of smart tech and security technology in their properties. The technology had become mission-critical, but it was time-consuming and expensive to support proptech through local market vendors.

SPONSOR VIEWPOINT

THE PIVOT TO PROFITABILITY IN 2023

appfolio Property Manager

AppFolio Property Manager

In 2023, prevailing economic conditions will continue to shape property operations. But if staffing challenges have dominated the post-pandemic period, the combination of economic uncertainty and high interest rates look set to drive change this year. Operators must seek new sources of NOI growth while protecting both the employee and resident experience.

The 2023 AppFolio Property Management Benchmark Report surveys about 5,000 property management professionals. A few things stand out from this year's research, especially the priorities of respondents with portfolios above 5,000 units.

After growth, the second and third highest business priorities were improving customer service and hiring additional team members. 100% of those respondents said they were either focused on retaining their current headcount or (71%) hiring more people.

In an environment of fewer deals and an increased focus on the bottom line, operators are seeking to improve the quality of customer experiences and organize their teams accordingly. And they must do it with a growing focus on profitability.

Changing Skills to Change Outcomes

There are great examples of how operators meet these goals, especially within property maintenance teams, which have long presented hiring and retention challenges. The conventional multifamily model allocates a set number of maintenance techs to each property, which makes it difficult to centralize operations, as different properties require different skills.

However, there's an opportunity for multifamily operators to learn from the decentralized single-family rental (SFR) maintenance operations model. As each SFR is an individual property with no on-premise staff, operators depend on external providers, bringing the skills of call handling, triage, and dispatch to the fore. These skills are essential for SFR but can also help multifamily operators to deploy their maintenance resources more efficiently.

It Isn't All About Staffing

Maintenance service is highly consequential for customer satisfaction and renewals, so any change in delivery should improve the resident experience. Conversational AI technology can handle inbound inquiries, triage, and dispatch with excellent results. Operators no longer miss calls or struggle with peak call demand. Triaging is a natural fit for AI, as it optimizes schedules and resources more efficiently than a call center.

When AI handles most communication and coordination activities, jobs are completed more quickly and efficiently. Changes to vendors and maintenance policies can be rolled out instantly, reducing the challenges of communication and training. And since the system reliably collects data and documents complex processes, it's possible to maintain a high level of consistency even when onboarding new team members.

Taking Stock of the Tech

AI is just one example of technology that saves money and makes teams more efficient. Multifamily operators need a growing variety of technology to address each property's challenges. In 2022, we began adding integrations to our property management platform, including inspections, maintenance management, and smart building technology.

Integrations like these extend the boundaries of the property management technology platform, ensuring complete stability while adding best-of-breed capabilities. They matter more when NOI and cash flow are top priority, as companies seek to remove overlapping functionality and integrations that compromise performance. The extensions to the platform that improve both experiences and efficiency should be the ones that operators prioritize in 2023.

Another had completed a substantial roll-out and had focused more aggressively on pursuing a range of operational improvements that the technology enables. They had justified the project based on rent increases that, so far, the technology appears to support. At the same time, they had been surprised at the relatively slow adoption among local-market competitors. It therefore made sense to double down on a technology providing a greater-than-anticipated competitive advantage.

The changing nature of the vendor environment was a consistent theme of the interviews. The following quotes summarize changing perspectives on an expanding marketplace and the attendant vendor risk:

- *The number of new technologies that have entered the space or grown legs in 2022 feels astronomical in the post-pandemic world. There are a lot of new sales teams working the ecosystem!"*
- *"A few of the tech companies that went public or raised a lot of money turned out to be fragile."*
- *"Getting proptech into a retrofit is a lot of work...you have to be highly selective as there are too many vendors, and the incentives are such that some attempt to grow too fast and buy the business, which is not sustainable."*
- *"It's been interesting to look at industry consolidation and even some business failures. We've learned about how risky some of the new companies in our industry are to work with, and it's led us to formalize our due diligence steps."*

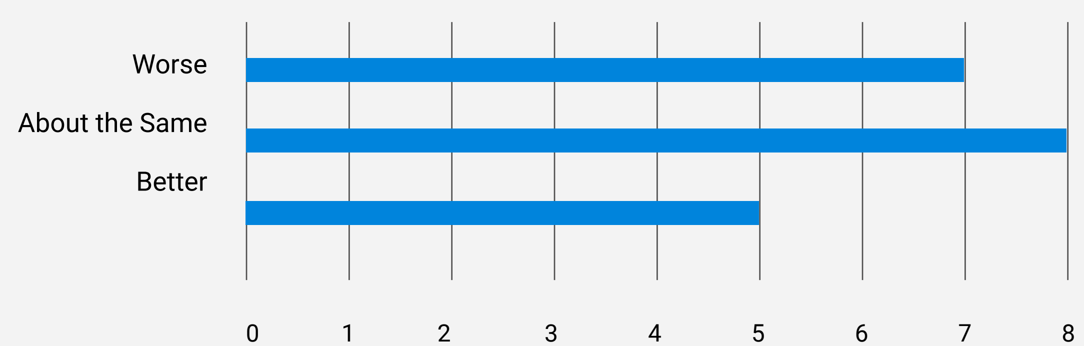
The **"other"** category included BI (of which, *much* more later), an enterprise roll-out of a suite of Salesforce.com apps, learning management and fraud protection.

2.2 THE 2023 OUTLOOK

As usual, we asked respondents whether they expected the next year (2023) to be better, worse or about the same as 2022. The results are summarized in Figure 4. For the first time in five years of this survey, more respondents expected the next year to be worse than better. Most respondents selecting **worse** did so because of uncertainty over the economic outlook, potentially stagnating rents and new supply becoming available.

A common narrative through the interviews was that 2023 might mirror 2022, with a strong second half following a leaner start to the year (the opposite of 2022). One was more pessimis-

Figure 4: "Compared With 2022, 2023 Will Be..."



tic, wondering what would happen in the first half of the year that would make the second half so much better. Another voiced optimism that the state of their balance sheet would set them up for the opportunity that will doubtless arise as the year progresses. The other reasons provided were increased concerns about regulatory interference and a reduced appetite for new IT projects.

Those predicting that 2023 would be **about the same** generally expected a mixed bag of performance and results. That rent growth will not match that of 2022 is a given, but respondents were relatively confident of healthy (if not 97%) occupancies over the course of the year.

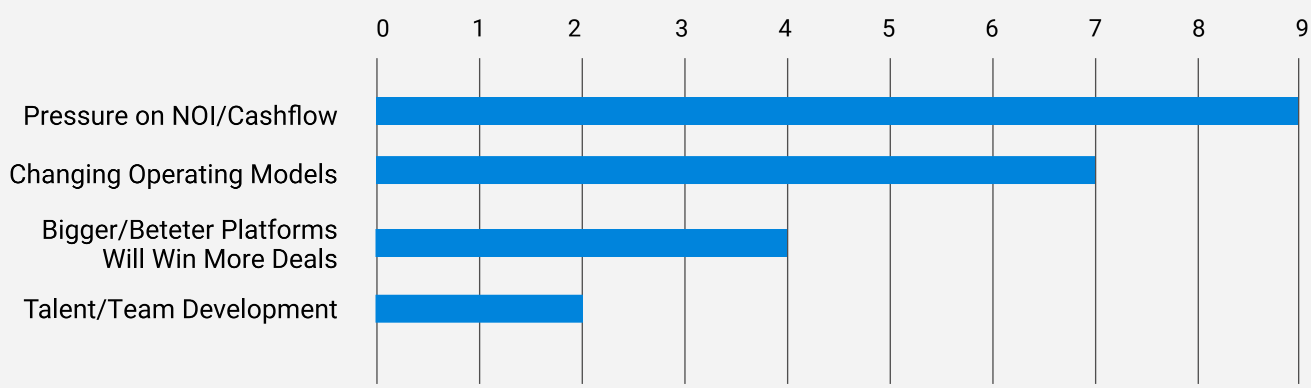
Those anticipating that 2023 would be **better** than 2022 did so because of beliefs about their operating platforms. Some of the larger third-party managers were bullish, as challenging markets tend to favor the strongest operating platforms. As deals are slow and NOI and cash flow become paramount, cost and efficiency advantages come to the fore. Some technology leaders saw a silver lining in tech company layoffs, as it may positively affect the market for talent.

What Will Be Different?

A few of the same themes came through in responses to the question, "What will be different in 2023?" Responses are summarized in Figure 5 Almost half of the respondents saw **pressure on NOI and Cashflow** as the most important factor. What united most of these perspectives was a focus on the cost side of the ledger, exemplified by the following quotes:

- *"With interest rates increasing, transactions will slow down, and we'll have to focus on operations and cash flow."*
- *"There will be more pressure from owners to deliver performance. Especially cash flow, as the debt service increases. Most of our properties have variable rates."*
- *"A combination of higher debt service, higher costs, more challenging collections, and the continued adjustment to the unsustainable 96-97% occupancies of the last few years make it hard to tell what constitutes reasonable rent and occupancy."*
- *"I remember when 95% occupancy used to be good!"*
- *"We pivoted about 75 days ago to heads in beds over GPR-focus. We're watching every dollar that we can without sacrificing customer experience."*

Figure 5: "What Will Be Different in 2023?"



- *"After a couple of years of rent growth, people get sloppy—big focus on costs in 2023."*
- *"Technology will have to pay for itself, or it won't get implemented. And we want to be the people who make that decision, not our owners."*

Unsurprisingly, **changing operating models** was the next biggest response, given the current industry narrative about centralization. The answers represented a set of perspectives of companies at various stages of the process. For example:

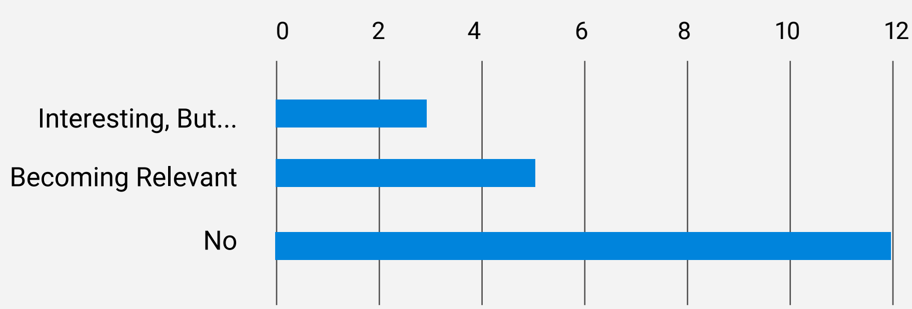
- *"Given the number of people who have been thinking and talking about their staffing models. You'll see the companies that have been preparing move quickly in 2023."*
- *"Many people will be looking into centralization, and we still have the same labor issues. Most companies still seem to want to start with leasing."*
- *"We're moving a lot of cheese in 2023 with big changes to our operating model, so we know that with change comes risk."*

Of the remaining responses, four fee managers reiterated that the squeeze on operating expenses would create growth opportunities as owners migrate to the most effective operating platforms. Two others saw the slowdown in deal pace as an opportunity for operators to take a breath and focus on team development.

