Maximizing Apartment Marketing Return on Investment:

How changes in renter behavior are affecting apartment marketing strategies

June 2009

Rent.com
an ebay company

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About the Author

Christina Aragon is the Director of Strategy and Marketing at Rent.com. Her responsibilities include leading the senior team in crafting Rent.com's business strategy, developing strategic alliances and overseeing traffic generation, including search engine marketing, affiliates, social media and public relations.

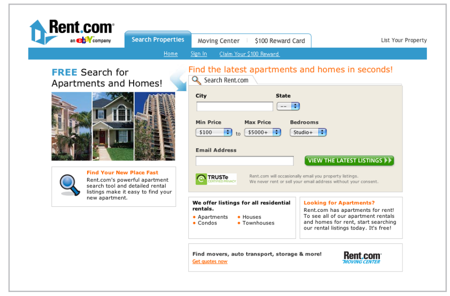
Prior to joining Rent.com, Ms. Aragon was a serial entrepreneur, co-founding two real estate businesses, one in the U.S. multifamily industry and the other in the Croatian leisure sector, where she was responsible for strategy, raising capital, sourcing investment opportunities and striking key relationships with operating partners. She also has provided consulting services to start-ups and mature businesses in diverse industries.

Ms. Aragon served as Vice President, Structured Financial Products at National Westminster Bank plc, a UK-based bank with global commercial and investment banking operations, and at its subsidiary, Greenwich Capital Markets, where she developed and built multiple lines of complex and innovative financial products. In this role, she was responsible for client acquisition and retention, product development, infrastructure build-out and strategic alliances. She built a combined book of business exceeding USD 10 billion of domestic and cross-border transactions. During her tenure at NatWest, Ms. Aragon demonstrated industry leadership, speaking at conferences both in the U.S. and Europe.

Ms. Aragon earned her MBA from Harvard Business School and graduated from the University of California, Los Angeles with a B.A. in Psychology. She is a Chartered Financial Analyst.

About Rent.com

Rent.com is the nation's #1 Internet listing service (ILS) in the rental housing industry. Rent.com has had the most online traffic for more than 4 ½ years and has the largest inventory of contracted property listings of any national ILS. Rent.com enables renters to find a residential rental property online, while allowing property owners and managers to cost-effectively fill their vacancies. Rent.com is the only national online rental resource with a pay-per-lease business model.



In addition to providing robust search tools that renters can use for free, Rent.com rewards renters with a $100 prepaid Visa® debit card if they: find their property using the Rent.com website, tell the property owner or manager they found their rental home on Rent.com, and report to Rent.com signing a lease with a property that participates in the $100 Reward Program.

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Abstract

Trends in renter search behavior impact the effectiveness of apartment marketing strategies and tactics. In order to maximize the return on apartment marketing investments, apartment marketers must understand where and how their prospects are searching for apartments. They also must understand how to capture and analyze the effectiveness of their marketing campaigns and their true costs. This paper addresses how to hone analysis in these two areas and incorporate fluctuating renter behavior into marketing strategies.

Introduction

Huge drops in employment and home ownership across the United States have dramatically altered the multifamily housing industry, creating opportunities for savvy Internet marketers and potential pitfalls for those who fail to adapt to changing conditions.

Staggering job losses have forced people out of their homes, and the "mortgage meltdown" of 2008 led to soaring foreclosure rates and precipitous drops in home prices.

The numbers are overwhelming: Since the recession began in December 2007, the number of unemployed people has risen by 7 million, and the unemployment rate has grown 4.5 percentage points to 9.4%, according to the Bureau of Labor Statistics.[1] About two-thirds (4.6 million) of those job losses occurred between November 2008 and May 2009.

Foreclosure rates skyrocketed 41% from December 2007 to December 2008.[2] Some homeowners, unable to pay their mortgages or unwilling to sell at a significant loss, opted to rent out their homes, creating excess residential rental inventory.

These employment and inventory shifts have been felt acutely in the multifamily market, where they have disrupted a delicate demand-supply relationship. National vacancy rates have increased. In the fourth quarter of 2008, vacancy rates jumped quarter-over-quarter and year-over-year to nearly 8-11% (calculations vary based upon the inventory included in the estimate).[3] And, over the same period of time, national net effective rents have declined.[4]

Given these conditions, it has been difficult for multifamily operators to meet margins by increasing or even holding the top line. As a result, many are reducing operating expenses to achieve their net operating income (NOI) objectives or adjusting their NOI expectations altogether.

Leo Horey, Executive Vice President of Operations, AvalonBay Communities, which owns or holds an interest in more than 50,000 apartment homes across 10 states and the District of Columbia, said his company is carefully monitoring closing ratios, which AvalonBay has found to be about 30 percent. "If the closing ratio drops to 20 percent in a changing market, that means our rents are too high, and we'll bring them down," Mr. Horey said. "During more robust or steady times, these factors aren't as big an issue, but today you want to ensure that your properties are making changes quickly, to stay in touch with the market."

But how does one "stay in touch with the market" in order to make such quick changes?

Having an acute understanding of local market conditions in order to balance occupancy rates with rental rates is essential. But property operators need to go even further.

In this economic climate, when apartment marketers may be faced with reduced advertising budgets, it is essential to make informed decisions to target those dollars to the highest-converting sources of traffic. And with renters increasingly turning to the Internet for help in finding properties, understanding renter online behavior is crucial.

This white paper will help readers make the most of their advertising dollar and maximize marketing ROI by providing insight into:

1. Where rental prospects are searching for apartments
2. How rental prospects are searching for apartments, both on search engines and on apartment Internet listing sites
3. How to implement strategies for developing online marketing campaigns and fine-tuning ROI calculations
4. The implications of changes in renter search behavior for apartment Internet marketers

Where Renters Search for Apartments

Most prospective renters have come a long way from simply skimming advertisements in the Sunday newspaper and driving around neighborhoods seeking "for rent" signs. While some people still use these methods or try to find an apartment through word-of-mouth, the vast majority of renters look to the Internet for help. And that is no surprise, given that this year the U.S. Internet population is projected to grow to nearly 200 million users - 65% of the total population. [5]

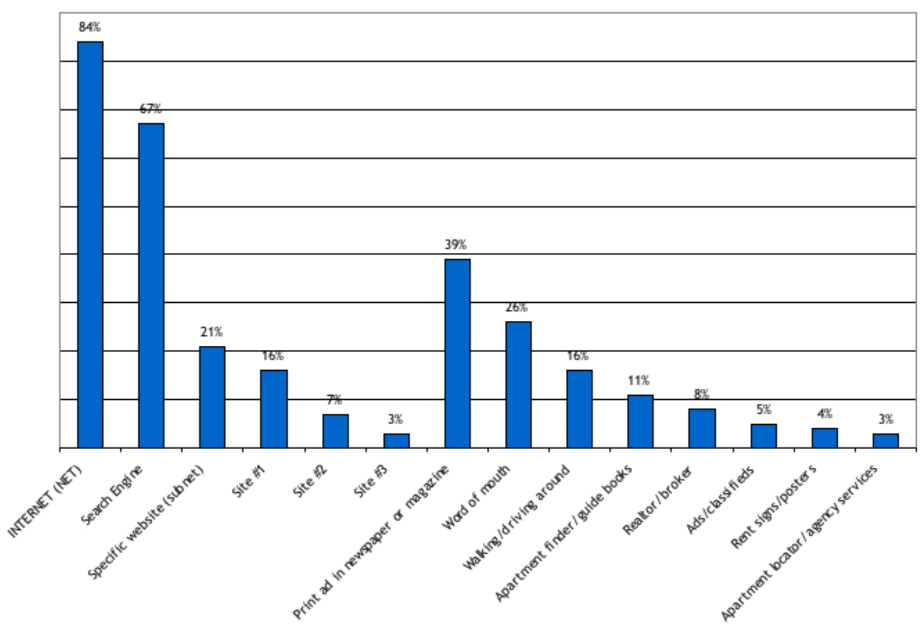
84% of renters think of searching online for an apartment – more than twice the number that think about using a print ad in a newspaper or magazine.

