

Rent From Payroll

EASING THE PAYMENT PROCESS

Communities use auto-draft platform to guarantee on-time rent payment.

When it comes to her opinion on late rent payments, Tanya Mayfield doesn't hold back. "It's just a huge stress and a huge embarrassment. The late fees keep on racking up, and if you don't pay the rent, there can be court fees, and then there are all of those embarrassing late-rent notices tacked to your door."

Mayfield should know. As a single mother raising school-age kids, she found herself suddenly living paycheck to paycheck and struggling to make rent payments on time. "I was honest about it, and went to my leasing agent here at Whispering Woods and told her I needed a lifesaver," Mayfield says. "That's when I was introduced to the idea that my rent could automatically be deposited directly from my employer's payroll."

Whispering Woods isn't alone in offering rent from payroll as a tool for residents to take the stress out of paying rent while providing property managers with improved tools for converting conditionally approved applicants into leases to boost occupancy, improve retention and increase revenues.

In May, Camden Property Trust, CFLane and Trinity Property Consultants announced the deployment of the rent-from-payroll solution from Boston-based Neighborhood Pay Services (NPS). Those firms join other progressive apartment operators including Federal Capital Partners, The Gene B. Glick Company and Northland Investment Corp., who have increased move-ins and community revenues by implementing rent from payroll as a more effective option to an increased security deposit for conditionally



Jason Whittington

approved applicants.

"We have several communities where some of our residents struggle with managing their money on a paycheck-to-paycheck basis," explains Jason Whittington, Vice President of Business Solutions for Indianapolis-based Gene B. Glick Company, a Midwest developer and property manager of more than 20,000 units in 10 states.

"As part of a corporate-wide effort to reduce bad debt, one thing we had brainstormed with the property managers about was how we might get rent money from residents before they had a chance to spend it on something else."

The mechanics of rent-from-payroll programs leverage standard direct deposit features available from most employers, enabling applicants to quickly and easily agree to prioritize funds from payroll for rent.

Applicants submit a simple form authorizing his or her employer to direct deposit pro-rated installments automatically each pay period to an FDIC-insured rent savings account and, each month, the rent from payroll provider, NPS, aggregates deposits and then transfers a lump sum for all enrolled residents via ACH to the apartment community.

As such, communities know that enrolled residents won't be coming up on their reports as late-payers, and have a solution in place to assure timely rent delivery throughout the duration of a lease that increased security deposits at move-in can't provide.

By requiring less upfront cash from the applicant and delivering assured rent payments to the apartment owner, rent from payroll solutions achieves higher conversion rates,

more move-ins, lower default rates and lower average default dollars when compared with conditionally approved leases using increased security deposits or surety bonds alone.

According to a recent analysis of 6,597 conditional-lease applications at approximately 50 communities across the country where a rent from payroll program is deployed, move-in rates when offering rent from payroll increased between 13 percent and 47 percent,

while move-outs due to skips and evictions (along with associated bad debt) decreased 77 percent.

Operators such as Federal Capital Partners are also seeing great opportunities to avoid move-outs and their associated costs during renewals for residents who have paid late during the previous term of the lease. By offering these residents a chance to enroll in the rent from payroll platform as a condition of renewal, property managers are able to avoid turnover

when in the past they would not have allowed habitually late-paying residents to renew.

Even when balances are ultimately paid in full, the resident who habitually pays rent late or is in arrears creates time and resource-consuming inefficiencies for property managers.

"From a mission perspective, it is not very good service to our resident to keep them in a cycle of paying both rent as well as late fees every month," says Whittington. "[This program] improves our bottom line and provides a great service to our residents, some of whom can really use the help in managing their money."

Improved NOI, Asset Value

Apartment owners and managers benefiting from rent from payroll say the overall NOI improvement is significant enough to boost overall returns on investment during asset disposition.

With a modest increase of an additional six move-ins, the revenue upside to an average multifamily housing community deploying rent from payroll can be \$60,000.

At a 4 percent to 7 percent cap rate, that increase in revenue yields upwards of \$900,000 to \$1.5 million in additional market value per community. Across a portfolio of 20 communities with a total of 6,000 units, increases in asset value translate to between \$17 million and \$30 million.

"Certainly, the increases in incremental move-ins and the reductions in unexpected move-outs played a key role in helping to stabilize earnings at our communities," says Cathy Voge, who implemented a program at Green Mountain Realty. "Those earnings improvements contributed to our successful sale of several communities at much higher values than we would have otherwise achieved."

Ahead of the Game

Another value-added benefit property managers gain from rent from payroll is built-in transparency on resident employment status.

Specifically, rent from payroll provides

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an early warning in the event of possible job loss or interruption in employment status, alerting the apartment community in advance instead of depending on residents to communicate any unexpected job changes or, worse, failure to communicate those changes to the property manager until rent is past due.

Those early warnings are a key rent from payroll advantage appreciated at



Steven P. Rosenthal

Gene B. Glick Company and Green Mountain Realty alike.

"With our residents enrolled in the program, even when there was job loss, the impact was significantly minimized by the early-warning reports when any resident deposits were not received," Voge says. "This helped us to address unexpected vacancy issues well in advance, compared to sometimes being at a loss to help resi-

dents where we had no insights into their ongoing employment, or lack of it."

Resident Retention

At Gene B. Glick, the early-warning features of rent from payroll enable property managers to often keep residents in place even in the event of job loss. Of the 30 leases included in the firm's first community on rent from payroll, all were active and paid in full and on time after a year, except for one individual who experienced a job change. This positive metric prompted the company to deploy the program at 40 additional communities.

"Intuitively it makes sense that we can reduce our unexpected move-outs and associated expenses because of the reporting function of our rent from the payroll provider," explains Whittington. "It notifies us of potential issues and gives us more time to react before rent is late. Because deposits are delivered from employers every time a resident is paid, there's far more opportunity to work with a resident and resolve a potential issue and for everyone to come out ahead."

After being on rent from payroll for several years, Tanya Mayfield—now a leasing associate and Resident Relations Coordinator for the 524 units at Whispering Woods—encourages prospects and residents to join the system.

"To know that my payroll is covering this month's rent, and sometimes even part of next month's rent, gives you peace of mind. It teaches you good financial discipline and makes rent collection hands-free for your property manager."

Steven P. Rosenthal, President and CEO of Newton-based Northland Investment Corp, states the opportunity to owners and managers this way: "Providing a mechanism to assure that the resident is committed to on-time rent delivery as a condition of lease signing is something unheard of before in multifamily. As an industry, we've always depended on cash deposits to cover payment and unexpected move-out risk, and have had only limited leverage once a resident moves into a unit, aside from an eviction that no one wants, to improve resident performance." ■

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