A Return for Short-Term Rentals?

With the late 2022 announcement of an Airbnb-friendly apartments program backed by leading operators, we took the opportunity to gauge interest levels in short-term rentals (STR). Before the pandemic, 20 for 20 had reported lukewarm interest despite the number of startups focused on the space. It seemed that persistent high occupancies stopped STR from becoming a senior management priority. The pandemic effectively closed the sector temporarily.

Figure 6: "Will Short-Term Rentals Become Relevant in 2023?"



- *"We've enabled a lot of technology, like access control and CRM, now we want to make the process changes that will enable us to realize the benefits. We're going to be testing out some more new technologies, but we mainly want to harvest some of the tech we already put in."*

Of the 20 interviewees, 12 did not see STR becoming relevant in 2023. These respondents were mostly uninterested in STR; two were opposed to them based on previous experience before the pandemic. Of those who saw STR becoming relevant, most are participants in the Airbnb program, while others expressed intrigue at some of the new technology platforms supporting STR. The most interesting views came from those expressing hesitation:

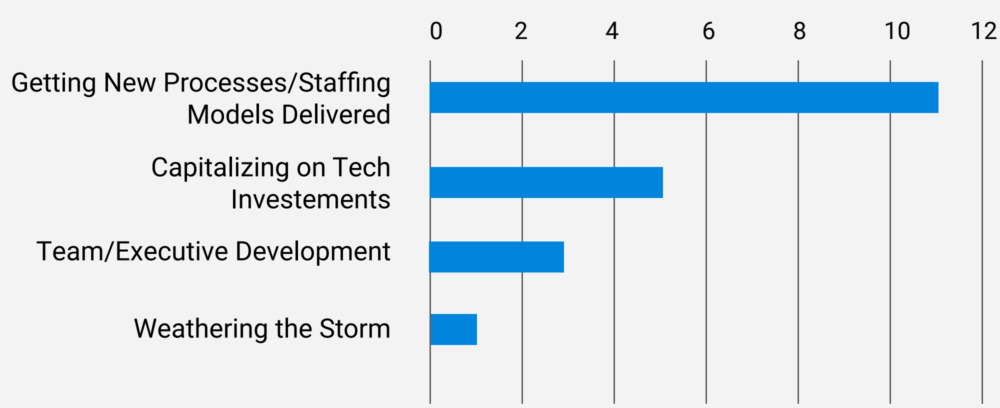
- *“I think there’s interest, especially given hotel rates. But lenders don’t like STR: there’s a lot of complexity, and you certainly wouldn’t want to do it yourself.”*
- *“We know how our model works—with STR, you have different consumer preferences, processes, etc. Corporate housing is more interesting to us. We’re still on the fence about the impact of Airbnb on business travel.”*
- *“We don’t like the model of STR in vacant units, but we’re curious to see what happens with Airbnb. We’re skeptical as it’s hard to build communities in the kinds of buildings we run. When you have a substantial share of short-term guests, they don’t treat the property the same way.”*

Top 2023 Priorities

Finally, the respondents’ top priorities for 2023 are summarized in Figure 7. Processes and staffing models dominate 2023 priorities to a greater extent than anything reported in previous years of conducting this survey. Curiously, while operators are prioritizing changes to their operating models, only a few spoke of “centralization.” Instead, they described a variety of process initiatives relating to changing property management processes, including:

- *“Operational excellence – I want to get to a rollout of the full process of “future of work,” which includes many new processes that are now specialized.”*
- *“Getting what we call “enhanced services” delivered portfolio-wide. As we don’t have acquisitions, we want to focus on scaling the program.”*
- *“Getting our operating model changes done without losing any people. We found by piloting that the first two months are tough, but*

Figure 7: “What Is Your Top Priority for 2023?”



after that we find that teams start to like it more."

- *"Execute on the centralized services model for our fee clients. There's a yet-to-be-determined toolbox; how close our current stack is to delivering that is what we will learn as the year plays out."*
- *"Finalizing and getting our self-serve leasing perfected and over the line. We need to meet the customer where they are. We started talking about it years ago when it wasn't an expectation. Now it absolutely is."*
- *"Reimagining on-site operations, being the most efficient and hence valuable operating platform in the market."*
- *"It's not sexy, but we want to button down processes, fine-tune, and be in a position where we can know where the potential inefficiencies are."*

A quarter of respondents cited **capitalizing on technology investments** as their number one priority. This point is related to the previous one, but the focus of these responses was *leverage* rather than transformation, and the leverage related to cost rather than revenue.

Respondents gave two main explanations for why this is a priority. Some had implemented a significant amount of technology with the expectation of reducing cost, and the priority is to achieve those cost reductions. Others felt that there is functional overlap in their technology platforms that they plan to eliminate in 2023.

The three leaders prioritizing **team and executive development** were focused on corporate rather than property teams. Two were in the process of growing their leadership team, so the successful integration of new talent was top of mind. One technology leader was particularly keen to capitalize on the current respite from several years of talent shortages. Lastly, one leader cited **weathering the storm** as the top priority, which is a good way to summarize much of the sentiment from these interviews as we progress through 2023.

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TALENT AND TECHNOLOGY: ENABLING SPECIALIZATION IN 2023

Grace Hill

There's been much discussion on centralization across our industry in the last few years. It's worth exploring what that means for operators because the reality is that centralization means different things for different companies.

There are examples where a core property management function, like leasing, is being taken off property and dealt with more centrally. Other models support site teams to a greater extent with technology and shared services. Whatever the specifics of the model, the consistent idea driving the change across our industry is a desire to modify property roles so they are more *specialized.*

What Specialization Entails

Specialization of tasks and roles requires property management companies' associates to do new and different things, which brings two crucial management capabilities to the fore.

First, as operations optimize team development, onboarding and training must create distinct specialized career paths, roles, and responsibilities. Whatever the combination of technology and organization, we must deliver the new processes and integrations and ensure we add clarity to job roles and functions to execute them reliably.

Second, having re-orientated staff toward the more specialized roles, operators must ensure that customer experiences improve, or at least do not suffer, when processes change. These two increasingly important competency requirements played a big part in Grace Hill's decision to acquire Ellis Partners and Edge2Learn in 2022.

To meet the demands of changing operations, operators need the right training tools. For example, that means better targeting of content with increased use of microlearning modules. It means much more content, which in turn requires deeper content development skills. Finally, operators need to improve follow-up training capabilities, including, for example, quizzes, surveys, and boosters targeted directly at training needs arising as associates gain experience with the new processes.

As teams get accustomed to enhanced roles, operators must control the quality of execution of new processes and customer journeys. For instance, mystery shopping provides a check on execution in leasing. Surveys measure customer sentiment and ensure quality feedback on the customer experience. When operators track both statistically, they can understand the progress over time to ensure that both execution and experience continue to improve.

Why It Matters Now

As roles change, operators will have to improve on team development and managing customer experiences. Both will likely grow as sources of competitive advantage as property management roles continue to change in the future.

2023 promises to be a transformational year. While "centralization" is a buzzword, it may not be the right way to think about how property management is changing. The term inclines us to think about moving people around and cutting headcount, but that's not really what's occurring in our industry. While streamlining processes is important, the key is to apply specialization in a focused, specific way that will improve property performance.

It's helpful to think about it as an environment of changing experiences, both for residents and for associates. To deliver these experiences, operators must excel at understanding their customers and developing a motivation with professionals to continue to deliver consistently in an evolving environment. Organizations that excel in these areas will be effective in retaining both teams and residents in 2023 and beyond.

3

OPERATIONS AND TECHNOLOGY DEEP-DIVE

The previous four editions of 20 for 20 focused on the technologies that companies had implemented during the previous year and planned to implement over the following year. Up to now, this has been a successful way of understanding how both operations and technology are evolving in multifamily property management. This year, however, the prevailing narrative in our industry is about the centralization of property management roles, which calls for a different approach.

There have been high-profile examples of companies that have achieved substantial progress in taking roles off-site and putting them into central locations and achieving various benefits from cost savings to efficiency gains to customer experience improvements.

Technology providers have rushed to jump on this bandwagon, linking the attributes of their software to the overall project of centralization. But anyone who's worked in or observed the industry for more than a few years knows that the industry narrative and the industry reality are not always the same.

For that reason, this year's interviews focused primarily on the changes to processes, delivery models and changes to what operators are asking their people to do. Technology was still a substantial part of the conversations, but this time in the context of how it supports a changing operation.

The following subsections will deal with five areas relating to process and technology. The first three are segments of property management activity: leasing, service and maintenance, and property administration.

Leasing is self-explanatory. Service and maintenance predominantly means changes to the maintenance delivery model and anything relating to service delivery to residents. Property administration is a catch-all focused on the conventional scope of the assistant property manager role, including processes or technologies associated with collecting rent, deposits, bookkeeping, etc.

In addition to these three central areas of process, we will examine two of the main groups of technologies that support the whole operation. First, the data and analytics section covers any technology or process based on data acquisition, organization and analysis.

Finally, we share operators' assessment of the current state of smart community and internet technologies. A theme that appeared in last year's edition of this paper was the increasing attractive model of acquiring both smart technology and managed internet from the same company.

These technologies support some of the activities currently subject to the most change in property management. For example, self-serve leasing, virtualization of services and maintenance rely increasingly on the availability of high-quality internet, access control and various sensors installed in properties.

The final subsection of this chapter provides a brief summary of the views expressed by the 20 interviewees on ESG and the role it plays in their plans for 2023.