A study commissioned by Rent.com involving detailed interviews of more than 1,000 renters found that 84% of respondents thought of searching online when looking for an apartment for rent (see Exhibit 1). That was more than twice the number of people (39%) who said they thought about using a print ad in a newspaper or magazine.

In addition, 67% of the renters said that when they thought about searching for an apartment for rent, they thought about using a search engine. Only 21% said they thought of a specific Internet site and these respondents identified only three sites by name.

Exhibit 1: Methods Used to Search for an Apartment

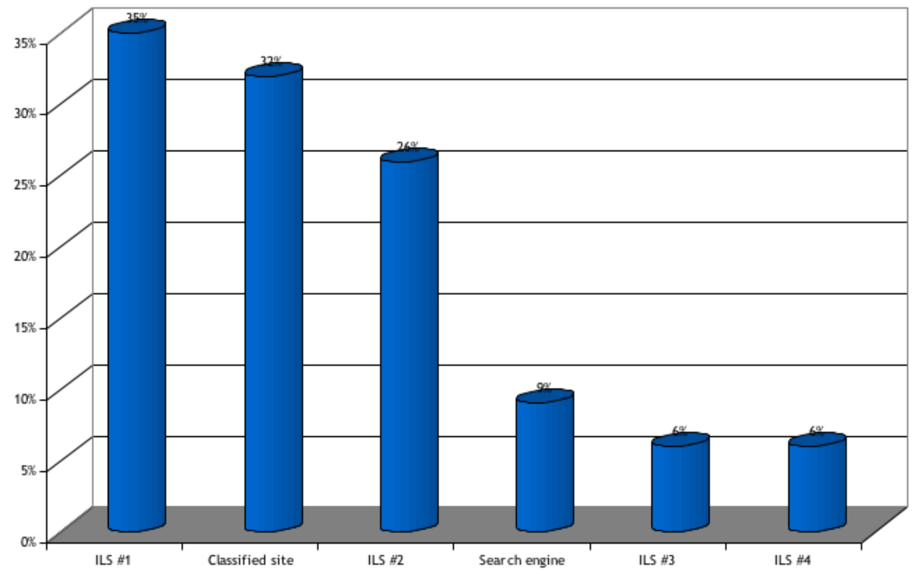
When you think about searching for/finding an apartment, what methods come to mind?



Source: Rent.com research study

When asked about Internet sites used to find/rent an apartment, renters' unaided awareness was generally low. Four of the top six sites mentioned were national Internet listing services (ILS), one was a search engine and one was a classified site. None were apartment marketing/corporate sites.

Exhibit 2: Unaided Awareness of Internet Sites Used to Find an Apartment



Source: Rent.com research study

Search engine selection

Clearly, search engines are an important source of renter traffic. However, it is important to note that not all search engines are created equal. In fact, the differentiation among them is staggering.

In the United States last year, nearly 137 billion searches were conducted on the five core search engines (Google Sites, Yahoo! Sites, Microsoft Sites, Ask Network and AOL LLC Network), according to comScore qSearch (U.S.). Google Sites, with 85 billion searches in 2008, accounted for 62% of all such searches. In addition, search query growth in 2008 was driven primarily by a 16% increase in searches per searcher, while unique searchers grew by only 6%. Ninety percent of this search query growth came from Google Sites.

While Google's search market share is not broken down specifically for apartment rental searchers, Rent.com has experienced first-hand the dominance of this search engine powerhouse.

In 2008, Rent.com saw an increase in share of paid traffic to its site that came from Google, rising 10 points year-over-year from 2007. Yahoo! and MSN declined significantly while AOL remained flat during the same period. Similarly, natural traffic from Google showed a 16-point increase from February 2007 to December 2008, while Yahoo!, MSN and AOL all showed declines over the same period.

Much like its overall search market share, Google appears to have the lion's share of renter search engine traffic, making it an excellent place to start when designing an online marketing strategy.

How Renters Search for Apartments

Knowing *how* renters search is just as important as knowing *where* renters search. Gaining insight into how renters search can give you clues about what is most important to them, which will allow you to fine-tune your marketing message to appeal to their most pressing rental needs.

This information is crucial whether you are implementing your own SEM strategy to drive traffic to your apartment Internet site, relying on an ILS to drive traffic to your property or website or using offline marketing channels.

Apartment marketers first need to understand how prospective renters who are seeking listings go about constructing their search queries on search engines. And this can be difficult to capture because query construction constantly evolves. Shifts in searching behaviors and Internet user demographics influence what renters are looking for, as do outside forces such as macroeconomic events.

Next, apartment marketers need to understand how rental prospects search once they reach an apartment listing website. This is usually more granular in nature than queries used to get to the websites, and can give you even more insight into what might aid conversion.

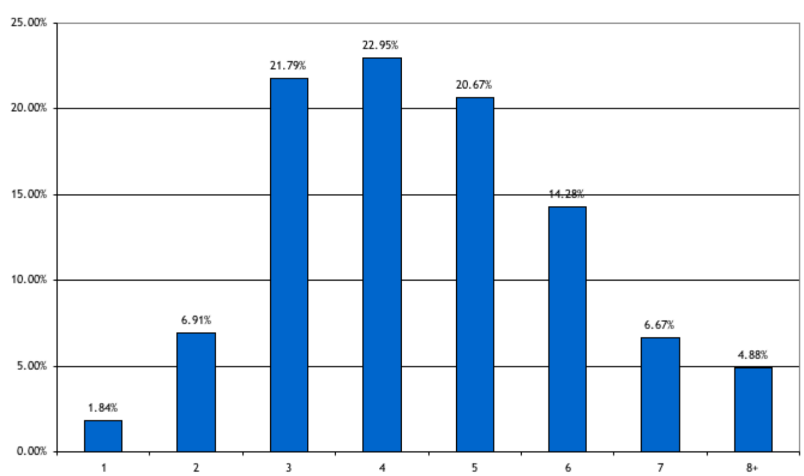
Search term structure on search engines

When using a search engine, renters have a pretty good idea of what they are looking for and where they want to live. Eighty percent of Internet queries related to "apartments" or "for rent" are three to six words long. Queries are highly specific, most using a location-based modifier (city/town and state) and/or a description component (e.g., "cheap," "parking," "pets," etc).

In other words, apartment searchers are more likely to use a query such as "cheap Chicago apartments" than a query such as "apartments."

The graph below, with data from Hitwise for January 2009, shows the relative volume of traffic for all variations of apartment and rental-related keywords broken down by the number of keywords in a search term.

