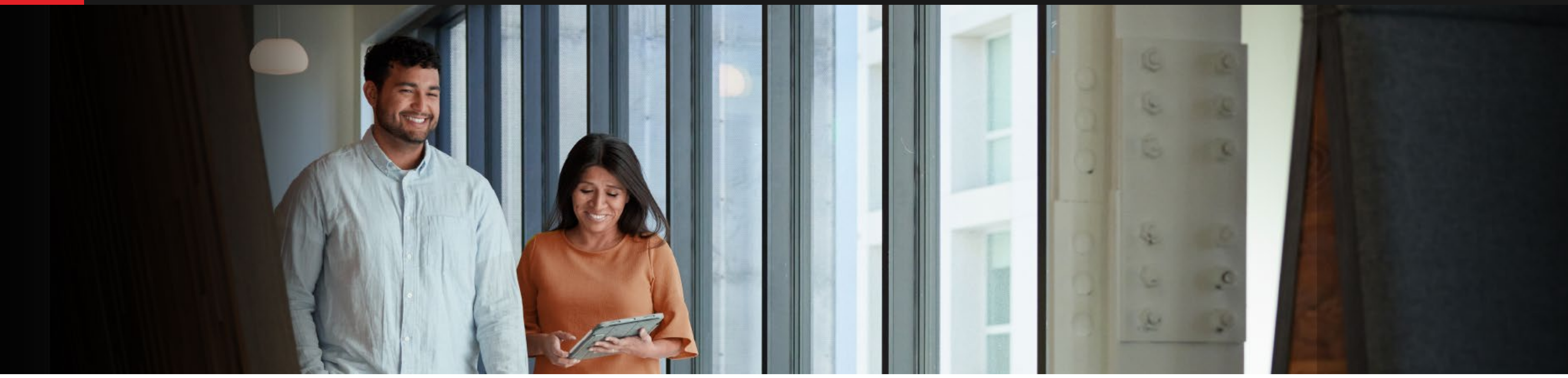
16 Ways to Generate Ancillary Revenue

How to Tackle Declining Rental Growth Head-On



Over the course of the past year, rental rates have flattened and even declined in many regions in the US. The root cause of this decline is a massive influx in new unit inventory coming online in 2023 – an estimated 580,000 units with another 440,000 expected in 2024 – which led to supply outpacing demand.[1] This decline is coming on the heels of two to three years in a row of rental revenue increases. Despite the current rent stagnation, rental rates are still up 20% over pre-pandemic levels.[2]

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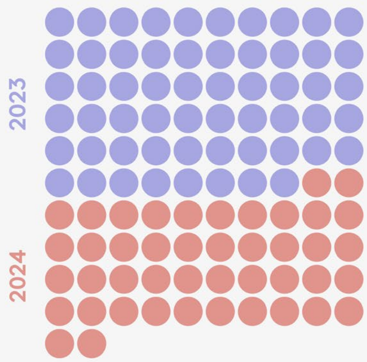

In addition to this decrease in rental rates, multifamily operators are being impacted by inflation which has resulted in an increase in operating expenses.

1 Expect Fewer New Apartments Next Year After Record-Setting 2023
2 Rents enter third month of decline as winter begins

The biggest increases came in utilities, which saw a 14.3% increase YOY, while insurance saw a 9.1% increase and payroll and other administrative expenses jumped by 8.5%.[3]

This perfect storm of lower revenue and greater expenses have put many apartment operators between a rock and a hard place. This is especially true when you take into account that there are fewer fixed expenses than there were previously. This increased variability makes it more difficult to predict the future and grow revenue. Until then, there will be continued downward pressure on net operating income.

Because growth came so consistently over the last few years, it's become expected, but if you aren't getting that extra revenue from rental growth and your expenses are increasing, what can you do? The simple answer is finding additional ancillary revenue streams. If you aren't familiar with ancillary revenue, it's any additional income, not including rent, that you derive from the properties you manage."[4]

There are quite a few opportunities for ancillary revenue streams that are easy to incorporate into your leasing process, which we will cover later in this e-book, but first it's important to note that if it's something you're going to be charging residents, it should either be adding value or is a cost that's being incurred that needs to be paid for.

Recently, there's a lot of noise being made in the industry about so-called junk fees that are either being hidden during the application process and sprung on the resident at a later date, are fees that are completely unnecessary, or are for baseline services that should be included with the rent.