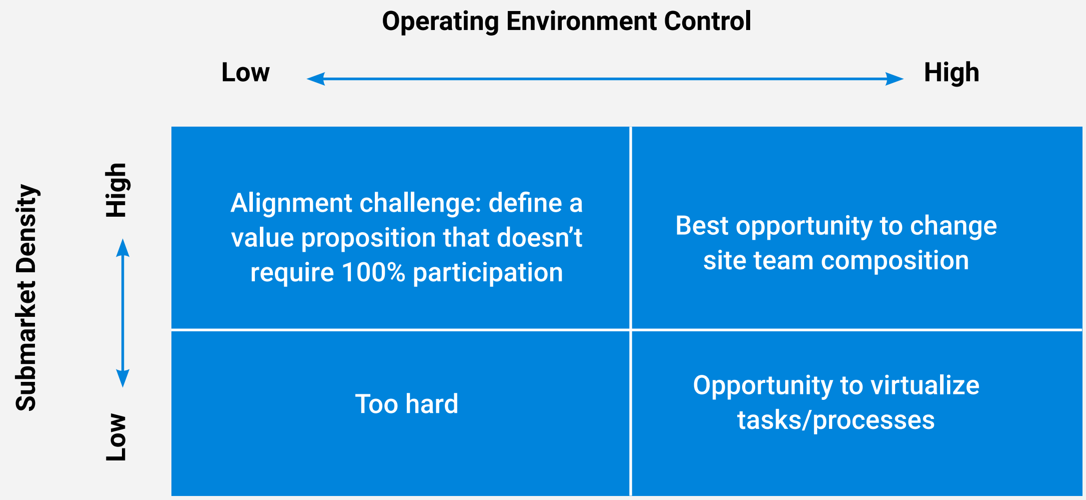
3.1. WHY TRACKING CENTRALIZATION IS HARD

One of the great challenges with characterizing any operational trend in multifamily is that it is hard to generalize findings from one company more broadly across the industry. Fee managers, for example, do not have the same business drivers or strategies as owner-operators. Different owner-operators vary substantially in structure, financing and most aspects of their strategies.

Although the day-to-day activities performed at multifamily communities are largely the same, the drivers determining how best to deliver service are very different. In its analysis of centralization, the 2022 edition of this paper identified two main attributes that determine the difference in how companies would approach operational change: submarket density and the extent to which the operator controls its platform (see Figure 8).

Submarket density, or the proximity of sister properties in a submarket, is important because true centralization requires some degree of sharing

Figure 8: Factors Affecting Centralization (From 20 for 20, 2022 Edition)

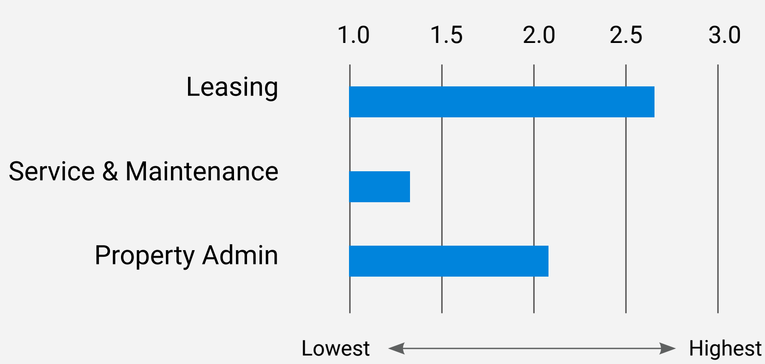


resources among properties. So the benefits of centralization are more available to companies with many units in the same submarkets than those with fewer. Control of the operating platform matters because a fee manager, for example, does not have as much control over its environment as an owner-operator.

These two attributes alone demonstrate the breadth of opportunity in the industry and why it is hard to achieve "apples to apples" comparisons of something as fungible as centralization. This year's interviews were structured to gather insight about each of the 20 companies involved that would establish what is happening in the industry.

The following three subsections detail the 20 companies' progress toward centralizing each of the three functions. Figure 9 summarizes the overall picture, indicating how each respondent saw the relative priority or potential impact of centralizing that function.

Figure 9: "Which Function is the Highest Priority For Centralization?"



The question of prioritization is difficult to interpret, as “prioritization” for a company planning to centralize property management roles is inextricably linked to the order in which they choose to address the function. Relative ease may trump potential benefits in determining which function goes first. So, each leader may have had a slightly different interpretation of which of these functions is the highest priority. But the results of this initial sentiment analysis jibe with the results of the individual interviews.

The results shown in Figure 9 show that leasing attracts the highest priority of the three functions. It appears twice as important as service and maintenance, and property administration lies between them. This simple indication of what people were thinking seems consistent with the industry narrative. The following subsections build the bottom-up picture of what is actually taking place.

The questions asked in researching each of the following subsections probed what companies have done during 2022, what they plan to do in 2023 and beyond, and what technology was involved. Centralization means a different thing to each company, so the questions were open-ended. Through careful analysis of the 20 sets of responses, four categories emerged that characterize what companies are doing:

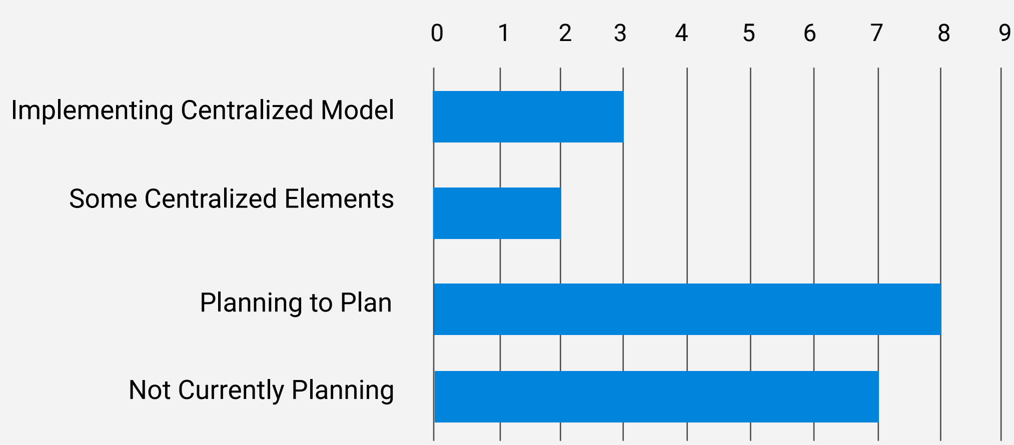
- ***Implementing a Centralized Model*** means that either a company has implemented or is at some stage of implementing a model that replaces site team roles with centralized ones.
- ***Some Centralized Elements*** means substantial changes to the operating model that have at least some things in common with centralization but without roles being removed from properties.
- ***Planning to Plan*** reflects companies expressing a strong degree of interest and often some degree of exploration, but as yet no firm plans or organizational commitment to a centralization project.
- ***Not currently planning*** means that the company has neither tangible plans nor plans to develop them.

The intent in categorizing these states for each company is to provide a simple indication of the industry’s current process toward centralization.

3.2 LEASING

Figure 10 summarizes the responses to the questions about leasing. What jumps off the page

Figure 10: Leasing Centralization: Current State



about this graph is that 75% of the respondents are either not currently planning to centralize leasing or have yet to develop plans to do it. In an industry that is talking extensively about centralization and leasing appears to be the highest priority segment, the contents of Figure 10 suggest there is still significant hesitation.

Of the companies saying that they are **not currently planning** to centralize leasing, most hesitated on the basis either that they did not yet see the opportunity to change the staffing model or that they were concerned with the impact that leasing centralization might have on their existing staff.

In the case of fee managers, for example, it was usually the case that ownership groups would drive decisions, and the operator would support them rather than initiate a major process transformation. Most companies were interested in simplifying processes rather than trying to take roles out of the property and putting them elsewhere.

Several companies prioritized completing existing initiatives over pursuing more radical transformation. Standardizing technology platforms or delivering paperless leasing processes had been prioritized over centralization. The same was true of companies **planning to plan** initiatives: existing initiatives like customer journey definition or a competing centralization initiative had to be completed before it was worth committing to leasing centralization plans. Some had decided to roll out technology before addressing the future leasing model.

The technology footprint for leasing is fascinating because it is changing faster than the rest of property management. Most companies were working on leasing technology projects either in 2022 or 2023 or both, with two technologies dominating: CRM and AI. Those implementing new CRM favored software with a prospect-centric (rather than community-centric) data structure, which is helpful for companies attempting to centralize leasing operations.

AI leasing continues its meteoric rise, with most companies interviewed now operating at least one AI app in their leasing process. The most common is AI leasing agents, but increasingly operators are adopting AI lead-nurture tools in addition to the leasing agents. The proliferation of leasing tech continues a theme emerging from last year's 20 for 20: an expanding footprint of best-of-breed technology.

The two operators implementing **some centralized elements** were perhaps the most instructive of all, as they had been acquiring and implementing new technology more aggressively than most other respondents. They did not fall into the category of centralization because of the nature of their portfolios: neither had high density in the same submarkets.

"The technology footprint for leasing is fascinating because it is changing faster than the rest of property management."

One company called the set of initiatives they were executing *"The future of work."* This leader felt that centralization was too focused on headcount, which is not the correct way to look at it. The objective of their transformation was mostly to rethink customer journeys and deliver the best possible experience.

The other company, while making impressive investments in technology and achieving some benefits from, for example, cross-selling, had properties too far apart to enable campus-wide management of leasing activities. Therefore, the focus has been on two things: optionality (reversing the paradigm of telling customers how they could interact with the operator) and customer experience. Both companies have made substantial improvements in their operating platform. Neither fit the core concept of a centralized model, i.e., moving roles off-site to a centralized location.

The three companies **implementing a centralized model** were exactly the types of companies one would expect. They all have high degrees of control over their operating environment and high submarket density. Interestingly, in all three cases, the implementations had followed a multiple-year trajectory, with several enabling technologies rolled out in succession over the last few years.

That is definitely not the case with most companies interviewed for this survey, and it is worth noting that the companies succeeding in delivering the centralized model seem to have started planning to do so several years ago.