Exhibit 3: Relative Volume of Traffic to Apartment-Related Keywords



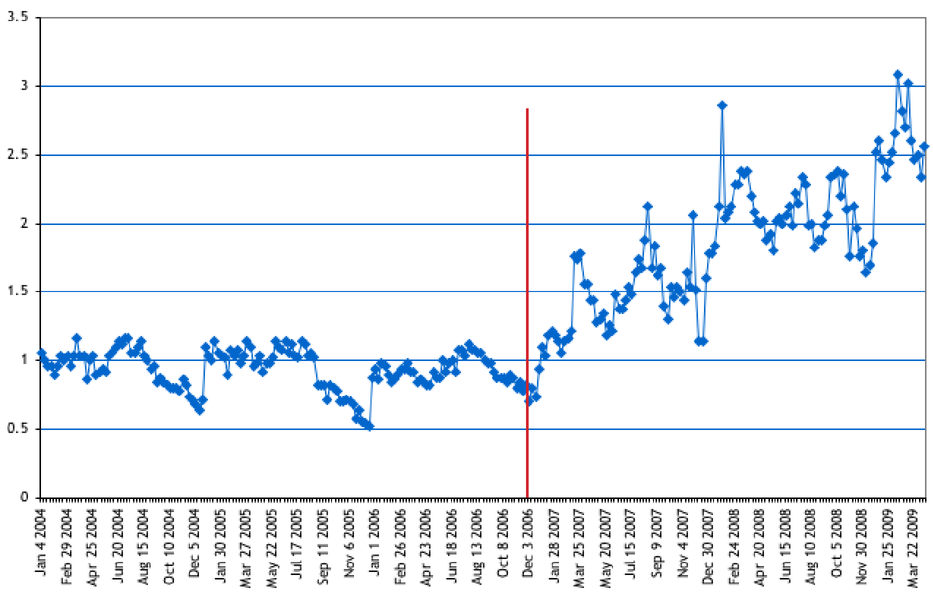
Source: Hitwise, January 2009

Search behavior and macroeconomic trends

In addition to being specific in their search queries, renters are also searching in ways that reflect greater macroeconomic trends. For example, as of January 2009, foreclosure activity was up 18% year-over-year – the 37th consecutive month with a year-over-year increase.[6] During 2007 and 2008, this reality began to filter into the news media and into the minds of consumers. Ultimately it influenced online searcher behavior. As shown in Exhibit 4 below, search queries related to foreclosure terms began to skyrocket after years of remaining relatively flat.

Renters are searching in ways that reflect greater macroeconomic trends.

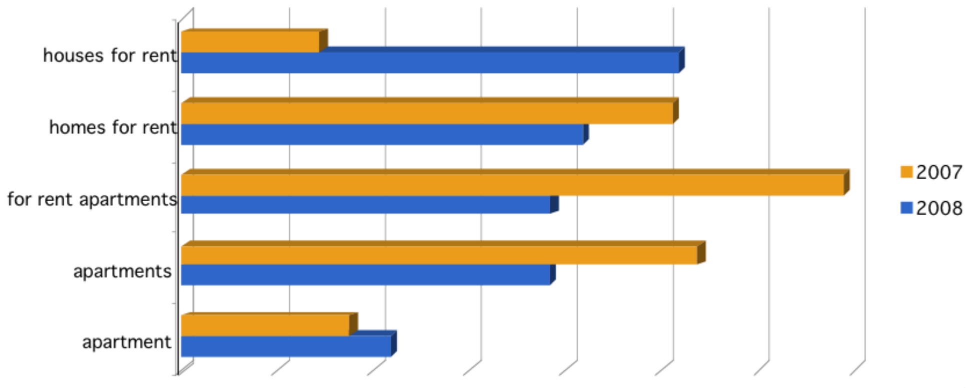
Exhibit 4: Foreclosure Search Volume Index



Source: Google Trends

As job losses mounted throughout 2008 and foreclosures continued to climb, renters in particular began to alter their search behavior. According to Rent.com data, the top rental search terms in 2007 and 2008 were "houses for rent," "apartments," "homes for rent," "apartment," and "for rent apartments." Comparisons indicate that searches for "houses for rent" grew by 310% year-over-year in terms of search share, while share for three of the other four search terms declined.

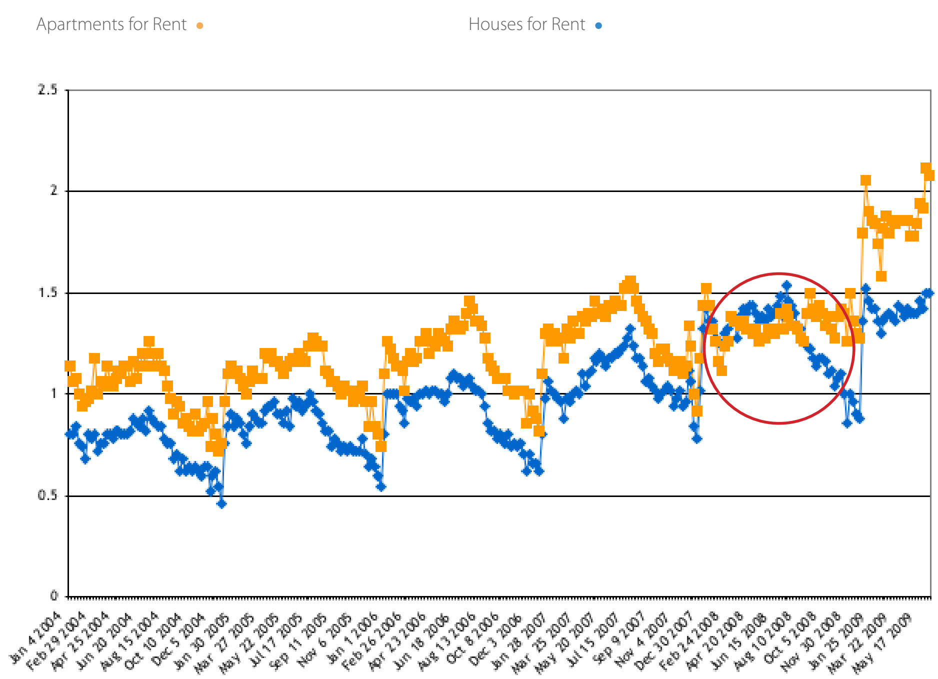
Exhibit 5: Top Search Terms in 2007 and 2008



Source: Rent.com

This shift to "house"-related queries is even more dramatically illustrated with data from Google Trends, which shows that searches on the term "houses for rent" surpassed the term "apartments for rent" in 2008 for the first time in four years.

Exhibit 6: Relative Search Volume for "Houses for Rent" and "Apartments for Rent"



Source: Google Trends

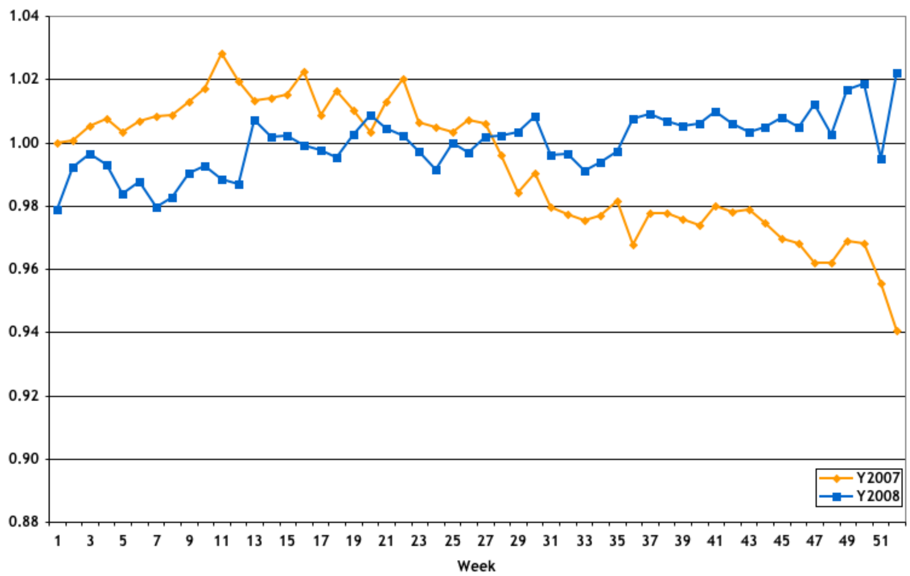
The data suggest that during this time period there was a shift in interest from the traditional rental market to the "shadow market," the inventory of houses, condominiums and townhomes that would have been listed for sale but are now up for rental due to current economic conditions. In fact, in 2008 many professionals in the multifamily industry began to specifically market against the shadow market by highlighting the risks associated with renting from an "accidental" landlord.