The elimination of junk fees for essential services has been a primary focus of the Biden administration, including the elimination of multiple application fees and "surprise convenience fees" —essentially any fee that should be covered by rent. These fees make it difficult for renters to look at and apply for multiple units because of how much it might cost, which may result in an unhappy resident that likely won't stay past the initial lease.[5]

You don't want to become the budget airline of the multifamily industry charging fees for every little thing. At the very least, it will have a negative impact on your reputation and at the worst you could be faced with defending yourself against class action lawsuits from residents impacted by junk fees you're charging.[6]

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3 Challenging Times for the Rental Housing Industry
4 Property Management Revenue: How Can Managers Increase Ancillary Revenue?
5 Biden-Harris Administration Takes on Junk Fees in Rental Housing to Lower Costs for Renters
6 Colorado tenant sues Greystar over alleged junk fees

Many states, including Colorado, Rhode Island, Minnesota, Connecticut, Maine, Montana, and California, have passed or are in the process of passing legislation to address hidden fees charged by the multifamily industry. When it comes to fees you are assessing, the key is to make sure you're being up front and transparent. You don't want to bait and switch residents after they sign a lease.[7]

Additionally, you don't want to charge exorbitant fees or fees that don't make sense. For example, you can charge an administration fee for someone to process an application or an application fee, but you probably don't charge both. When you disclose all of your fees up front during the application process, there won't be any surprises when the first payment comes due.

Now, there are going to be fees that are legitimate and necessary to collect. As long as you don't hide them from the resident it shouldn't be a problem.

"There is a difference between "junk fees" and legitimate fees that a property owner charges residents for services beyond what the rental payment covers, so not all fees in rental housing are 'junk fees'," said Sharon Wilson Géno, National Multifamily Housing Council (NMHC) president. "More importantly, the vast majority of professionally managed property owners and operators already disclose fees voluntarily in the lease and application process and comply with state and local laws."[8]

CREATING ANCILLARY REVENUE OPPORTUNITIES AT YOUR PROPERTIES

While you don't want to appear to be squeezing your residents for every last dollar you can, you also shouldn't be leaving money on the table. Don't just look at yourself as someone who manages a property. You can also be a provider of valuable services to those residents above and beyond what their rent provides. If you're able to add a few extra dollars in revenue per unit each month, it will really add up over time. The following are a few ideas of services you can provide to residents to create ancillary revenue opportunities.

7 What's Next for Junk Fees? The Industry Weighs In
8 What's Next for Junk Fees? The Industry Weighs In

Community-level opportunities

Delivering bulk telecom

Before looking for revenue opportunities at the resident level, it's important to evaluate areas where you can both increase NOI through revenue sharing opportunities and decrease net operating expenses along the way. One way to accomplish this is by partnering with telecom companies to eliminate choice plans and deliver bulk services across your properties. Doing so not only allows you to pass on savings to residents, but also helps you deliver more consistent internet and wifi services across your communities, which is also beneficial as more and more smart tech that requires a strong signal to operate is implemented. One large national multifamily owner was able to help its residents reduce telecom costs by 25% while also improving net operating income and increasing the overall value of its assets.[9]

Selling naming rights

Oftentimes, coming up with a name for your new community can cost a lot of money, branding agencies can charge upwards of $5,000 to $50,000 to help you come up with a name.[10] What if I told you it didn't have to be that way? Depending on the size of your building, there could be an opportunity for you to sell the naming rights and turn what once was an expense into revenue. While this obviously isn't going to make sense for every property, it is something to look into and evaluate to see if there's something out there that makes sense, particularly if your property has specialized visibility (i.e. height, prime location).

Resident-level Services

Trash Valet Service

Nobody likes to take the trash out. Whether you're a teenager or an adult, there's nothing fun about it, and unlike some amenities, like the pool or gym, trash valet is something that everyone can use. Most services like this operate under a revenue share model once you've achieved a certain level of penetration across the community.

9 Bulk & Managed Wi-Fi Service Evaluation
10 The high-stakes art of naming new apartment buildings

Bundled Utilities and Telecom Services

For a small fee, you can consolidate payment of utilities, phone, and internet into a single line item on their rental invoice to make it easier for the resident when paying bills and easier for your site teams to manage. This is a natural extension of the property level telecom rights access opportunity covered previously.