3.3 MAINTENANCE AND SERVICE DELIVERY

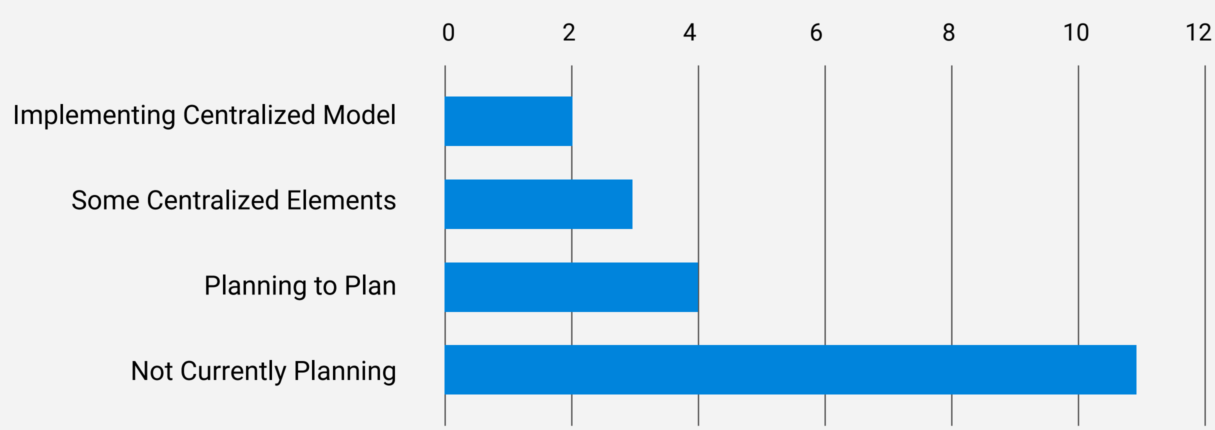
The perennial discussion of staff shortages in multifamily usually focuses on how difficult it is to attract and retain maintenance staff. If ever there was a segment of property management activity crying out for any innovation that reduces exposure to staff shortages, maintenance ought to be it.

And yet, the results summarized in Figure 11 suggest that the industry is far from addressing this persistent challenge. More than half of all respondents had no plans to centralize the model.

There are good reasons for this: maintenance centralization is difficult. Skills are not transferable from one property to another in the same way that, for example, leasing skills are. Any portfolio with properties of different styles and vintages represents a variety of equipment and requirements for maintenance skills. The scope for virtual maintenance teams is also limited compared to leasing or admin, as tasks mostly require boots on the ground.

Those **planning to plan** maintenance centralization also had genuinely interesting ideas on how they wanted to approach it. Often the only reason planning had not started was that maintenance was behind other centralization initiatives. One large operator shared that while it planned to centralize maintenance, its initial evaluation found that its current technology stack would not support it. So, it had to define future technology options before planning a new delivery model.

Figure 11: Maintenance Centralization: Current State



Another highly experienced organization that has achieved much success in centralization was keen to put a plan together for maintenance centralization but had struggled to find cultural alignment. The combination of a high degree of variety in asset types and general skepticism about, for example, outsourcing any parts of maintenance services met with resistance.

The companies working on new models that included **some centralized elements** had all implemented maintenance technology, but each changed different aspects of the delivery model. One had been outsourcing turns for some time. Another had begun to experiment with some level of regional management, but this was not the prevailing operating model across its portfolio. Another still was pooling some resources between properties where geography permitted.

The two companies **implementing a centralized model** for maintenance functions shared an important characteristic. They described having broken maintenance down into its constituent parts and looking for the best way to deliver each component. One had been forced to find new solutions, having acquired properties in new markets where it had to address substantial maintenance backlogs but did not yet have a supplier network. Both were seeking to improve service delivery while reducing exposure to staff shortages.

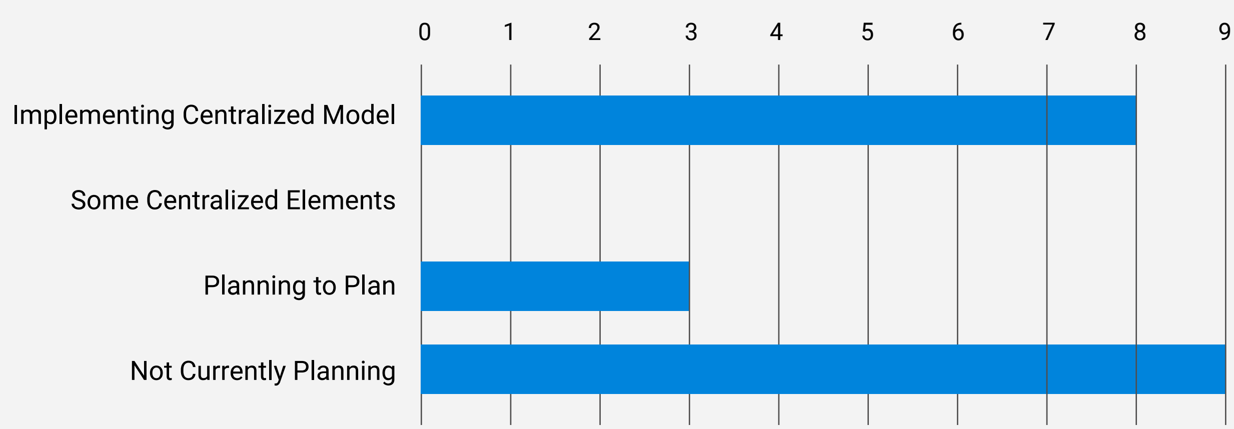
New processes included outsourcing turns and assigning other types of work to dedicated teams within regions. In neither case had tech been the major enabler of the process. They had both implemented maintenance technology, but it was the changes to the processes that transformed the function.

3.4 PROPERTY ADMIN

The most interesting of the three summaries in this section is the one presented in Figure 12: the centralization of admin functions. Here we can see that most properties are either **not currently planning** to centralize or are in the process of **implementing a centralized model.** These interviews seem to characterize admin centralization as an all-or-nothing proposition.

As with last year's survey, this year's interviewees had been experimenting with and implementing numerous resident fintech apps. The list of technologies tested or implemented by these companies reads like a who's who of payment and deposit alternative solutions. Two companies were also testing a new AI that handles collections, with promising results so far. One leader

Figure 12: Maintenance Centralization: Current State



shared: *"Currently, our APMs are running the [collections] process, but they get worn out, so we started using an AI to handle the interactions. We saw a substantial increase in collections and got a rich source of info that allows us to understand the resident's intent."*

While almost half of the respondents have no plans to centralize property admin, almost as many companies are at some stage of rolling it out, making it the most common first step in centralization. Eight out of 20 operators had either done this years ago or, in most cases, were aggressively working to take property admin off-site. Several had been piloting digital processes and were actively preparing to move to shared services. One operator is taking the bold step of not only taking admin off-site but outsourcing it to a third-party provider.

There appears to be a mature view in the industry that property admin functions associated with bookkeeping, rent collection and so on should no longer be taking place at the property. One of the most interesting data points is the people who had taken admin off-site long ago. When asked *"What's left to do,"* they typically answered *"plenty"* and could easily reel off numerous additional activities from renewals to bad debt to evictions, for example, that look like candidates for shared services.

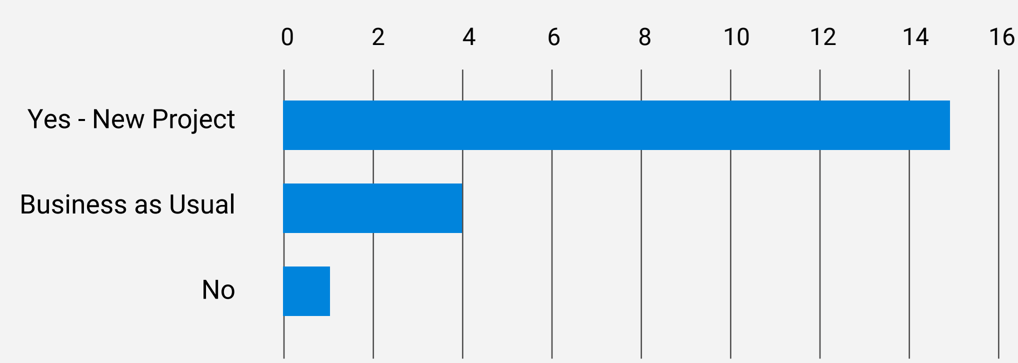
Interestingly, those who fall into the **planning to plan** category were all fee managers. They had an appetite to find ways to move work off-site but were generally following their client's lead in figuring out how and when to do it.

3.5 DATA AND ANALYTICS

Data and analytics had another busy year in 2022 and the steady growth of this important area has been a feature of the last five years of 20 for 20. The current industry controversy surrounding revenue management (RM) means it was excluded from this year's discussions. However, one consistent finding from the previous years of 20 for 20 is that RM has been almost entirely absent from executive priorities.

The conversations about data and analytics mostly centered on business intelligence (BI), and Figure 13 indicates the activity level this year. When asked, *"Did your company conduct a BI initiative in 2022,"* 19 out of 20 said they had. Of those, four practitioners—who have been using their own internally built platform for multiple years—reported initiatives that were in line with *"business as*

Figure 13: "Did Your Company Conduct a BI Initiative in 2022?



WHY 2023 WILL BE ABOUT INSIGHT

REBA

It feels uncontroversial to say that 2023 will differ greatly from the recent past in multifamily. The prevailing economics are already slowing the pace of deals, creating an environment where operating performance—particularly cash flow—takes center stage.

The challenge will be to optimize existing operations to find new sources of NOI, whether on the revenue or cost side of the ledger. Accomplishing this entails searching for opportunities that operators are not currently exploiting in their businesses. Performance upside comes not from adding rocks to the pile but from looking under the ones already there.

Refocus on Insight

Multifamily is competitive, and every property has unique demand and financial drivers. Improvement can come from many sources, most of which are to do with insight into the individual property and the local market it serves. There are many unique financial drivers that we could exploit. For example, work order completion and customer satisfaction tend to correlate with renewals, but how?

Marketing strategies and tactics vary as properties suffer shortfalls in leads or conversions and occasionally both. Diagnosing and predicting problems, which may be specific to unit types or individual units, enables us to focus on need periods and lower cost per lease.

Revenue management and concession strategies have more to contribute than ever when markets become challenging. Smart operators can improve financial performance by proactively managing exposure and gaining greater leverage from amenities.

These are just a few examples of performance improvements we expect owners and operators to try to exploit this year. Exploiting them requires reliable cross-platform insight. The challenge, as always, is seeing the forest for the trees.

