

# Property management industry pulse

Top industry challenges



# Introduction

In April 2023, the National Apartment Association (NAA) conducted a survey, sponsored by AppFolio, of more than 2,000 property management industry professionals to uncover their most pressing challenges.

This report delves into these challenges — and the solutions being employed to contend with those challenges — as well as industry needs, short-term outlooks for staffing and net operating income, strategies companies are using to prepare for a potential recession, and other long-term issues facing the industry.

- 02 Top Industry Challenges
- 11 Unique Challenges by Property Type
- 14 Affordable Housing Responses
- 16 Challenges at the Executive Level
- 19 Preparing for a Slowdown
- 21 Industry Needs
- 23 Short-Term Outlooks
- 26 Long-Term Challenges
- 29 Closing Thoughts
- 30 Appendix

# Top industry challenges 2023 vs. 2021

Comparing the top three challenges in 2023 to those identified by the same survey conducted in 2021 highlights how much has changed in just 18 months.

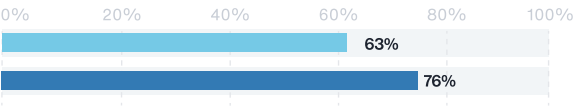
In Q4 2021, the industry was capping off a remarkable year for demand, occupancy, and rent growth. Inflation presented challenges but had not yet peaked. New supply was being delivered — and absorbed — at a steady clip.



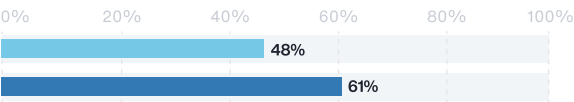
Back then, HR, Staffing & Recruitment was by far the number one challenge, capturing 74% of responses as a top three challenge and beating the number two challenge, Operational Efficiencies, by 11 percentage points and the number three challenge, Maximizing Revenue & Profits, by 26 percentage points.

## Top rental housing challenges (2021 vs. 2023)

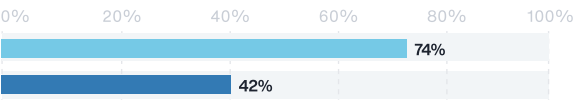
### Operational Efficiencies



### Maximizing Revenue & Profits



### HR, Staffing & Recruitment



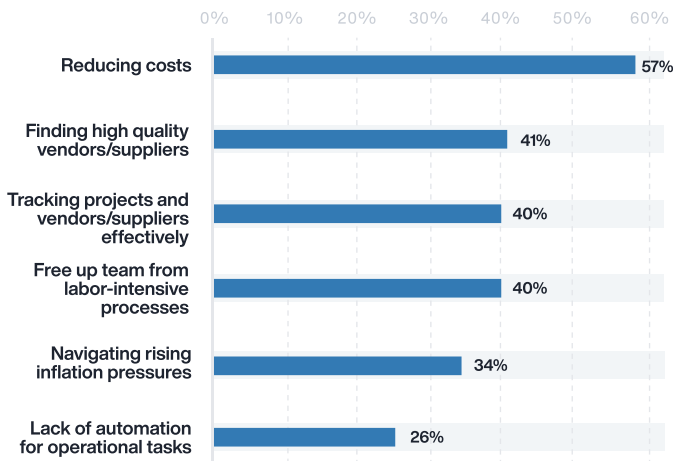
2021 2023

# Operational Efficiencies

In 2023, however, the impacts of inflation have spoken loud and clear. The number one challenge this year is Operational Efficiencies, comprising 76% of responses, followed by Maximizing Revenue & Profits (61%) and HR, Staffing & Recruitment (42%). Predictably, within Operational Efficiencies, the most challenging activity was reducing costs, as cited by 57% of respondents. The next three challenges, essentially tied at 40%-41%, are finding high-quality suppliers, effectively keeping track of projects and suppliers, and freeing up teams from labor-intensive processes.

## Question

Which of the following do you consider to be the most challenging activities related to Operational Efficiency?