In 2008, multifamily marketing professionals began to market against the shadow market by highlighting the risks associated with renting from an "accidental" landlord.

Kevin Thompson, Vice President of Marketing at AvalonBay Communities, said the company stresses the advantages of renting versus owning, and the benefits of professional management over mom-and-pop management. In particular, AvalonBay Communities has emphasized "24-hour maintenance service, flexibility in lease terms, and amenities such as swimming pools and concierge service." AvalonBay Communities even developed a "lease release" program for tenants who lose their jobs, and special incentives for existing tenants to extend their leases at favorable rates.

The disastrous national economy also affected renter behavior in several other ways. Data taken from more than 450 million searches on Rent.com shows shifts in the type of inventory that renters want and how much they are willing to pay. In 2007, the average number of bedrooms searched for on Rent.com showed a clear downward trend throughout the year. However, throughout 2008, that trend reversed, with a steady increase in the average number of bedrooms that renters entered into their search query.

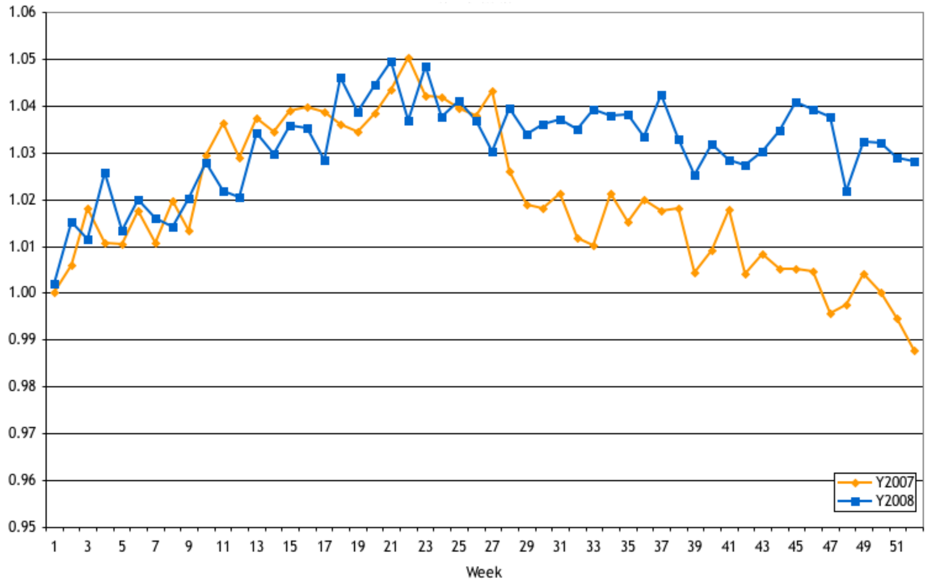
Exhibit 7: Index of Average No. of Bedrooms Searched



Source: Rent.com

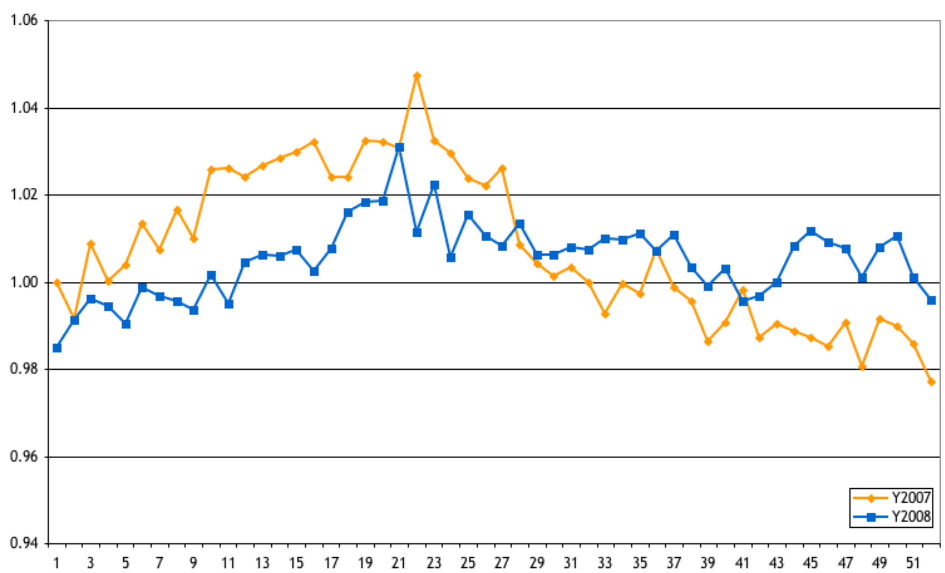
In addition, both the average minimum and maximum rent amount that renters searched for increased in 2008, surpassing 2007 levels mid-year.

Exhibit 8: Index of Average Minimum Rent Amount Searched



Source: Rent.com

Exhibit 9: Index of Average Maximum Rent Amount Searched



Source: Rent.com

There are at least two possible interpretations of the data in Exhibits 8 and 9: 1) renters are trading up or 2) renters are doubling up.

The experience of our multifamily customers lends support to the "doubling up" theory. Richard Stayner, President of Bridge Property Management (BPM), which manages more than 9,000 units across nine states, notes that renters losing their jobs, buying or renting a home or doubling up in roommate situations account for the biggest reasons for increases in his available inventory. In particular, the impact of doubling up has been "huge," he said. In fact, Mr. Stayner has seen BPM's vacancy rates on 1-bedroom units "increase disproportionately, while more and more renters are seeking 2- and 3-bedroom units." In addition, move-out surveys show that the number of renters moving out of one of BPM's communities to buy or rent a home has increased 40% year-over-year.

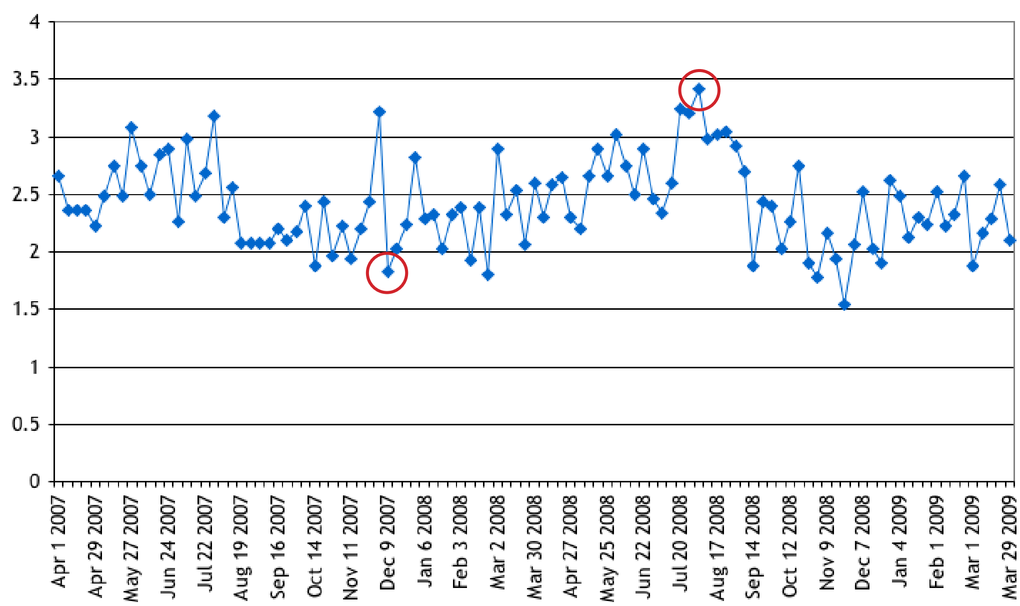
It appears renters are seeking larger apartments and homes for rent in order to accommodate consolidations in households. This makes intuitive sense in light of the financial uncertainty that many face today.