Technology as an Opportunity (Not an Obstacle)

As operators sharpen their focus on fresh insights, the underlying technology landscape is changing. Companies are increasingly implementing best-of-breed technologies, each with its own data structure. Third-party management portfolios typically accommodate multiple different property management systems.

With complex system and integration environments, operators must take control of their data. The technology choices for a given property or portfolio should not limit the availability of insights.

This need for insight to transcend technology will accelerate as operators implement new technologies that produce new types of data. IoT devices like smart locks and the burgeoning range of sensors are one example; emerging AI apps are another. Both create vast data sets that will present both processing challenges and opportunities for greater insight.

While exploiting these data sets may not be today's problem, operators must consider scalability in their plans for managing and exploiting data. The more open and more scalable data infrastructures can be, the fewer limits operators will find on their ability to exploit analytics.

A Culture of Open-Mindedness

Improvement opportunities lie in asking the right questions and enabling a culture of evidence-based decision-making. It is the job of technology to remove obstacles from the knowledge available to your organization rather than create them.

Management's job is to focus and align organizations around the KPIs that matter to individual properties and portfolios. Identifying, understanding and exploiting these insights should be at the heart of analytics in 2023—and beyond.

usual." Fifteen out of the 20 respondents said that they had conducted a new project indicating that this is a large and growing part of the technology footprint.

Figure 14 drills deeper into those 15 projects, breaking down the initiatives and showing an even split between three types:

- **Implementing a BI application,** which is typically a third-party, "off-the-shelf" solution.
- **Developing an existing platform,** which means the functional extension of a bespoke client platform that already exists.
- **Building our own platform,** which means starting a new design-build project to create a bespoke BI resource.

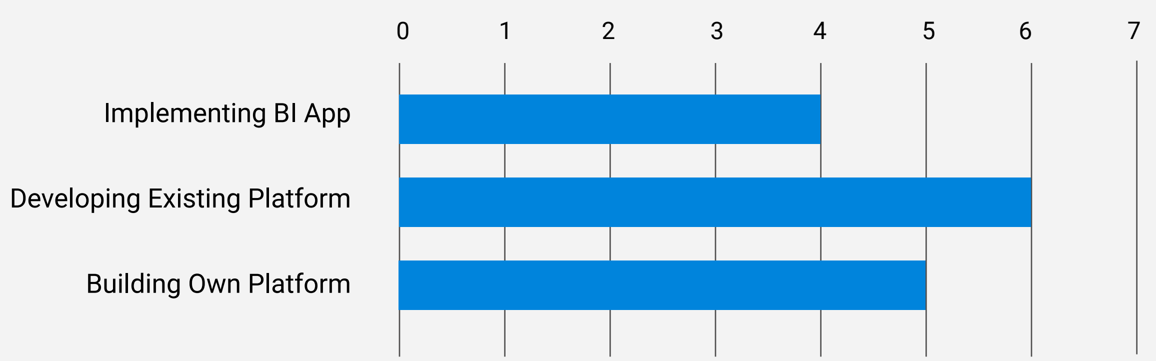
Those implementing a third-party application mostly did so to aggregate data; in particular, combining data from different property management systems. Operators running properties on separate instances of the same PMS, or, in some cases, many instances of multiple different PMSs, implemented BI to get a single view of their portfolios. Phasing out spreadsheets and saving the time and inaccuracy of using multiple systems were the other main drivers.

The companies embarking on projects to build platforms had similar aspirations to those rolling out software. In addition to aggregating data, some wished to acquire more data externally and felt constrained by PMS vendor platforms. Others wanted to migrate to a more cohesive platform that worked how they wanted. There was also evidence of more cultural objectives, for example, making decision-making more exception-based or making it as easy as possible to correlate information and create visualizations of anything that matters to business performance.

Perhaps unsurprisingly, the broadest range of objectives for BI projects came from those who had done major development on existing platforms. A few had hired senior data resources and planned to build more ambitious roadmaps. Centralization was a driver, as tools created to manage a business from more central locations become corporate data assets, for which there must be uses beyond simply enabling a centralized process.

The newest objectives emerging from these interviews were those relating to AI. Multiple 2022 and 2023 projects concern the introduction of AI

Figure 14: Breakdown of 2022 BI Initiatives



into analytical processes. Some operators had been exploring machine learning tools and plan to release them on data sets during 2023. Others, while not having specific plans to roll out AI, had identified its scalability requirements, creating a need for a different architecture.

Leveraging AI may require considerable additional processing capacity, but only for short periods. Some peaks in processing—concurrent analyses at budget time, for example—would be infeasible in traditional private database infrastructures. Hence, several technology leaders have felt the need to move their entire infrastructure to the cloud, where there are no limits on processing capacity.

A Growing Appetite for Insight

The level of activity in multifamily BI has been growing steadily in each of the five years of this survey. This year's interviews attempted to learn more about the causality of that growth. We know that a level of reporting is necessary for any business, and we know that the need to aggregate data from systems is a frequent driver of projects (see above). But these factors do not explain the continued growth in the sector.

To get a handle on *why* companies are devoting considerable and growing time and resources to these projects, we asked the question differently compared to previous years. We asked leaders to provide examples of specific insights that they were or would be able to find out from their BI initiatives that would otherwise have been unavailable to them. The question yielded an impressive variety and number of examples, which are categorized below.

Business Control, i.e., any metric or insight that increases a company's control over a cost or revenue driver:

- *We've been pulling data from multiple sources to help us analyze revenue management system settings. We've got a better handle on things like leasing velocity, so we can learn things like 'we were a month late in changing that setting.' That's far more effective than over-riding price recommendations."*
- *"We started tracking rent-income ratios portfolio-wide to ensure managers were using our guidance and to understand our overall risk exposure."*
- *"We created a "digital workboard" as part of our maintenance transformation, and we want to turn this and other centralization-related tools into corporate data resources."*
- *"To centralize admin, you have to understand, for example, exactly what's entailed in processing a move-out from bow to stern: how long it takes, how many steps are involved, etc. You also have to understand the impact on customer sentiment, which meant we had to set up metrics that enabled us to track everything."*
- *"We depended on our revenue management system for renewal stats, but they were tainted with skips and evicts. We wanted to define the metrics to our specification."*
- *"There's a compulsion to panic when a property's performance slips, and we've been developing tools that enable us to characterize*

> ***"We've been pulling data from multiple sources to help us analyze revenue management system settings...That's far more effective than over-riding price recommendations."***

aspects of performance against the market and quickly establish whether it's the team or the market that's the problem."

- *"We wanted to define a marketing funnel that reflects our business and allows us to know with confidence how much demand we need to buy, which used to require multiple spreadsheets."*

Customer Insight, i.e., anything designed to understand customer sentiment or improve a company's ability to improve customer experience:

- *"We're trying to determine if cellular connectivity scores impact retention rates."*
- *"We've been identifying target customer groups and trying to understand sentiment and how we could change strategies, change the questions we ask on tours, etc., and update our sales training."*
- *"We're trying to understand self-guided tours. We can see how many tours were done, but we want to understand their impact on leasing outcomes, whether or not there were multiple tours, etc."*
- *"We want to see how service request completion within 24 hours correlates with asset performance."*
- *"We want to understand customer journey orchestration: how our customers travel through our organization and what we can do proactively. Why is a customer choosing to do this thing at some point in this journey, and how can we use that insight to improve?"*

HR, i.e., anything that improves a company's ability to organize and develop its associates:

- *"We know that great community managers impact performance, but we want to know more about how. For example, when one leaves, how does it affect KPIs, and how long does it take to recover?"*
- *"We're getting more systematic about training opportunities—when we budget, we look at trends and how we align skill requirements to training."*
- *We wanted to make bonus potential transparent to associates, but it was hard to do: we pay quarterly bonuses to a formula based on various metrics (performance, reputation, customer satisfaction, etc.). We've used our BI platform to pull that information together and surface it in a way that is accessible to our teams."*

New Insight, i.e., a catch-all for any things that companies are trying to find out from BI that they would not otherwise know:

- *"When looking at a new deal in a market, our acquisitions and development team has historically used a gut check or an external data report. Now we can cook up a set of metrics that aggregate what we know about performance in a given market."*
- *"With multi-phase developments, we can now use the unit mix from the first phase and find out how it performed. Because the phases span multiple years, this is incredibly rich insight, especially true on the high-end developments,*

> ***"We've been identifying target customer groups and trying to understand sentiment and how we could change strategies, change the questions we ask on tours, etc., and update our sales training."***

(e.g., if we identify that some people might pay for a second bedroom as an office.)"

- *"We wanted to know which industries our residents worked in so we could be proactive in telling investors what our exposure was to, e.g., layoffs."*
- *"We're looking for '10% more NOI' opportunities, which means we're scrutinizing how aspects of our operating model contribute to NOI and whether or not a source of NOI for one property is likely to transfer to another."*
- *"We'd like to leverage advanced analytics to build a new renewal model."*
- *"We've been establishing digital twin properties—e.g., if an existing property is three years older than this new one, can we use it to predict what's going to happen at the younger property? We're a long-term hold so those trends can be powerful."*

3.6 CONNECTED COMMUNITIES

Smart technology and managed internet are increasingly important enablers of the desired future-state multifamily operation. Although they are separate technologies with only partial overlap between the vendors of each, there are a few reasons why it makes sense to look at them together. First, as mentioned in last year's 20 for 20, the financing model where the revenue generated by managed internet subsidizes the smart technology seems to be getting more popular.

Perhaps more importantly, both technologies require installing physical equipment into properties. In each case, this creates a perverse set of incentives for owners and operators. It is easier to install technology into new-build properties, but since both are accretive to NOI, retrofitting them into stabilized properties achieves faster payback. These dynamics go a long way to explaining the responses to this year's questions.

The questions on both smart tech and managed internet were open-ended, asking each operator to characterize how they saw the state of each technology at their properties. After reviewing the responses, there is a clear difference in perspectives between leaders from predominantly fee-managed portfolios and owner-operators. For this reason, we will treat them separately in this section.