Although inflation has eased in recent months, mounting costs for owners and operators — particularly for the uncontrollable variety — have not. Insurance and property taxes have been skyrocketing in recent years and show no signs of letting up. Costs of capital and wage increases are adding to the upward pressure on costs. Technology is playing a significant role in terms of how industry leaders are solving operational challenges, including automation of administrative tasks as well as centralizing the entire prospect life cycle. Firming up internal systems, data-driven recommendations, and empowering leadership teams to make decisions were other actions cited. Others have brought the initial phase of the eviction process in-house and created teams focused on rental assistance funding for residents.

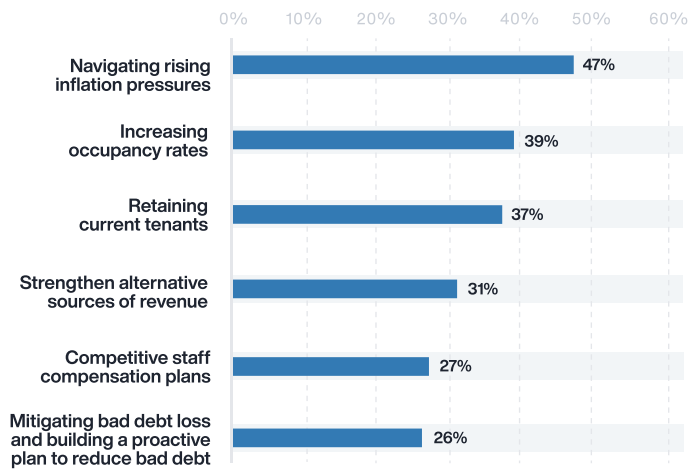
Outside of technology, survey participants are focusing on fostering strong relationships with suppliers, often considering them part of their team, to optimize value and quality. Enhanced communication among all stakeholders was deemed essential in streamlining operations and reducing inefficiencies.

# Maximizing Revenue & Profits

Inflation also appeared in the Maximizing Revenue & Profits challenge, with navigating rising inflation pressures as the number one activity with 47% of responses. Increasing occupancy rates and retaining current residents came in at second and third, respectively, typifying a period of cooling demand amid rising costs.

## Question

Which of the following do you consider to be the most challenging activities related to Maximizing Revenue & Profits?



Rents started to decline on a monthly basis beginning in Q3 2022, according to CoStar, before experiencing modest increases early this year. As of Q2 2023, rent growth nationally was just 1.0% year-over-year, well off the 2.3% historical average. New supply pressures in some markets coupled with a dip in demand caused mainly by an uncertain economic climate are behind the lackluster rent growth, which is negative in some markets, so it's not surprising that strengthening alternative sources of revenue came in fourth place.

In addition to a focus on top-line revenue, industry leaders are also maintaining margins by negotiating with suppliers, adjusting bonus programs, or changing suppliers altogether. Others are using incentives for on-site teams, including maintenance staff, and tying bonuses to resident retention. Some said they were willing to prioritize stable occupancy over rent growth for the remainder of the year, and to that end are not being overly aggressive on renewal increases. A big concern in minimizing expenses is to not dilute the resident experience in the process — an outcome that may prompt renters to look to move elsewhere and take advantage of concessions increasingly being offered in some markets.

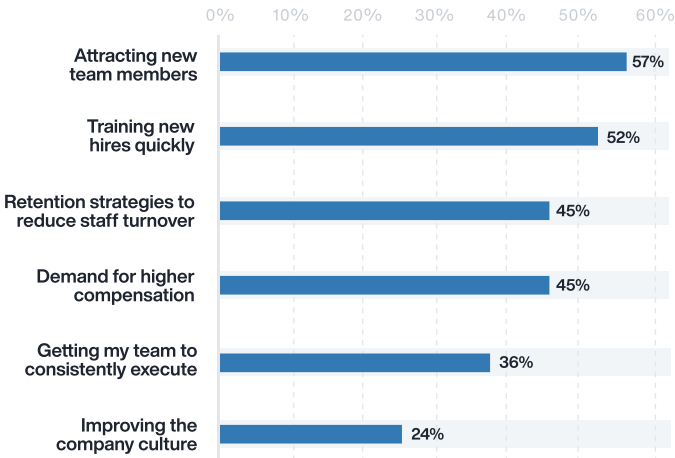


# HR, Staffing & Recruitment

HR, Staffing & Recruitment, which garnered 51% of the responses for the number one challenge in 2021, saw no change in the ranking of the most challenging activities in 2023. Attracting new team members, training new hires quickly, and reducing staff turnover were top challenges in both years. Inflation also made it into this challenge, with demand for higher compensation tied for third place.

