Why you pay more rent than your neighbor

By Andrew Dunn

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A two-bedroom apartment in one of north Charlotte’s largest complexes could cost you about $900 a month. Next week, it might run you hundreds of dollars more.

Apartment shoppers in Charlotte are finding that prices on units they’re interested in can vary dramatically from day to day, even hundreds of dollars in the span of a week. Driving the price swings are algorithms that track apartment supply and demand using dozens of variables.

It’s the same type of software that lets airlines charge you hundreds of dollars more than the stranger sitting next to you, depending on when you booked. Dynamic pricing, as it’s called, drives what you pay for everything from hotel rooms to the hottest items on Amazon – anything where supply and demand can fluctuate quickly.

The pricing model has come to dominate the Charlotte apartment scene, thanks in part to the sheer growth in the market.

That means if you live in a Charlotte apartment complex, you could be paying hundreds of dollars more in rent than your next-door neighbor.

Charlotte has seen a surge in new apartment complexes in the past 15 years or so, most of them run by large institutional investors who require the complexes to set rates through dynamic pricing, said Jay Parsons of MPF Research, a firm owned by the same company that operates dynamic pricing system YieldStar.

Apartment managers acknowledge they’ve heard some complaints about different rents for similar units. But investment companies like the pricing method – also known in the industry as yield management – because it allows them to systematically set rates across multibillion-dollar portfolios and rapidly respond to changing conditions in specific markets.

“It’s been really the hottest trend in the multifamily space for the past few years,” Parsons said. “It’s become more and more mainstream.”

The Observer tracked the online advertised prices at four Charlotte apartment complexes in different parts of the city over the course of a year. The review found dramatic changes even over short time periods.

For example, at the Elizabeth Square apartments on Hawthorne Lane, the lowest advertised price for a one-bedroom went from $982 per month to $1,307 in a 10-day span last May.

“Unfortunately, it can do that,” said Christina Reese, the assistant property manager. Prices there are set daily, and each of the complex’s 267 units has its own rate. If a half-dozen units lease over the weekend, she said, the price can spike.

The software programs, with names such as Rent Maximizer, are making the apartment business more lucrative as new multifamily construction hits an all-time high in Charlotte.

• How we tracked prices

The Observer took a look at four apartment complexes in different parts of Charlotte to get a glimpse at how prices fluctuate in the city’s rental market. The newspaper chose large, institutionally owned complexes to represent the type of units controlled by dynamic pricing. Complexes in different parts of the city were chosen for diversity, but not to draw conclusions on how price changes differ between neighborhoods. Industry experts say prices across the Charlotte market tend to move in the same direction.

The Observer regularly visited the online leasing portals for each complex over the course of 2013. The charts represent the advertised price for a 12-month lease on the next available unit of the floor plan selected for that complex.

In cases where a 12-month lease was not available, the Observer chose the rental period closest to 12 months. In a few cases, no unit of the specified type was available at the time. In those case, the Observer chose the lower end of the advertised range for those units. Andrew Dunn

How to get the lowest apartment price

Start your search early. Since prices can change from day to day, starting an apartment search as much as six weeks out can give you a better chance to snag a deal.

Look for family-owned rentals. Nearly every apartment unit in a large complex will use a dynamic pricing model to push rents to their limits. Families who rent out their condos or other privately owned units likely won’t.
Agents can track supply and demand to the day, and even to the floor – and price accordingly.

As of March, more than 10,000 units are under construction in the city, with an additional 11,000 proposed – sparking concerns that Charlotte may be approaching an oversupply. Concentrated in South End, these newer units are predominantly owned by institutional investors who rely on dynamic pricing.

An overbuilt market would bring rents down, making dynamic pricing even more valuable to leasing companies. Will Mathews, an Atlanta-based assistant vice president of the Colliers International real estate firm, said dynamic pricing helps leasing companies manage through changes in supply and demand. He added that he believes Charlotte’s market is robust enough to handle the influx of apartments.

**Big players shape industry**

Adam Morgan, 28, moved to Charlotte from Chicago in October. He said he had only a few weeks to hunt for a place, and wasn’t able to see how prices were changing.

“It certainly makes apartment hunting a little more difficult,” he said. “A lot of times you do need to do it right away, but it can pay to keep an eye on it and see prices rise and fall. You never know if you’re getting a deal.”

But Hale McNinch, the Charlotte-based vice president of revenue management for Bell Partners, said the computer modeling plays an important role: “It removes a lot of the emotion in pricing.” The firm, which manages 64,000 units worth more than $5 billion, began using the technology in 2008, and soon rolled it out across nearly all of its apartments.

“It will find areas where we can push rents when there’s an opportunity to do so, or drop rents quicker,” he said.

Bell Partners’ portfolio includes the Hunt Club apartments in University City. Last year, advertised rents on a one-bedroom peaked at $806 in February, falling to $588 in May. McNinch said prices at Bell’s complexes reflect supply and demand.