Third-Party Management Perspective

The tone of responses from leaders of third-party management companies was more cautious than for owner-operators. Some representative quotes on the state of smart community technology include:

- *"There are so many new players in smart home tech. We've been looking at what residents want, and it seems people want to use their own stuff, so we're cautious about deployment."*
- *"We really want access control in our buildings as it's the thing that streamlines operations and forms part of our operating model. IoT stuff is more of a nice-to-have."*
- *"Smart tech isn't as much of an initiative for us – my team doesn't support it at all; it's between the property and the vendor."*
- *"Generally, the technology is complicated and hard to do in a retrofit, and the owner has to be the one who drives it."*

These views and the conversations from which they came represented a breadth of awareness but no deep experience of having chosen and implemented smart technology. That decision (as we noted in last year's edition) tends to be a property-by-property decision made by ownership. The same appears to be true of managed internet, based on the following sentiments:

- *"It's up to the asset manager and the regional, and the status of the existing contract usually drives it."*
- *"We want to figure out how to package up some of the vendors and solutions and bring them proactively to our owners."*
- *"We're going to roll it out wherever an existing contract expires."*
- *"We're doing some buyouts on contracts as well as implementing when an existing contract expires. It's all based on individual feasibility assessments."*
- *"It's 100% between property and vendor—we don't get involved."*

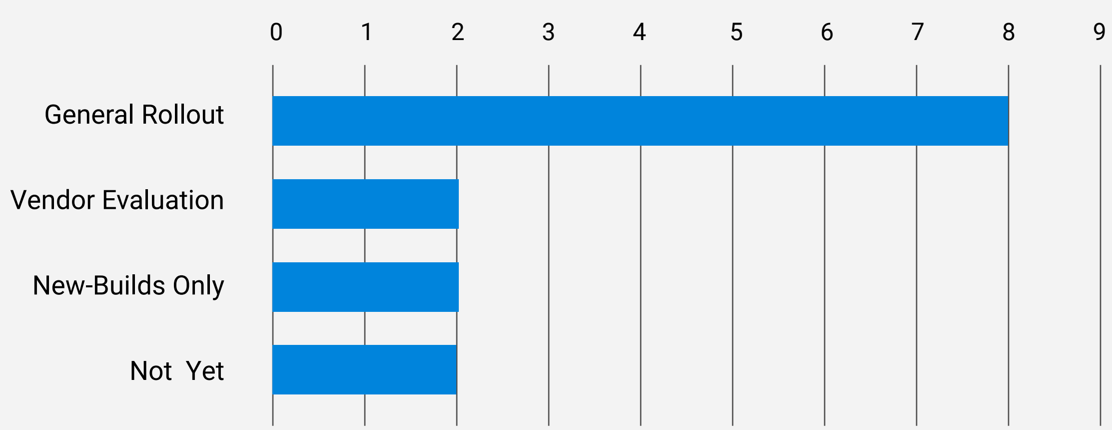
These perspectives are easy to understand given the context of the decisions. The third-party manager typically has, at most, an advisory and support role in selecting and implementing technology for connected communities. They also experience a broad range of technology as they take over management of communities equipped with proptech that they did not select. It is unsurprising that they are relatively hands-off with projects and skeptical of vendors in a space whose vendor community has had a *fluid* couple of years.

Owner-Operator Perspective

If we reduce the sample to include only those companies that own most of the units they operate, the information about the state of smart technology makes more intuitive sense. The responses in Figure 15 paint a quite different picture, where most respondents are at some stage of a major smart community rollout. The following quotes capture the ambition and project motivations:

- *"We've completed the first grouping of communities in 2022, getting to half rolled out by end of year."*
- *"We expect to get over 90% by the end of 2023...our smart home tech has cut down on a lot of maintenance tasks."*
- *"Our portfolio-wide access control rollout was always the essential precursor for self-guided tours, which is a big, multi-year business objective for us."*
- *"The more we have regionalized operations, the more important it has become to have a single access control application."*

Figure 15: Current State of Smart Community Rollout (Non-Fee Management Respondents)



- *"We have to have all of the pieces in our properties—connectivity, access control, etc.—to deliver our leasing experience: you can't do self-guided tours properly without it."*
- *"We implemented the first six [properties] and have had success: thermostat and access control have been seen as a positive by our residents."*

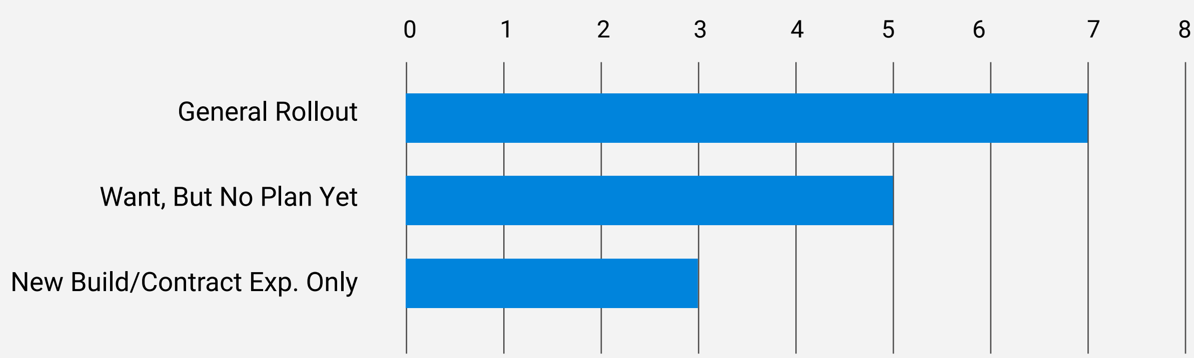
The companies evaluating vendors were focused on two things: deciding which devices to include and assessing the stability of the vendors. Two of the three companies planning to install exclusively in new-build properties were developers. The third struggled to justify another amenity in a portfolio that had seen many amenities added through successive renovation cycles. The companies saying *"not yet"* had yet to be convinced of the upside, given their properties' locations and demographics.

The responses from the same group for managed internet services fall into three categories and are summarized in Figure 16. There was very little pushback on the idea of rolling out managed Wi-Fi: For most companies it is at least one of an essential amenity and an indispensable part of their operating platform.

Of the rest, a third were convinced that they would adopt managed Wi-Fi but had not yet made a plan to do so. The remainder had decided to phase it in as legacy contracts expire.

In both smart technology and managed internet, the apparent dichotomy between properties run by third-party operators and those operated by their owners has implications for the spread of proptech. Third-party managers account for most of the largest portfolios in the industry. And most of the remaining market for these technologies are retrofit implementations rather than new builds. The next phase of adoption looks set to follow a different pattern from adoption to date.

Figure 16: Current State of Managed Internet (Non-Fee Management Respondents)



SPONSOR VIEWPOINT

MATURITY: THE NEXT PHASE IN SMART TECHNOLOGY

Dwelo

It's been an eventful couple of years in smart community technology. While the technology has continued to transform communities and companies that adopt it, we have seen acquisitions, IPOs and the departure of some vendors from this industry.

These observations fit a familiar cycle: new technology needs time to mature. The rapid change reflects that operators are getting better at extracting value from smart technology and are gravitating toward vendors that are successful in developing and delivering it. And in 2023, a maturing technology environment coincides with a period of operational change in multifamily.

Start with "Why?"

Rent increases tend to be the primary justification for smart technology implementations. While owners consistently see material rent increases, viewing smart technology purely as an amenity, like cabinets or appliances, is a missed opportunity. Few amenities deliver the same permanent operational improvement as smart technologies or managed Wi-Fi.

In 2023, operators will continue to evolve property management roles, removing unnecessary tasks from day-to-day operations wherever possible. As these operating models evolve, so will the sources of efficiency available to operators.

Operators will choose the sources of efficiency that matter to them. For example, improving leasing usually means enhancing the prospect journey or customer experience: smart access control elevates both considerably. Maintenance—another candidate for streamlining—benefits not only from access control but also from temperature control and devices that support asset protection (e.g., leak sensors).

The Importance of the Design Perspective

The pursuit of more specific benefits is part of the maturing process. Operators change business processes to leverage the new technology. As they mature and consolidate, vendors become better at delivering the value proposition, translating deep property management experience into solutions. That requires a commitment to design, which removes the small points of friction that hinder the experience.

Integrations provide a great example. Access control can integrate with an intercom system using a simple rent roll integration. But it would require two apps, one for viewing the intercom and one for unit access control. A better solution would be to funnel the intercom video into the access control app, creating an intuitive experience.

Designing and delivering customer experiences like these requires one of the most important attributes of mature companies: The ability to focus on what matters most and go deep into those aspects of the experience rather than trying to do everything.

The Arrival of the Product Makers

Our industry now has the know-how to do smart community technology right, including selecting and implementing technology that delivers specific experiences and benefits. But a checked-box approach to vendor evaluation is no longer sufficient in a maturing market.

In B2B industries, buyers can be relatively removed from the associate or the customer experience that technology is designed to deliver. Dwelo's acquisition by a leading consumer technology firm (Level Home) has been eye-opening. Consumer technology companies cannot succeed with average design capabilities.

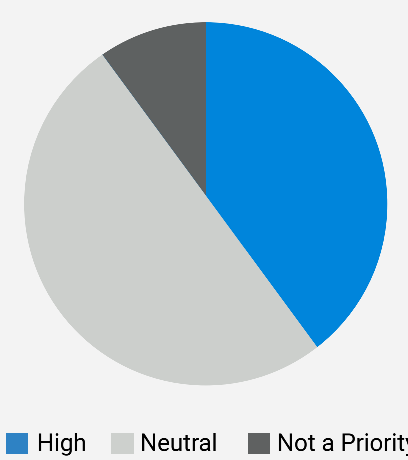
Deep design capabilities, both for hardware and software, are perhaps the most important things to look out for in 2023. There is a right way to design, build and deliver products, support them, and to run long-term relationships. And these will be the determinants of success in a maturing market for smart community technology.

3.7 THOUGHTS ABOUT ESG

A year ago, the ESG part of the interviews suggested a strong interest in the topic and that ESG objectives were beginning to influence decisions about which projects companies chose to do. This year's interviews asked leaders what their companies are doing in service of their ESG goals and how big of a priority ESG currently is.

Figure 17 shows the responses assigned to one of three levels of priority: high, neutral or not a priority. Half of the respondents characterized ESG as a neutral priority. A little under half saw ESG as high, and two did not see ESG as a priority. Two things are interesting about the detailed responses. One is what companies are doing. The other is *why* they are doing it.

Figure 17: "How high of a priority is ESG for Your Organization?"