## Question

Which of the following do you consider to be the most challenging activities related to HR, Staffing, & Recruitment?

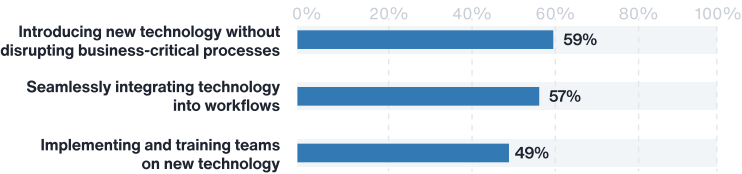


Even though HR, Staffing & Recruitment slipped into third amongst the overall challenges, it should be noted that the tight labor market continues to weigh on owners and operators, who for years have been having difficulty attracting and retaining on-site staff, particularly maintenance technicians. The lack of qualified candidates was mentioned throughout the survey comments.

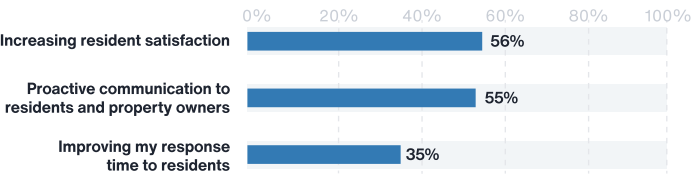
Many respondents identified positive workplace culture as a way to solve recruiting and retention challenges. One executive said they are working on their internal reputation with the same fervor as they do with their external reputation. Others have hired recruiters who emphasize company culture to candidates, while others are giving their employees more opportunities to weigh in on company initiatives. On the compensation front, significant increases during the past 18 months were cited, as were loyalty bonuses.

# Challenging tasks within other topics

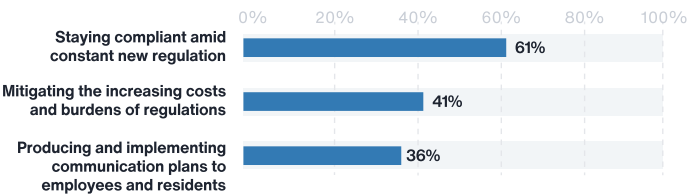
## Implementing New Technology & Innovation (39%)



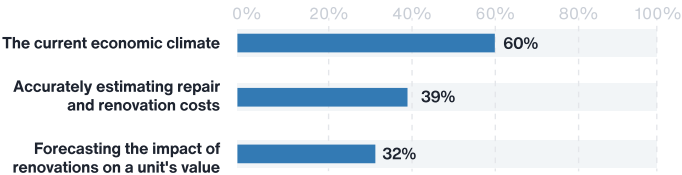
## Stakeholder Experience (31%)



## Risk/Compliance/Regulatory (31%)



## Investment/Development Decisions (20%)



# Unique Challenges by Property Type

Among all respondents, multifamily rentals (MFRs) were present in 83% of portfolios, single-family rentals (SFRs) in 59%, and affordable housing in 25%.

Respondents were able to make multiple choices for property type, but isolating pure single-family from pure multifamily and controlling for portfolio size sheds light on challenges faced by single-family owners and operators.