Another example of online queries reflecting greater macroeconomic trends is changes in search trends related to "bad credit."

First, according to Rent.com data, the share that "bad credit" keywords held of the top 1,000 apartment-related keywords increased nearly four-fold from January 2008 to January 2009. Examples of "bad credit" keywords include "no credit check apartments" and "bad credit apartments."

Second, data from Google Trends shows that the relative search volume on "bad credit apartments" nearly doubled from a December 2007 index low of 1.82 to a high in August 2008 of 3.42

Exhibit 10: Relative Search Volume for "Bad Credit Apartments"



Source: Google Trends

Armed with this data, apartment marketers representing properties willing to rent to prospects with poor credit could have made a point to highlight their credit policies in both their online and offline advertising campaigns.

Tip: Google Trends is an easy-to-use and free tool that can help you track changes in apartment-related and macroeconomic search queries.

Search trends on apartment rental websites

Apartment marketers have the best chance of showcasing their inventory if they examine the search trends that lead renters to apartment rental websites. But the next layer of data – renter search behavior once they are on a rental website – is equally important.

This layer of analysis can help apartment marketers uncover the types of inventory that renters want, the amenities that are important to them, how much they are willing to pay and other factors that can help in the effective segmentation and targeting of rental prospects.

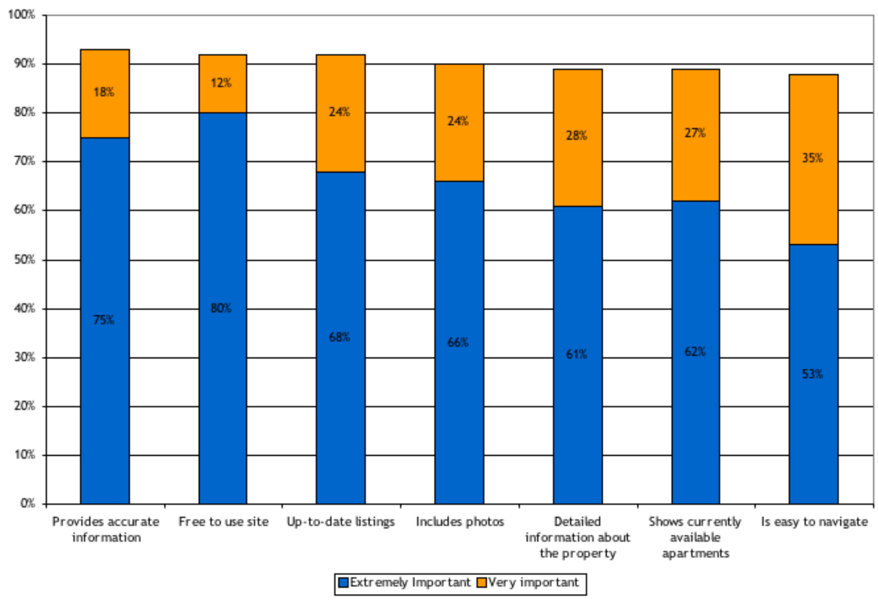
With vacancy rates up and rents down, renters realize they have more choice in rental properties and may feel less urgency to make a quick decision. Renter search behavior on Rent.com shows that rental prospects are searching more property listings before making a decision about where to live. In fact, last year renters viewed between 6% and 23% more unique property detail pages than they did in 2007.

Renters realize they have more choice in rental properties and may feel less urgency to a make a quick decision.

Once a renter finds an apartment rental website and begins a search on the site, the renter must be able to easily find the information that is necessary to make a decision to rent. Otherwise, the renter is likely to return to the search engine results page and go to another site that offers the desired features. Therefore, apartment marketers need to be more competitive in their efforts to attract and engage prospects.

Rent.com research data shows that renters find a number of factors to be "extremely" or "very" important when selecting an online source to search for an apartment, including: 1) the accuracy of the information provided 2) free site usage 3) updated listings 4) photos 5) detailed property information 6) available apartments and 7) easy site navigation.

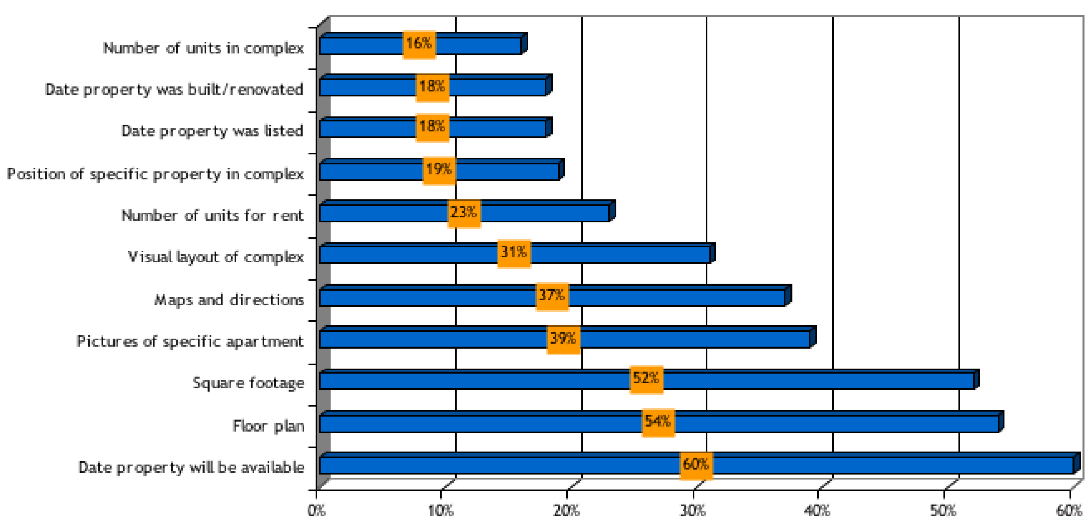
Exhibit 11: "Extremely" and "Very" Important Factors in Selecting an Online Rental Source



Source: Rent.com research study

Renters also identified "must have" features of rental websites, such as availability data (60%), floor plans (54%) and square footage (52%). A significant minority also indicated that pictures of specific apartments (39%), maps and directions (37%) and a visual layout of the complex (31%) were "must have" features.