Of the eight companies that see ESG as a high priority, four are either public companies or wholly owned subsidiaries of public companies and view ESG as necessary to meet public market expectations. Of the remaining four, two (private) companies said it is an investor expectation. The other two said it was primarily driven by the desire to attract and retain staff, as DEI and environmental policies were core to their value proposition to current and potential associates.

The two that said it was not a priority had not experienced any pressure from institutional investors to act. The companies that are neutral on ESG priorities included all but one of the fee managers in this year's interviews, reflecting that ownership groups principally drive ESG policy. Some described initiatives like harmonizing building regulations or a desire to baseline ESG standards across multiple owners. But these were clearly much lower priorities than the other initiatives discussed during these interviews.

The details of the projects are also instructive. Occasionally leaders shared details of successful DEI initiatives: one, in particular, had developed a highly structured program focused on the well-being of their communities. But when pressed for details, most leaders exclusively shared things that also make sense for non-ESG reasons.

Programs that use energy and water more efficiently were chalked up to ESG. One area that has conspicuously grown in the last year is EV charging, which was being installed by most of the companies interviewed. Whether this should count as an ESG initiative or smart business for operators offering a necessary amenity to renters who increasingly drive electric cars is largely in the eye of the beholder.

The sentiment toward ESG based on these 20 interviews was perhaps best summed up by one participant, who said: *"The difference is that we now have to package things that used to be common sense. For example, we installed efficient light bulbs long ago because it was the right thing to do. Now it's an ESG initiative."* We will return to ESG in the Conclusions.

4

CONCLUSIONS

To develop insight, we must first ask the right questions. This year, 20 for 20 changed its focus to ask about process first and technology second. As a result, the insights presented in this paper feel different from previous years and throw light on how operating models and roles are evolving in 2023.

The current confluence of a reduction in deal volume, new technologies and the prevailing industry trend is leading many operators to look hard at centralization. But the enterprise of centralization means changing things that have been normal and intuitive in multifamily for decades. The industry seems motivated to change how it performs services, but operators are often unclear on the objectives and changes needed to achieve them.

The definition of a new operating model has been the overarching theme of this paper. Different operators are thinking about the concepts of centralization in different ways, with important implications for people, processes and technology, which we will discuss in the following subsections.

4.1 "CENTRALIZATION" ISN'T THE WORD

Centralization has all the characteristics of an industry buzzword. But the evidence in this paper suggests that it is attaching itself to various initiatives that don't involve centralizing tasks or roles.

Centralization entails taking tasks and roles traditionally performed on-site and moving them to a more central location. It requires companies to plan and execute changes affecting people, processes and technology. Evidence suggests that companies are working on some of those activities, but it also appears that relocating property roles is not usually the objective.

Section 2 provided two data points about the industry's current focus on process change. For more than half of the respondents, it was the number one highlight of 2022 and the number one priority for 2023. That suggests that changing property processes is a bigger priority than anything reported in this survey over the last five years. But calling it *"centralization"* looks increasingly like a misnomer.

> ***"Centralization requires companies to plan and execute changes affecting people, processes and technology."***

Section 3 highlighted the difference between the *idea* of centralization and the *reality* of the initiatives currently being planned or executed. Leasing attracted the highest priority, but property admin accounted for most of the action. There was a low incidence of companies making tangible changes to their leasing teams but a high incidence of companies implementing software designed to deliver centralization benefits.

There are important reasons why the centralization of roles is not happening at the same rate as technology adoption. Figure 8 in Section 3.1 reminds us that most companies do not have a combination of control of their operating environment and properties that are close together. Those factors limit the scope for role centralization. But it seems that companies not planning to centralize roles are among the most avid consumers of the technology that supports centralization.

One operator offered an explanation for this: *"There's a risk-reward dynamic at play, where the incremental cost of buying more technology that might improve leasing is small relative to the risk of changing property roles."* That makes sense, but it is also true that operators often reach for technology to provide prepackaged solutions to problems that they feel motivated to solve.

There is a parallel here with the adoption of revenue management. An early vanguard of companies staffed functions that could analyze data and design and execute processes that enabled a disciplined review of results. These functions were powered by technology which, in concert with people and processes, generated impressive results. The rest of the industry followed suit, but many companies began to see software as the solution, thinking it would deliver the same benefits that accrued to companies that had also addressed the people and process aspects.

It may be that a similar thing is happening with leasing. The technology footprint is growing, and presumably, there are benefits to acquiring the additional technology. But centralization is more about people than it is about technology and companies are unlikely to arrive at centralized functions by taking a technology-first approach.

Where Centralization Is Working

Two things stand out about the companies that are delivering on leasing centralization. One is that they had been working on this project for multiple years. The coverage in the press about companies achieving centralization benefits usually represents the culmination of multiple years of projects that transformed how leasing worked.

The other is that the initiatives were not primarily cost-driven. The companies purposefully moved jobs to wherever they could be done the most effectively by the right combination of people and technology. The prospect and resident experiences were typically the main drivers, and companies believed that if they could deliver the right experience, efficiencies and financial benefits would naturally follow.

Task specialization makes the centralized model successful, and property admin is where companies are currently making the most progress. It is striking that nearly all respondents fell into one of two camps: either not planning to centralize or at some stage of implementing a centralized model. It suggests that the step between considering centralized admin and delivering it is relatively short.Admin functions generally lend themselves to shared service models. It may also be that once an operator begins to explore removing admin activities from properties, it becomes obvious that those activities have never been a natural fit with site operations. It certainly seems better for multifamily career paths to remove the detour into bookkeeping that often stands between a leasing agent and a community manager job, for example.

Whatever the motivation, removing tasks from operations to shared services is about task specialization. Task specialization enables operations to work more efficiently and ultimately defines career paths for people who want to be good at those things. And based on these interviews, it appears that specialization, rather than centralization, is the force that is reshaping property management.

> ***"Task specialization makes the centralized model successful, and property admin is where companies are currently making the most progress."***

4.2 THE DÉJÀ VU OF MAINTENANCE CENTRALIZATION

Over the five years of conducting this survey, parallels occasionally emerge in the technology and process trends. We see just such an example in current attitudes toward maintenance centralization.

Section 3 describes how maintenance attracts a low priority from the leaders interviewed for this paper. Yet at the same time, we know that centralization is motivated, at least in part, by a desire to limit exposure to staffing shortages. Maintenance is perennially the hardest function to staff, and centralization offers a more efficient staffing model. Yet few companies are working on it.

It is reminiscent of a similar observation in 2018 from the interviews for the first-ever edition of 20 for 20. The parallel is self-guided tours, which, as recently as 2018, was a capability few in multifamily had any interest in acquiring. Yet, as we argued, self-guided tours had proved highly successful in the SFR market for several years. It seemed that multifamily was missing a trick. Events supervened, and a global pandemic completely changed attitudes to self-show, but the industry had generally been slow to learn a lesson from SFR.

Maintenance and the Coverage Paradigm

The small number of companies achieving success in centralizing maintenance are usually implementing a model that operates more like SFR maintenance. The "scatter-buy" SFR model (not build-to-rent) has to organize maintenance without on-site teams. As one practitioner explained, every work order forces operators to make three decisions: who does the work, when they will do it, and how much it should cost. The traditional multifamily maintenance model largely avoids those critical questions.

It is an interesting perspective. Multifamily's coverage model—where it is normal to have one maintenance resource per 100 units—constitutes a *"lump of labor"* that is consumed by the incoming work orders. Different communities and companies do this to varying levels of efficiency,

> ***"[In SFR] every work order forces operators to make three decisions: who does the work, when they will do it, and how much it should cost."***

but the impetus to make activities more efficient is nowhere near as strong as it is by necessity in SFR. It is no surprise that some of the most interesting vendors in maintenance technology in multifamily are now coming from the SFR space.

SFR maintenance has a stronger focus on central coordination. It requires operators to build up the picture of activity from the bottom (work orders) up and decide how tasks should be done and by whom. When companies build up that picture, it creates a more structured understanding of the types of work they have to do, what resources they have to do it, and what is the most effective combination application of one to the other.

The relatively few multifamily companies embracing similar models so far report that they are benefiting from greater specialization. Some companies outsource turms to a third party, leaving the remaining maintenance team to focus on business as usual and proactive maintenance.

Others are altering reporting lines, so maintenance teams report to a regional-level director rather than property managers. Supervisors who manage the breadth of maintenance activities allocate resources more efficiently than isolated property teams. They can develop specializations within regional teams rather than staffing individual properties with generalists.

In both cases, companies are breaking the property coverage paradigm and adopting a model that looks increasingly like that of SFR. Interestingly, the two companies that reported changing their maintenance models out of the 20 interviewees had the primary focus of improving resident satisfaction. The changes may enable them to deliver with slightly fewer people, but this was not the main driver in either case.

By building a bottom-up picture of maintenance activities and deciding how best to perform different types of work, operators unlock greater

HOW TO BE AI-FIRST IN 2023

EliseAI

2023 will likely bring a slowdown in multifamily transactions due to uncertain economic conditions. This brings opportunity for prepared operators: with less time spent onboarding new properties, they have latitude to rethink operating models, and the role that AI *should* play in property operations.

You need to use AI for more than just automating prospect communications. The transformative power of AI lies in its advanced capabilities for data collection. AI accumulates highly reliable and fine-grained data at a level not previously possible. This data improves the AI's decision-making and creates a resource for management to understand performance at a deeper and more accurate level.

At EliseAI, we encourage companies to see AI as a fundamental part of their operations, not simply a point-solution. That is, to become AI-First.

What Does AI-First Mean?

AI-First means re-imagining property management and challenging yourself to decide which tasks will ultimately be handled most effectively by AI.

Start by considering AI as the foundation for operations upon which your leasing process and other workflows can be built.

For example, prospects prefer an increasingly digital leasing experience, including self-guided and virtual tours, or texting to schedule appointments. AI can immediately adapt to these operational changes, supporting staff as they set-up new processes onsite or offsite. (You'll also likely see a higher ROI for new technologies you adopt.)

Then refocus property management roles. Include responsibilities that people, not AI, excel at, such as creating positive in-person experiences or event marketing. This can also help you retain staff and make your workforce happier.

Evaluating Artificial Intelligence

The most important component of AI is conversation quality. Conversation quality is the difference between having an outstanding leasing agent on your staff and a mediocre one - with all of the financial implications.