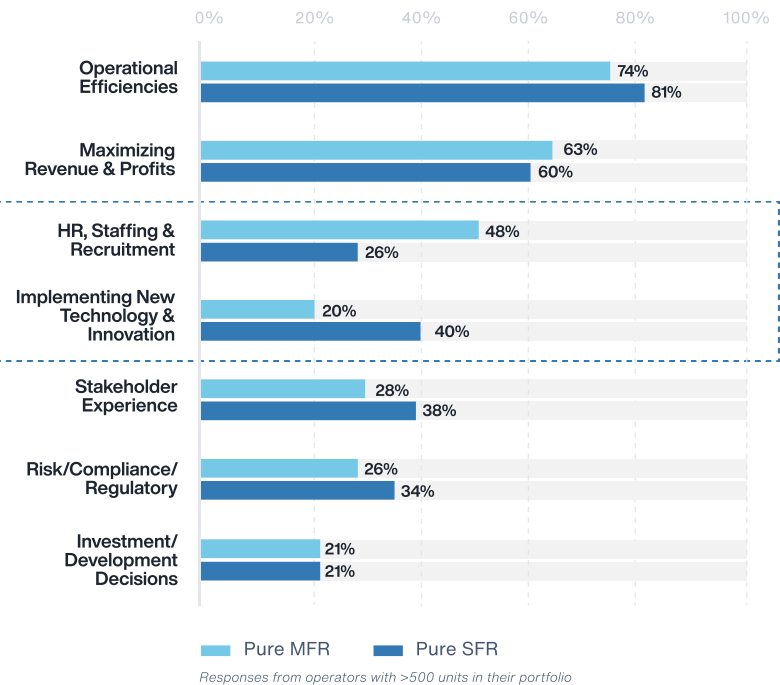


While the top two challenges were the same for both groups, the main variation — Implementing New Technology and Innovation — ranked third by pure single-family owners and operators but last for pure multifamily. It should be noted that just 25% of pure SFR participants operate more than 500 units compared to 55% of pure MFR operators in that size category. The most challenging activities for SFR owners within technology were introducing new technology without disrupting business-critical processes, seamlessly integrating technology into workflows, and implementing and training teams on new technology.

Question

What are your company's top three most important challenges today?

Multifamily vs. Single-Family



Many of the open-ended comments related to the needs of single-family owners and operators were indeed related to technology. All-in-one solutions, technology integration, software that recognizes the volatility of changing markets and adapts to the environment, and tools that help with unit turn time and debt collections were all suggested by respondents. Several survey participants mentioned having already turned to artificial intelligence (AI) for help in making everyday activities easier and less labor-intensive. Another was looking to AI to help stay up to date and in compliance with new laws and regulations, as well as to track potential government bills to provide immediate feedback to legislators. Aside from technology, other themes included needing more vendors and staff, laws protecting operators, and a strong voice in legislation.

# Affordable Housing Responses

Affordable housing providers were asked to rank an additional series of challenges.

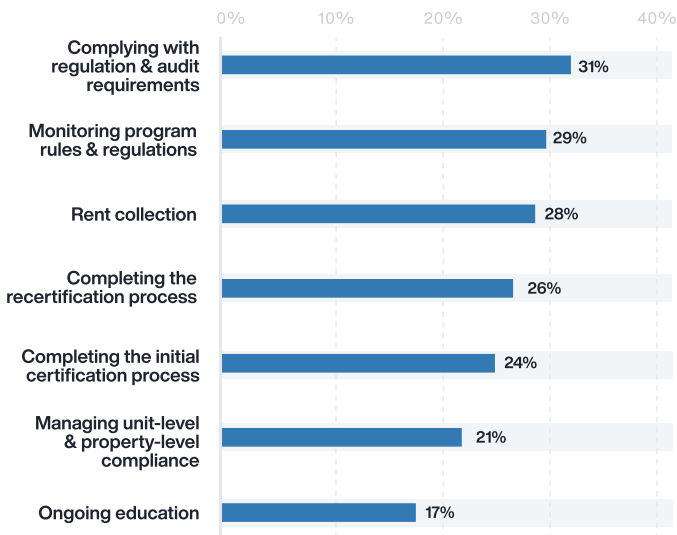
The top three challenges this cohort reported were complying with regulatory agency reporting requirements and audit requirements; monitoring local, state, and federal program rules and regulations; and rent collection.



In terms of solving challenges, more respondents reported having full-time compliance specialists on staff compared to outsourcing those tasks. Consistent and frequent training, including cross-training, and setting up automated notifications to immediately learn about any program changes were other methods respondents employ to deal with challenges. The importance of communication across all parties involved — residents, on-site staff, compliance specialists, and program administrators — was also named as a key to success for this often-complicated property type.

Question

Which of the following do you consider to be the most challenging activities related to managing affordable housing units?