The high-tech pricing models highlight the increased role of big corporate owners in the apartment business. The country’s largest apartment operator, Charleston-based Greystar Real Estate Partners, manages nearly 215,000 apartments across the country including several thousand in Charlotte. The company doesn’t publicly disclose revenue figures.

Another large company operating in Charlotte, Riverstone Residential Group, has a portfolio of more than $17 billion. Memphis-based MAA Communities owns about 85,000 apartments across the country and had nearly $635 million in revenue last year.

**How pricing works**

A decade ago, apartment complexes would generally set a price for each type of unit – say a two-bedroom, two-bath floor plan – and that would be that. Possibly, a unit on the top floor could be $10 more.

“Now, with these pricing models, every single unit could have a different price,” said Charles Dalton of RealData, which tracks apartment rates.

The software systems factor in variables such as whether the apartment operator is looking to quickly lease units or keep rents high, said Keith Dunkin, senior vice president for YieldStar, one of the nation’s largest yield management companies. The algorithms also

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**Look for deals in growing areas.** Complexes in booming areas like South End and the center city will be forced to respond to the flood of new apartments being built in the area. While these areas are more likely to be controlled by dynamic pricing models, you could also be more likely to get lucky with a special rate.

**Shop off-season.** Prices tend to be higher in the warmer spring and summer months as more people tend to move. Rates are lower in the winter. Andrew Dunn
look at how quickly units are being leased and how competitors are pricing their apartments.

At that point, differences between units within an apartment complex can drive prices even farther apart.

At Elizabeth Square, owned by Riverstone, an apartment overlooking the courtyard might cost more, Reese said. The same goes for a third-floor unit with new granite countertops and wood floors. One looking out over Independence Boulevard might cost less.

The price might go down on a unit that’s been vacant for two months. The price might continue to ratchet up on a popular unit.

Enclave Uptown, owned by MAA, offers 35 different floor plans in a complex with only about 80 units, property manager Deborah Ladd said. The units were built as custom condos in 2008 and later converted to rentals. Each has its own price range.

Advertised prices there on a two-bedroom, two-bath apartment went from $1,786 to $2,116 last May. Ladd said the process is not much different from how appraisers value homes. Over the course of the year, “you go down and you go back up,” she said.

At the Cheswyck at Ballantyne apartments, advertised prices on a two-bedroom unit went from $1,093 to $1,206 and back down to $1,090 between late October and late November. Representatives of the complex declined to comment. It is owned by the Sentinel Real Estate Corp., which manages a roughly $4 billion apartment portfolio.

Employees at apartment complexes can spend hours entering their competitors’ prices into the system each week. And if the complex down the street raises its prices, you might see the price rise there, too. Throw in seasonal changes, different lease lengths, and changing inventory, and it can be difficult to know whether you’re getting a good deal.

“It’s baffling trying to figure out apartment rents sometimes,” Dalton said. “It’s a pretty big change from just having a stated rent for every apartment unit.”

Dalton said the software can often increase total revenue by as much as 5 percent in a year.

“It’s big data,” McNinch of Bell Partners said. “For the community manager, it would take them forever to crunch all the market data, look at historical trends and look at leasing velocity on a daily basis, which is what these softwares do. And on a floor level. It’s really a time-saver.”

‘Makes me feel pressured’

Brittany Taylor, 24, said she recently hunted for a new home and found herself often told that prices could change if she didn’t lock them in right away.

“I obviously did not like it. It kind of made me feel that there was a monopoly going on,” Taylor said. “All complexes, they say it can change really fast. It just makes me feel pressured to make a decision really fast without maybe considering other options or even how safe it is or if it’s really practical.”

But apartment representatives also say these kinds of pricing systems are growing widely accepted in all areas of consumer life.

“People who live in apartments think they should be paying the exact same as their neighbor,” McNinch said. “But when you get on an airplane, you might have paid $300 and your neighbor might have paid $1,000, and that is accepted.”

He said prices were never completely uniform, even before the dynamic pricing systems were in place. “There’s always been differences in rates,” he said.

But it is supply and demand carried out at a faster level than before – and often invisible to the consumer. John Simpson, director of the privacy project at the nonprofit Consumer Watchdog, said the biggest issues arise when customers can’t figure out why prices are acting as they are.
“To a certain extent, it makes sense that at certain times of the year, there’s a lot of empty apartments and the prices come down,” Simpson said. “You might be able to intuitively figure that out. But the way the data can be manipulated, you can tinker in ways that were never previously possible.”

But Dunkin, of YieldStar, said that few renters are interested in the nitty-gritty details of how their rents are calculated. He said the systems are actually helpful for consumers because they allow flexibility for residents.

Before these systems, apartment managers might not agree to hold a unit for three weeks before move-in, or offer a five-month lease. Now, the software lets managers set a price for that type of request.

“Most people are just grateful to have the flexibility,” Dunkin said. “Because they have that flexibility in other parts of their lives.”

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