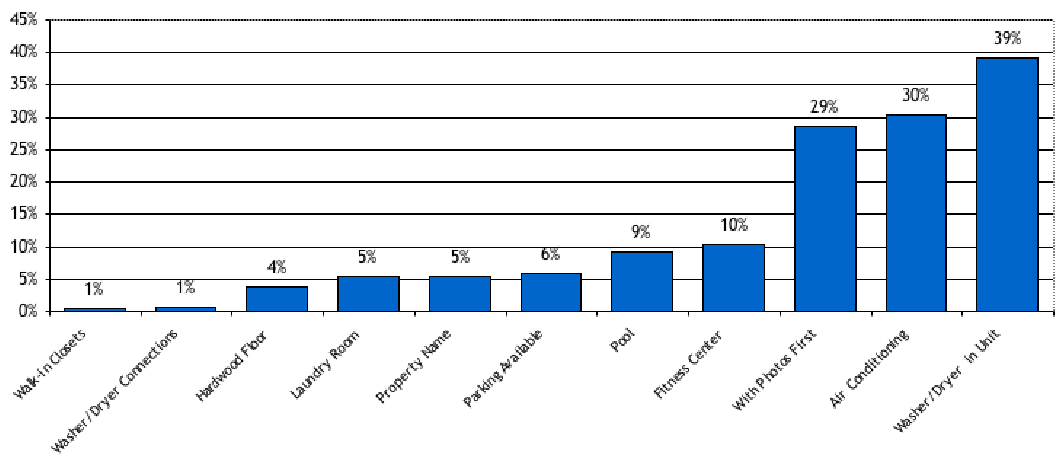
Exhibit 12: "Must Have" Features of Rental Websites



Source: Rent.com research study

Renters in 2008 were utilitarian in their apartment searches, caring much more about basics than luxury, Rent.com data shows. Nearly 40% of renters searched for apartments with a washer/dryer in the unit, but only 10 percent of renters conducted amenities searches on "fitness center," and even fewer were concerned about having a pool, hardwood floors, or walk-in closets.

Exhibit 13: Top-Ranked Amenity Searches



Source: Rent.com

Strategies for Online Marketing

Rent.com research study data has found that renters think of a variety of different ways to search for apartments. Overwhelmingly, however, they think of using the Internet.

Because of the importance of Internet usage in acquiring renters, the recommendations that follow focus on online marketing strategies.

The framework we suggest for setting up an online marketing strategy is five-pronged: 1) use search engines to drive traffic 2) use technology to thoroughly understand the costs and effectiveness of your campaigns 3) calculate your ROI across all of your marketing channels and sources 4) allocate marketing dollars to highest ROI campaigns and 5) evaluate and optimize on an ongoing basis.

Using search engines to drive traffic

Multifamily marketers who want to showcase their properties to the largest audience of prospective renters need to attract search engine-generated traffic to their properties and to their websites.

This traffic can be generated by: 1) direct exposure through search engine marketing (SEM) and 2) indirect exposure through an ILS that has an effective SEM program.

Before determining which way to attract search engine-generated traffic, apartment marketers should have a robust system in place for calculating their ROI for each approach. This means they must thoroughly understand the explicit and implicit costs, as well as the effectiveness, of each approach.

Direct exposure to search engine traffic: Costs

While definitions of SEM vary, we will use the definition promulgated by the Search Engine Marketing Professional Organization, which states that SEM is comprised of paid placement, search engine optimization (SEO), contextual advertising, digital asset optimization (DAO) and paid inclusion.

Costs associated with SEM might include one or more of the following:

1. Paid search – calculated on a cost-per-click (CPC) basis
2. Non-search paid advertising – calculated on a cost-per-thousand impression (CPM) basis
3. Analytical tools – purchased or built in-house
4. Personnel – to manage bidding, analytics, site content, DAO and SEM strategy and tactics
5. Fees paid to an agency to manage paid and natural search efforts

Let's look at each cost in more detail.

1. Cost per click

Cost per click (CPC) is the amount of money that an advertiser pays every time a searcher clicks on their advertisement. CPCs are evaluated in terms of the keywords that drive traffic to a given advertisement. Advertisers bid on keywords to improve the ranking of their advertisements in search results.

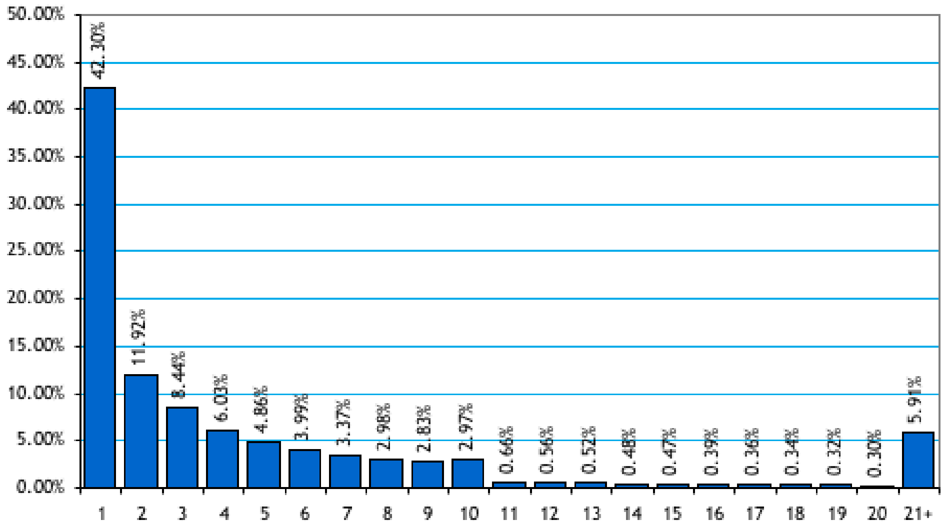
One main factor that determines the CPC for any keyword is demand. CPCs vary across keywords (e.g. "apartments" vs. "rent") and channels (e.g. Google vs. Yahoo!), based, in part, upon the popularity of those keywords and channels. Popular terms sought by many advertisers will command higher CPC rates than less popular terms.

Another primary factor determining CPC is quality score (QS). The QS assigned to an advertising account by a search engine is determined by several factors. The interplay of those factors varies and is part of the "secret sauce" of search engine algorithms. That said, we know that account history, relevancy, clickthrough rates, and page loading times all can impact QS. Since search results rankings are a product of CPC and QS, the higher the QS, the lower the CPC needs to be in order to obtain a given position in search results, and vice versa. Therefore, improving your QS may reduce your CPC, *all else being equal*.

One way to improve your QS is to improve your relevancy. This happens when search engines crawl a site and find content that is highly related to a given search. This relevancy translates into higher search rankings, more clickthroughs and, ultimately, better conversion to your chosen metric. For example, a renter searching for pet-friendly apartments will be more likely to find your site in search engine search results if your pet policy is explicitly stated on your website.

The importance of rank cannot be overstated. Industry experts estimate that about 89% of all search engine clicks take place on the top 10 search results and that nearly half of those (42%) go to the first link.[7]

Exhibit 14: Percentage of Total Clickthroughs vs. Position in Search Engine Results Pages



Source: http://www.redcardinal.ie/search-engine-optimisation/12-08-2006/clickthrough-analysis-of-aol-datatgz/

The importance of rank in search results was also confirmed in an eye-tracking study by Cornell University researchers.

The researchers found that although Internet users spent about the same amount of time on abstracts in the first and second positions of search engine results, the abstract in the first position received more than four times as many clicks as the one in the second position.[8]

If you are not ranked highly in search results, you likely are not getting the clicks you need to make your investment of time and resources worthwhile.

In other words, if you are not ranked highly in search results, you likely are not getting the clicks you need to make your investment of time and resources worthwhile.

2. Cost–per-thousand impression

CPM rates typically are negotiated, so it is vital that you have a clear understanding of the expected return on this expense so you can determine if a proposed rate is likely to yield a positive ROI. To calculate your actual ROI, you will need to track impressions and analyze how these impressions convert to clickthrough rates and ultimately to leases. The results of this analysis will allow you to make adjustments to this expense over time to optimize its return.