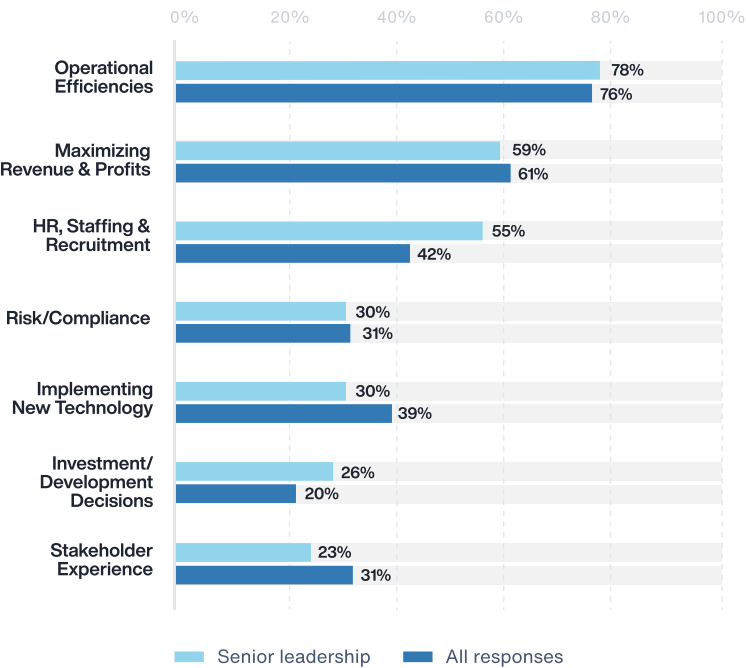
# Challenges at the Executive Level

Two hundred fifty-one C-Suite and other corporate-level executives responded to the survey.



Although their top three challenges were in line with the entire survey results, there was a large disparity in the severity of HR, Staffing & Recruitment, with 55% of senior leadership responses citing it as a top challenge versus just 42% total. Risk/Compliance and Implementing New Technology were tied for fourth place. Investment/Development Decisions came in fifth place while Stakeholder Experience was last.

Percent citing top challenges, all respondents vs. senior leadership



Unsurprisingly, the differences in both the rankings and activities came down to the bottom line for executives. In Operational Efficiencies, reducing costs and navigating rising inflation pressures ranked in the top three for activities, with the latter also being the number one challenging activity in Maximizing Revenue. Staying competitive with staff compensation plans was in the number two slot. Demand for higher compensation also ranked second in HR, Staffing & Recruitment. For the Risk & Compliance category, staying compliant amid constant new regulations was the most challenging, followed by mitigating the increasing costs and burdens of regulations.

Strategies employed to tackle the Risk & Compliance challenges were fairly split between bringing in outside consultants to handle them and hiring additional staff to deal solely with compliance. Another company has a team dedicated to understanding the Low-Income Housing Tax Credit program, which includes a training professional. Others have increased their budgets for risk management initiatives and are directing more training to it, while many report being extra vigilant on screening due to increased fraud, both using manual processes as well as technology tools.

# Preparing for a Slowdown

A special, open-ended question asking how respondents were preparing for a potential recession yielded a variety of responses.

One participant said the recession is already here, as their company had properties experiencing falling rents, occupancy, and demand.



It's important to note that the trajectory of the economy has shifted in a positive direction since the survey was completed in April. Other responses focused on several topics: expenses, labor, technology, capital, and opportunities. Cutting costs was cited often as a preparation, but again, not at the expense of the resident experience. Modest renewal increases to maintain occupancy and holding off on acquisitions and major projects were also strategies owners and operators reported utilizing. Others were selling some properties to bolster cash positions, as well as building up cash reserves at all properties. Centralization and use of technology and AI to address staffing challenges were also mentioned.

Some saw a silver lining in the possibility of a recession, namely, reduced competition for labor and supplies as well as acquisition opportunities in markets harder hit by a recession. One respondent declared a firm belief that the industry is recession-proof, while another said that because they only use long-term debt, it would be “easy to ride out any storm.” “Been there, done that,” was another response in the same vein. Staying focused on conventional multifamily, optimizing financing for all properties, and refinancing when necessary were other strategies being implemented.

At the time of this writing in Q3, businesses and consumers have become more optimistic about their own financial situations and the economy as a whole, largely because of the easing of inflation and a consistently healthy labor market. Many forecasters have lowered their probabilities of recession, and economic outlooks have generally improved.

# Industry Needs

Survey participants were asked what they believe they need, that they don't currently have, that would help solve their top challenges.