High-quality artificial intelligence begins with data. AI is only as good as the data upon which it is trained, ideally a high volume of relevant conversations. Using this data, machine learning can build an AI that can comprehend prospect conversations. Various techniques such as reinforcement, supervised, or unsupervised learning enable AI to constantly ingest data, evaluate its own performance, and then optimize its outputs for the best possible outcome.

Through advanced machine learning and continuous data collection, an advanced AI Assistant can nurture a lead from the first point of contact throughout residency. For example, an AI Assistant can collect data on a prospect's budget, and has the ability to recommend units not just at the property of interest, but at multiple similar properties across the portfolio that are in close proximity or even better suited for the prospect. This is something an agent may not have the visibility or capacity to do. Cross-selling is enhanced by automated follow-ups, as new properties and units become available and match the prospect data. AI then remembers the prospects' preferences to optimize communication throughout the lease.

With a technology that has such potential for radical transformation, multifamily operators should consider going AI-First with the right partner, or risk being left behind.

specialization of roles. Specialization leads to better service, better jobs, and greater efficiency. It's time for multifamily to learn another lesson from single-family rentals.

4.3 AI IS DOING MORE STUFF. WHAT SHOULD PEOPLE DO?

It is tempting to say that the AI footprint is expanding in multifamily. It is perhaps more accurate to say that multifamily operators are adopting or at least trying more and more applications. The difference is an important one. Section 3.2 noted the continued rise of digital leasing assistants. Companies are also testing new AI use cases, including late payments and processing of service requests. A pattern is emerging in the way that property managers are adopting AI.

Multifamily operators have the habit of acquiring "widgets" that do work that is already familiar to property management. Vendors develop solutions that address a particular use case, and property management companies test and sometimes buy the solution. The solutions add value to the tasks they now perform, but the way companies adopt them can lead to an accretion of technology and (as Section 3 suggests) largely unchanged roles. A better approach to AI and technology, more broadly, is to think about how processes should work, given the available technological options. That often leads to a radically different answer from the approach that begins with the status quo.

> ***"In a recent interview, Silicon Valley pioneer Marc Andreessen opined that the question people are failing to ask about AI is, 'What do people do?'"***

In a recent interview, Silicon Valley pioneer Marc Andreessen opined that the question people are failing to ask about AI is, "What do people do?" He used the example of art, where AI already produces art of a higher quality than all but a tiny number of human beings. He suggested that humans may not be as good as we thought at some types of art. And this is a less profitable use of our creative abilities than we have always assumed. Instead of thinking about the human activities that AI can do, humans should think harder about how they will excel in a world where AI is increasingly ubiquitous.

Readers of the 20 for 20 blog will already be familiar with the view that Open AI will change creative activities like writing, but not in the way that most people seem to think. Today multi-family companies seem excited at the prospect of having humans edit AI-generated work, as it will save writers' time. But that misses the point: editing copy to a final state is too small of a value-add, and it seems like an activity where AI will outperform humans.

In the case of writing, the high-value activity lies in the creation of ideas. AI does an impressive job of regurgitating existing content from the internet, but we will quickly arrive at a point where everybody uses the same technology to reorganize the same information, eroding any meaningful advantage from content creation. The advantage will accrue to companies that focus humans on new ideas: it's harder to do, but humans are good at it.

What Should People Do?

Based on this year's survey, most multifamily operators would benefit from asking: *"What should people do?"*

Multifamily is a people business, and there are plenty of activities that are best performed by people. But operators are likelier to identify what they are by first thinking about the types of activity that AI should handle. Lead nurturing, late payments and collections and myriad other tasks share the characteristic of nagging humans to do things they are likely to forget. AI handles most of that activity more reliably and with far less emotional and motivational cost than assigning the work to humans.

To reap the benefits of this transformational technology, we need a broader perspective on how things should work. And here we begin to see the relationship between what people call *"centralization"* and the ultimate role of AI. Deploying a widget that handles repetitive property management tasks is somewhat useful. But the set of problems that each app solves may be too small to justify adding the software to the technology stack.

AI will ultimately add the most value where it can operate at scale—which means implementation across as many properties as possible. Section 3.4 showed how property admin is centralizing more rapidly than the other property management functions. AI that performs administrative functions would be a powerful addition to a centralized shared services environment.

> ***"AI will ultimately add the most value where it can operate at scale—which means implementation across as many properties as possible."***

Operators can define central processes on an AI foundation, delivering better service and far more substantial productivity gains than widgets running alongside traditional site teams. Humans can then focus on the roles they do best, like management, high-touch customer interactions, etc.

AI will probably change more than any other area of multifamily technology over the next year. There will be many innovations and vendors, some of which will offer genuine improvement to operating models. Operators will miss this opportunity if they continue to constrain AI to limited roles in a property management structure that is still largely defined by the number of people required to cover a specific property.

The more unconstrained operators can be in thinking about how AI handles tasks, the likelier it is that we will find an equilibrium that leverages the strengths of both human and robot.

4.4 BI APPEARS TO BE MATURING

BI has been a more or less consistent feature of each edition of 20 for 20. In the first-ever issue (published in 2019), we noted that few interviewees seemed particularly happy about their BI, irrespective of which solution they had adopted. We also noted that although BI has been around for a long time, there had never been a big bang in adoption.

Over the following years, it became clear that we had misunderstood the adoption cycle for BI. Companies tend to go as far as they can with no BI at all, relying on the native reporting of their applications. Next, they adopt the off-the-shelf package provided by a PMS provider, and when companies outgrow that system, they make the big jump to building their own platforms. It's a circuitous path but a common one in this industry.

The problems with adoption tend to stem from two sources. First, some companies approach

BI as a software implementation, similar to, say, a mobile maintenance or CRM implementation. Projects starting in that way usually result in disappointment as BI is too different of a resource. Second, companies developing their own platforms often suffered from inadequate business ownership of a project that gravitated into being IT-driven. The best BI projects have always been technology-enabled, but business-driven projects and many operators have struggled to strike this blend.

Signs of Progress

This year, though, there are signs of a cultural changed based on two instructive data points in Section 3.5. The first was the ease with which most of the 20 interviewees produced robust examples of specific insights they had developed using BI that they would not have been able to find without it. The detailed list of use cases in Section 3.5 demonstrates a senior management appetite to seek correlation in different data sets.

By correlating factors that affect particular outcomes, for example, estimating what impact work order completion has on resident satisfaction, renewal rates, and so on, operators gain insight that can prompt action. That is precisely the right way to think about BI. Previous 20 for 20 conversations centered on reporting and dashboarding; that this year's dwelt on *insight* constitutes a solid sign of progress.

> ***"The best BI projects have always been technology-enabled, but business-driven projects and many operators have struggled to strike this blend."***

The other data point concerns structural change. Many companies supporting their own custom-built BI platforms had made senior hires specializing in data science and BI. Some reported making architectural changes to their platforms in anticipation of growing future analytical requirements, including the introduction of machine learning to seek new insights into their data.

The ultimate driver of these changes is increased demand for insight into things that drive the business. Those are the right drivers for BI projects and a sign that this critical business technology may be coming of age in our industry.

4.5 IS ESG ON THE WRONG DESK IN MULTIFAMILY?

The questions about ESG in this year's survey were designed to understand how big of a priority ESG is and what initiatives companies are currently implementing. The premise for adding these questions came from last year's survey when it seemed that ESG was growing in importance and beginning to wield influence over some technology decisions. By asking our group of leaders to describe their ESG initiatives, we see that the opposite appears to be true.

The *"ESG initiatives"* described look much more like a post hoc categorization of technology projects that companies would have done anyway. Operators are supposed to eliminate waste if it saves money (utilities, water, etc.). They should also provide EV charging stations to the increasing number of residents who need to charge their EVs. It is hard to claim that these programs move the needle on environmental impact, given that companies would have done them with or without ESG targets.

In 2022, The Economist published a special report on the state of ESG *("ESG Investing: A Broken Idea")* following the high-profile resignation of Tariq Fancy, the former chief investment officer for sustainable investing at BlackRock, the world's largest asset management company. On his resignation, Fancy wrote a series of essays about his disenchantment with ESG, claiming that the profession is little more than "marketing hype, or spin and disingenuous promises from the investment community."

The Economist recommended that ESG should be scrapped and replaced with just "E," which should stand for "emissions" rather than "environment." Emissions, they argued, are tangible, measurable, and directly impact climate change. And they should not be conflated with social and governance initiatives, which are arbitrary and subject to political trends.

There are excellent reasons to want to make progress on environmental, social and governance issues. Several leaders shared that their organizations' social and environmental programs are a core part of their culture and value proposition to current and potential team members. The most compelling examples of environmental impact came from developers and merchant builders: decarbonizing new developments, while expensive, offers tangible improvement in emissions.

In reviewing the answers from operational and technology leaders, it is hard to avoid the conclusion that ESG is currently on the wrong desk in multifamily. It is usually an operational initiative primarily because operational reporting is involved. But the lion's share of the opportunity lies in construction, not operations.

For most operators, ESG is predominantly an exercise in checking boxes to satisfy the subset of investors for whom ESG remains important. Several operators reported that they are under no pressure at all from investors to report on ESG. While ESG effort is mostly about finding stocking stuffers for investor reports, it is unlikely to lead to tangible progress. Operators seeking environmental impact may benefit from rethinking who is responsible for ESG.

ABOUT THE AUTHOR

Dom Beveridge is founder and principal at 20 for 20. He has more than 20 years' experience in leadership and consulting roles in technology and analytics sales and marketing. He has ten years of multifamily experience, most recently as a principal with D2 Demand Solutions and previously in various roles with the Rainmaker Group (owners of the LRO revenue management platform), through the company's sale to RealPage, Inc. In his pre-multifamily days, Dom was a strategy consultant for Capgemini Ernst and Young after spending much of his early career designing and implementing revenue management systems and consulting projects with Talus Solutions (the creators of LRO), Manugistics, Inc. and JDA Software, Inc.

ABOUT 20 FOR 20

20 for 20 is a multifamily industry consultancy that helps technology companies to reach customers and potential customers to make better technology decisions. We accomplish this through a constant dialogue with leaders on both the vendor and owner-operator sides of our industry.

We work extensively with some of the most forward-thinking providers and users of multifamily technology to publish thought leadership that helps move the industry forward, including the annual 20 for 20 white paper, currently in its fifth edition.

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