Renters insurance

Offering renters insurance during the application process is a win/win for your properties. You're able to ensure that residents have insurance policies that are compliant with your requirements and you'll also get a small upcharge on each unit added to your master policy.

Deposit alternatives

With deposit alternatives, you lower the barrier to entry for residents, making it easier for them to cover move-in costs, while also saving your site teams time tracking deposits and ensuring you have coverage for any damage that may occur during the life of the lease. Beyond that, if you're facilitating the sale of deposit alternatives, you will be able to up-charge the resident on what you're paying on your master policy.

Rent Credit Reporting

According to a research by TransUnion, one of the biggest downsides to renting is not being able to build or improve credit scores. Despite a majority of residents wanting on-time payments reported to credit agencies, less than 20% of properties report those payments.[11] Fortunately, this is something that is very easy for you to provide and isn't difficult to manage. Doing so can give you a bump in recurring ancillary revenue, while increasing satisfaction for residents.

Selling Advertising

Many properties have space in common areas like the office, elevators, and parking garages that are going unused. This is a perfect opportunity for you to sell that space to local businesses to advertise on. The key is to not over do it because you don't want residents to feel inundated by the advertisements at their home.

Parking

Depending on how much extra parking space you have at your properties, there could be a huge opportunity to make a little extra money. You can allow other businesses to utilize the parking lot during the day, provide premium or covered parking, and finally you could charge residents extra for violating parking policies.

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11 Rent Reporting Will Motivate Seven in 10 Renters to Make More On-Time Payments

Premium Wifi

Depending on the service provider, it might be possible for you to charge residents that want/need faster wifi/internet a little extra for that access.

Laundry Pickup

Just like taking out the trash, no one likes to do it. That's why partnering with a local laundry service to provide weekly laundry pickup and delivery could be a lucrative revenue stream for your properties.

Vending Machines

Owning and operating the vending machines on your properties is a cheap and simple way to create regular passive income for each of your properties.

Rentable Spaces and Items

Clubhouse, Kitchen, and Pool

As space is limited in many apartments, making your clubhouse and other amenities available to rent makes sense for many properties. This helps your residents feel more at home because they're able to entertain guests without feeling overcrowded.

Rentable Spaces

Other spaces you could consider making available to rent for residents and the public in general are co-working facilities and conference rooms. As more and more people work from home, having these spaces available will be attractive to residents and potential residents alike.

Storage

Having the ability to access a storage unit at your properties is a good value add for your residents. If you have the space available, consider building a few storage units that can be rented long or short term.

Short-Term Rentals

If you want to get really creative, you can set aside a few units and make them available as short-term rentals on sites like Airbnb and VRBO.

HOW ENTRATA CAN HELP

Entrata offers a number of services that can help you increase ancillary revenue opportunities at your properties. The first being Rent Credit Reporting. With its recent acquisition of Rent Dynamics, Entrata has positioned itself as the leader in rent credit reporting for the multifamily industry. Below are just a few of the benefits that can be achieved through RentPlus from Entrata.

RentPlus builds economic inclusion for residents through reporting of on time rent payments and providing a clearer path for renters to become homeowners. It allows renters to build and improve their credit by paying rent and utility bills on time. RentPlus also enables residents to backdate on time payments up to 24 months and have those payments reported to the top-three credit bureaus. Customer data shows that residents can improve their credit score. by 48 points in the first twelve months just by paying rent on time, which is a significant increase.

In a TransUnion survey, 77% of respondents said they would be more likely to pay rent on time if they knew their rent payment history would be reported to credit reporting agencies. RentPlus sees 2x more credit score points increased vs competitor properties and an 82% resident participation rate.

Next is renters insurance and deposit alternatives. With Homebody Renters Insurance, residents gain access to renters insurance from you as part of the leasing experience. Our integration supports real-time reporting and is simple and straightforward for your team to manage.

With DepositInsure, you can replace traditional, large cash security deposits with a deposit insurance policy from Entrata. This alternative provides residents with a low-cost, one-time fee for the resident while also increasing coverage for you.

To learn more about how Entrata can help you create and manage ancillary revenue opportunities at your properties, request a demo today.

Entrata powers over 20,000 communities worldwide helping clients achieve and exceed their goals.