While there were plenty of responses requesting crystal balls, more time in a day, and clones of oneself, on the more serious side, more staff, no more inflation, and predictability were common themes.



Respondents expressed the need for talent pipelines to include more trade schools; employees to fill open positions; a strong voice at the national, state, and local levels; and real solutions for affordability issues that can be obtained only through public-private partnerships.

On the technology front, industry professionals need technology that can help balance on-site staff productivity without risking resident satisfaction; better protections for fraud; and access to better, actionable data of all types, including apartment, market/submarket, demographic, consumer, marketing statistics, financial, and regulatory.

Several responses were related to negative perceptions of the industry. One response expressed that the industry needs to do a better job communicating the importance of the work housing providers do, both for their local communities and the country, and the fact that, as housing providers, they are part of the solution to the housing affordability crisis, not its cause.



# Short-Term Outlooks

Participants were asked to describe their company's staffing/recruiting outlook for the next 12 months.

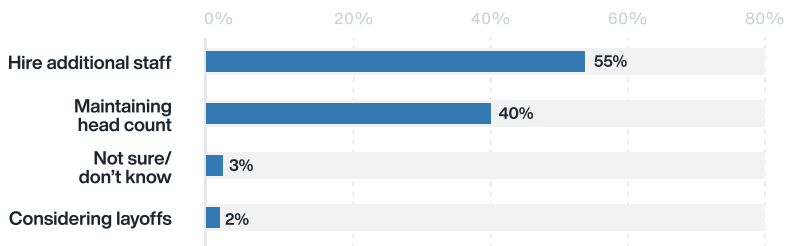




Executives were more optimistic about hiring compared to all responses, with 55% saying they planned to add staff while 40% were focused on maintaining the current headcount. Just 2% were considering layoffs, and the remainder were uncertain.

Question

What best describes your company's staffing/recruiting outlook for the next 12 months?

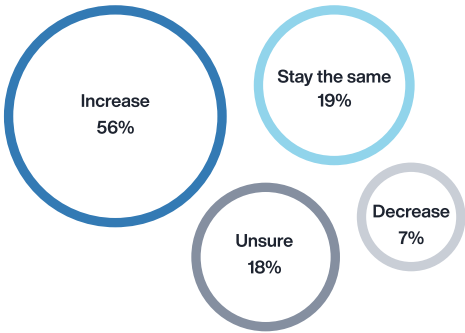


Optimism also reigns when it comes to Net Operating Income (NOI). Some 56% expect an increase in 2023 compared to 2022, 19% expect it to stay about the same, 7% expect NOI to decrease, and the remainder are unsure. At the executive level, 68% expect NOI to increase, 17% expect the same level as last year, and 9% expect it to decrease.

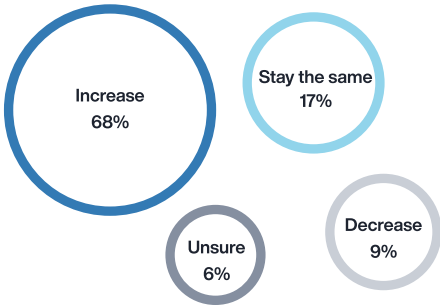
Question

Compared to 2022, how do you expect your company’s net operating income (NOI) to change in 2023?

Non-Executives



Executives



# Long-Term Challenges

Responses to the open-ended question, “What are some of the long-term challenges you expect the property management industry will face in the next 5-10 years?” covered a vast array of topics including affordability, aging properties, costs, labor, litigation, new supply, government regulations, and technology.



Affordability is already top of mind for the industry, but juxtaposed with rising costs, it quickly becomes a monumental challenge. Most comments focused on trying to balance rent levels with increasing costs — not only operational but construction, financing, regulatory, and compliance costs as well. Also tied into affordability is the age of the apartment stock. Some 44% of the nation's apartments were built before 1980, according to the most recent census estimates, many of which are naturally affordable. However, materials expenses, labor costs, and financing for repairs or redevelopment, the latter of which could also spawn community opposition, were major concerns for survey participants, as was the cost of bringing these aging properties up to current energy and other environmental standards.

On the opposite end of the spectrum, new supply was also considered a future challenge, resulting in heightened competition in the coming years, especially in markets that have seen an influx of new units coupled with cooling demand. Increased vacancies and concessions are already coming back. As one respondent noted, prospective renters have lots of options and are taking their time to shop around.