3. Analytical tools

To optimize the effectiveness of your SEM campaigns, you need bidding and analytics technologies - built in-house, purchased or free. These tools should help you manage your online budget and incorporate metrics of campaign effectiveness, creating a feedback loop that helps you further refine your bidding strategy. While it might be tempting to economize on, or even ignore this expense, it is impossible to effectively manage SEM efforts without a robust set of analytical tools. For example, most Internet listing services buy tens of thousands of keywords – Rent.com alone traffics more than a quarter of a million keywords – thus requiring sophisticated tools to track performance and adjust spending to maximize ROI. Of course, only the largest property owners and managers will have the budgets to embark upon extensive keyword purchases, so apartment Internet marketers must determine just how much firepower they need in their analytical arsenal and how best to acquire it. If Internet marketers are only buying dozens or hundreds of keywords, it may be possible to effectively manage this on a less sophisticated and/or home-grown platform.

4. Personnel

The number of employees that it takes to manage SEM efforts will vary greatly depending on whether SEM efforts are conducted in-house or outsourced, and on how comprehensive and sophisticated the SEM program is. At a minimum, if you outsource your SEM program, you will need someone internally who understands very well your success metrics, budget parameters and ROI targets as well as the technologies that capture them in order to feed this information back into a bidding/spending system.

At the other end of the spectrum, you may choose to manage all of your SEM efforts in-house. In addition to managing paid search/advertising efforts, you will need personnel to optimize your website. Contrary to popular belief, SEO is not "free traffic." Natural search algorithms vary from search engine to search engine and, even at a given search engine, are in constant flux. Therefore, apartment marketers need to invest in personnel to create and manage site content to optimize natural search performance, according to what is effective at any given point time.

Contrary to popular belief, SEO is not "free traffic."

5. Agencies

Search agencies can be an important partner in developing an effective SEM program. Their services range from conducting a site audit and providing a set of recommendations for a fixed fee, to ongoing implementation and management of full-scale SEM programs with associated ongoing fees. Rather than paying agency fees that are calculated as a percentage of the SEM program spend, apartment marketers should pay a fixed hourly rate for services to avoid a conflict of interest that could lead to unnecessarily high program costs. Hourly fees at well-established agencies can vary from $100 to $500, and can add up to tens of thousands of dollars per year on top of any direct advertising costs you incur.

Direct exposure to search engine traffic: Effectiveness

Apartment marketers often ask the question, "What should my CPC be?" And while that might sound like a simple question, there is no universal answer. Your CPC "should" be whatever will help you optimize your return on investment (ROI).

Apartment marketers need a thorough understanding of how effective their marketing campaigns are across all channels. To do this, they must first "normalize" their online advertising expenses for effective comparison across channels. Otherwise, it will be impossible to end up with an apples-to-apples comparison. Normalizing these expenses means selecting a common metric of importance and viewing all advertising spend in light of that metric. For example, it is not meaningful to try to compare CPC, CPM, cost per lead and cost per lease. Nor is it effective to compare CPC across keywords because those keywords may convert at different rates.

The most relevant metric for apartment marketers to use in the normalization process is cost per lease. While some industry participants argue that cost per lead is preferable because it is believed to be easier to calculate, we take a different position. Leads do not directly generate revenue, but leases do. Since ROI must consider the financial return (i.e. revenue) associated with marketing investments, we believe that cost per lease is the more appropriate measurement.

It is not sufficient to just have the tools to generate a large quantity of traffic; rather, you must have an adequate volume of high-converting traffic to make your ROI attractive.

The implication of this is that apartment marketers must have a way to track the conversion path of each one of their prospects. How, exactly, did a prospect come to an apartment Internet site or the property itself and did that prospect convert?

To answer this, the tools you use must show you which sources and keywords are driving traffic. They also should enable you to track each prospective renter who came from those sources and keywords all the way through to a lease. This often is done by combining a data feed of offline metrics (such as a signed lease) with data on the online path to conversion (the source of online traffic discovered through pixel placement on a website). If done correctly, this can help marketers accurately determine the value of such keywords per source and adjust their bidding accordingly.

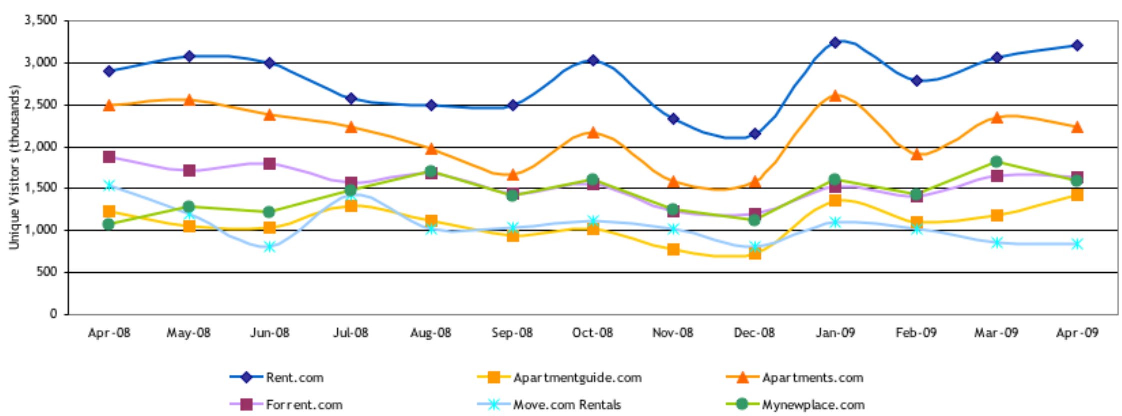
For example, renters who come to your site from Google on a given keyword may convert twice as well as renters who come to your site from Yahoo! on the very same keyword. In this case, you might choose to adjust your Yahoo! bidding to half the Google level for that keyword, depending on your overall traffic acquisition strategy. A simplified framework for thinking about this under a CPC model can be found in the Appendix.

As with paid advertising, the key to understanding the effectiveness of your SEO efforts is employing tools that help you accurately measure how specific traffic, responding to your site content, is converting to your chosen metrics. Are you driving prospects to a landing page that does not convert well? Are you changing your site content without actually knowing if the changes help or hurt conversion? An Internet search on "web analytics" is a good place to start finding products that can help you answer these questions and put in place a plan for getting the most out your property website.

Indirect exposure to search engine traffic: Costs and effectiveness

In addition to, or in lieu of, running their own SEM programs, apartment marketers can gain exposure to search engine-generated renter traffic by advertising with an ILS that has an effective SEM program. With the advantages of large property inventories and, often, a national presence, an ILS can more cost-effectively garner search engine traffic than most property owners/managers can acquire themselves (see chart below for recent traffic volume of top Internet listing services).

Exhibit 15: Unique Visitor Traffic to Top Internet Listing Sites



Source: comScore Media Metrix, April 2009

The costs associated with this approach are far easier to calculate than under the SEM approach. Most Internet listing services use one or more of the following business models: subscription, pay per lead and pay per lease. No sophisticated bidding or analytics tools are required to figure out the costs.

The biggest challenge to understanding the effectiveness of your investment with an ILS is essentially the same challenge faced in understanding the effectiveness of an SEM campaign. That challenge is attributing each lease to the correct marketing source.

At this point, an apartment marketer's analytics may converge for both SEM and ILS marketing programs. That is because they are likely using – and in fact should be using – the same system to capture and analyze traffic, regardless of the source. These systems typically are comprised of property management systems, lead-tracking systems and/or call centers.