Comments dealing with labor not only cited shortages, but also the lack of qualified workers. One respondent mentioned having properties with hotel-like amenities but not enough staff to maintain that value proposition for residents. Other concerns centered on retiring Baby Boomers and an inexperienced future workforce, especially when so few of those entering the workforce see property management as a desirable career. According to survey participants, the impact of AI on staffing and centralization was not so much seen as resulting in a challenge; rather, it is the journey to seamless incorporation of AI and centralization, and to reaching the right balance.

As long as housing affordability remains an issue, further-reaching government regulations that do not address the root cause remain a big concern for owners and operators. Specific examples mentioned included the increasing difficulty of evicting residents for non-payment of rent, rent control, and other laws limiting income. These policies actually exacerbate the situation by discouraging the creation of new housing supply and are expected to remain a challenge for the foreseeable future. One response mentioned the need for predictability from government agencies and the risk that changing administrations can have toward undoing progress. Litigation and fraud were also viewed as challenges that will only continue to get worse, and with all these challenges come increasing costs to mitigate and manage them.

# Closing Thoughts

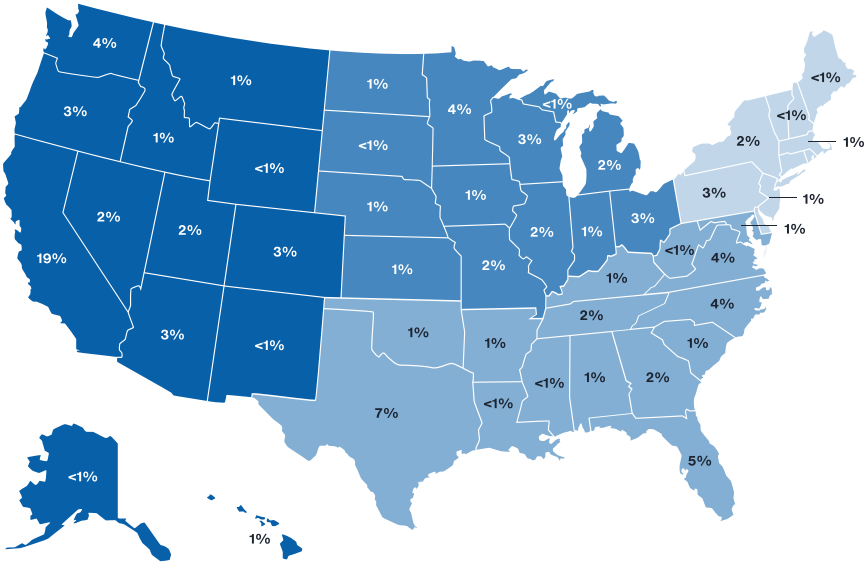
With inflation moving in the right direction and recession fears receding, owners and operators may see relief on the horizon for some of these challenges. The many non-economic challenges, however, may very well continue, highlighting the need for all rental housing stakeholders to work together in finding solutions to keeping the industry responsible for housing millions of Americans vital and profitable.



# Appendix

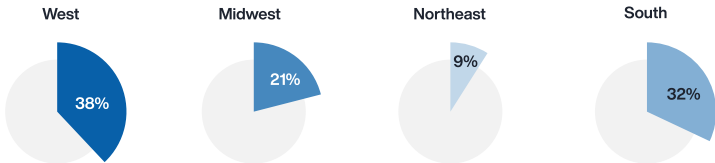
## Survey demographics

2,311 rental housing professionals were surveyed in April 2023. The map below summarizes the survey respondents' locations.

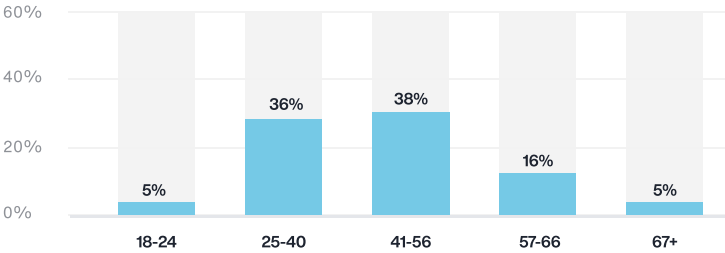


Percentages may not add up to 100 due to rounding.