The challenges that the multifamily industry faces in attributing traffic to the correct marketing source are well–documented; we will not elaborate on them here. But the bottom line is that without a robust lead–tracking system that is accurately and comprehensively utilized, apartment marketers cannot truly understand the return on their marketing investment. Without such a tracking system, decisions about which ILS to use will be based on a gut feeling or faulty analysis, and comparison between the ROI of your SEM efforts and your ILS spending will be hindered as well. Knowing exactly where all of your traffic is coming from and how it is converting to leases is vital to determining the most effective channels to use and the most effective sources within those channels.

Without a robust system for tracking leads and leases, decisions about which ILS to use will be based on a gut feeling or faulty analysis, and comparison between the ROI of your SEM efforts and your ILS spending will be hindered

Allocating marketing budget

Once you have calculated your ROI across all of your marketing sources using one common success metric, you are ready to allocate your marketing budget among them.

Ideally, you would simply start by spending on your highest ROI marketing source until the law of diminishing return kicked in and that source no longer remained your highest ROI source of traffic. At that point, if you still had budget left, you would spend on your second-highest ROI source of traffic, and so on.

Realistically, this could be a risky approach because of the inherent error that likely exists in your ROI calculation. This error, as has been previously discussed, stems from the industry's difficulty in accurately tracking leases back to their original marketing source. Apartment marketers must make an honest assessment of their ability to track leases back to their source, and assign a level of confidence to their ROI calculation. The lower the level of confidence, the greater the difference between the ROI calculations for each marketing source needs to be in order to feel comfortable that the budget allocation strategy described above is appropriate. For example, if your ROI calculation is 40% for your #1 marketing source and 20% for your #2 marketing source, and you believe you have a reliable lead tracking system in place, you may be 95% confident that the marketing source you have identified as #1 is in fact your top source. Likewise, if your ROI calculation is 28% for your #1 source and 25% for your #2 source, you may feel less confident that this ranking is correct.

In lieu of this ideal budget allocation, apartment marketers may wish to take a more measured approach and not concentrate their budgets so strictly until they have refined their lease-tracking methods. For example, assume you are only 60% confident in the relative rank of your #1 and #2 marketing sources, based upon the ROI you calculated for them. You could then calculate the dollars you would spend if you were 100% confident and allocate only 60% to your #1 marketing source before then spending on your #2 marketing source. You would continue to calculate your confidence level in the rank of successive marketing sources and allocate dollars in this fashion until they ran out.

Clearly, this is not a perfect solution. But if you are not using a highly accurate lead–tracking system/protocol, it may be your best option.

Ongoing optimization

Because renter search behavior is in constant flux, you must continually evaluate the effectiveness of your marketing strategies and make adjustments when necessary. This means you should regularly re-calculate the ROI across all of your marketing sources and make sure that your budget allocation still makes sense. This should be done two to four times a year.

Conclusion: Implications for Apartment Internet Marketers

The information presented so far gives apartment marketers a view into the many opportunities available to them for optimizing their marketing campaigns. Several implications arise from this discussion:

1. It is essential that multifamily marketers who want to showcase their properties where most renters are searching for apartments gain exposure to search engine traffic directly through their own SEM efforts or indirectly by advertising with an ILS.

2. It is important to keep up to date on the terms renters are using in their searches in any given economic environment to constantly position marketing efforts appropriately and maximize the chances that renters will find your inventory online. For example, if you see a shift from search queries related to the "basics" to queries related to the "nice to haves," you can reposition your marketing language to focus on the more luxurious of your community's amenities.

3. New information about the effectiveness of SEM campaigns can be used to inform SEO initiatives and vice-versa. And insight from these can be used to optimize your ads on Internet listing sites.

4. Apartment marketers can use the knowledge gained from understanding renter online search behavior to guide both online marketing campaigns and offline marketing campaigns.

5. Marketers must know exactly where all of their traffic is coming from and how it is converting to leases to allocate their marketing dollars among the most effective channels and the most effective sources within those channels.

6. To determine the ROI of marketing expenses, apartment Internet marketers need to understand both costs and return. This requires in-depth analysis of the sources of all traffic, as well as the tracking of renter traffic brought in through those various sources all the way through to the lease.

7. With insight into renter search behavior, apartment marketers can more quickly spot and react to trends and do so with more accuracy.

SEM Glossary

contextual advertising: advertising that is placed on a webpage because of the content on that page, not because a searcher typed related words into a search engine

CPC, cost per click: the amount an advertiser pays a search engine every time someone clicks on their ad

CPM, cost-per-thousand impression: the amount an advertiser pays for each 1,000 times their ad is served up to viewers

digital asset optimization: optimizing how search engines index your content and return your webpage in search results through the use of file names and metatags on text and non-text content

natural search results: listings on SERPs that are not paid for

paid inclusion: paying a fee to a search engine in order to be included in that search engine or directory

SEM, search engine marketing: including paid and unpaid methods of appearing in search results

SEO, search engine optimization: changing website content and code in order to improve visibility on search engines

SERP: search engine results page

Appendix

The following provides a framework for determining the return on your marketing spend. For illustrative purposes, we have used a CPC example, but the concepts can be applied more broadly.

Step 1: Determine how many clicks are required to achieve your desired metric using this formula

$$NoC_{s1k1} = 1_M/(CF_{1\,s1k1} \times CF_{2\,s1k1} \times \ldots CF_{n\,s1k1})\text{, where}$$

NoC = Number of clicks required to achieve desired metric
s = Source of traffic, such as a particular search engine
k = Keyword
M = Desired metric
CF = Conversion factor

For example, assume you wish to understand how many clicks you need on search results driven by the keyword "apartments" on the search engine Google in order to achieve one signed lease. Let's also assume that you track three conversion points: Clicks:Unique Visitors, Unique Visitors:Leads, and Leads:Leases for **each** keyword and source. Then,

NoC = Number of clicks required to achieve desired metric
s = Google
k = "Apartments"
M = Signed lease
$CF_{1\,s1k1}$ = Rate of conversion of clicks to unique visitors for the keyword "apartments" on Google (assume 60%)
$CF_{2\,s1k1}$ = Rate of conversion of unique visitors to leads for the keyword "apartments" on Google (assume 10%)
$CF_{3\,s1k1}$ = Rate of conversion of leads to leases for the keyword "apartments" on Google (assume 5%)

The number of clicks you need to achieve one signed lease is 334:

$NoC_{s1k1} = 1/(0.60 \times 0.10 \times 0.05) = 334$

Step 2: Determine the cost of your metric – one signed lease

In our cost per click example, this is easily calculated by multiplying the CPC for "apartments" on Google by the number of clicks required to achieve a signed lease:

$$CPC_{s1k1} \times NoC_{s1k1}$$

If your CPC were \$0.35, then your cost to achieve one signed lease would be

$$\$0.35 \times 334 = \$117$$

Step 3: Determine the net value of your metric

In the case of a signed lease, you will need to estimate the net lifetime value, after all other costs, for that tenant, including any leakage for signed leases that do not result in move-in, lease breakage, etc. For simplicity's sake (and to keep in line with the numbers we have used above), let's assume that the net value of a signed lease is \$150.

Step 4: Calculate your return on investment

This is achieved with a simple calculation:

ROI = (Net value of metric – Cost of metric)/ Cost of metric

Using our sample numbers, we get an ROI of 28%

$$(\$150-\$117)/\$117 = 28\%$$

The above steps should be applied to each keyword and channel in your keyword portfolio.

Endnotes

[1] United States Department of Labor, Bureau of Labor Statistics, "The Employment Situation: May 2009"
[2] RealtyTrac, December 2008 U.S. Foreclosure Market Report
[3] U.S. Census Bureau and M/PF YieldStar
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