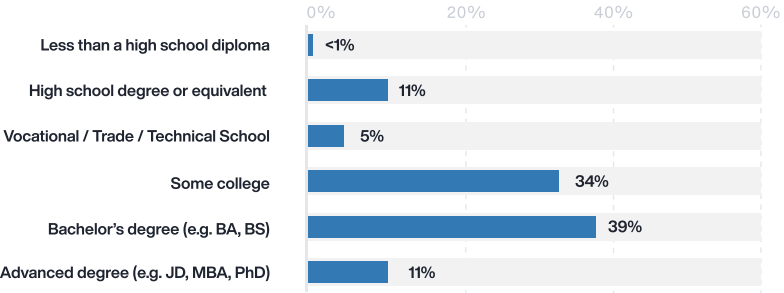
### Responses by Region



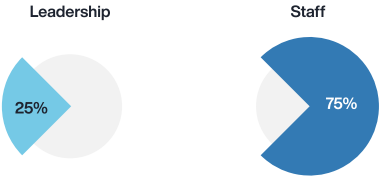
Age



Education

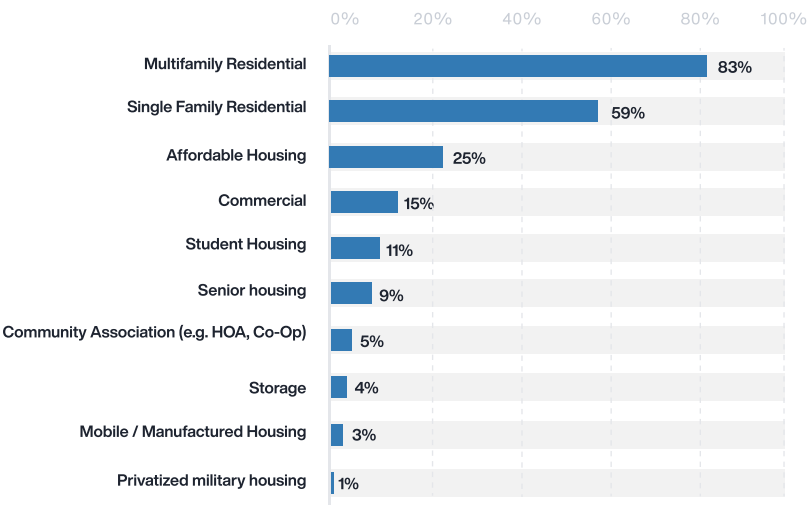


Role

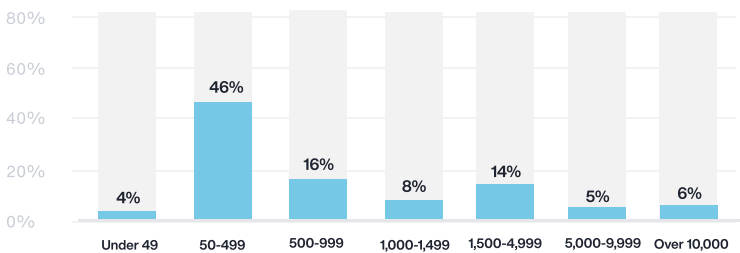




Which of the following property types does your company manage?



Approximately how many total units does your company own or manage?



Percentages may not add up to 100 due to rounding.

# About NAA

The National Apartment Association (NAA) serves as the leading voice and preeminent resource through advocacy, education, and collaboration on behalf of the rental housing industry. As a federation of 141 state, local, and global affiliates, NAA encompasses over 95,000 members representing more than 11.6 million apartment homes globally. NAA believes that rental housing is a valuable partner in every community that emphasizes integrity, accountability, collaboration, community responsibility, inclusivity, and innovation. To learn more, visit [www.naahq.org](http://www.naahq.org).

# About AppFolio

AppFolio Property Manager unlocks new possibilities for your business all on one powerful platform. No matter what your needs might be, our personalized partnership and intuitive software open every closed door along the way, helping you uncover new efficiencies and grow your business. To learn more, visit [www.appfolio.com](http://www.appfolio.com).

