

Traditional Security Deposits Being Replaced by Resident Use of Rent from Payroll Systems

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NEW ORLEANS, LA - When it comes to leasing, nothing seems more tried and true than the conventional security deposit. But the convention of requiring apartment applicants to pay additional cash as a condition of lease signing is being challenged by new payroll based methods that offer better assurance to property owners/managers that rent will be delivered consistently on time.

Specifically, rent from payroll—where residents elect to have their employers auto-deposit a portion of their paycheck every payday to an FDIC-insured rent savings account—is seeing fast adoption among multifamily firms to improve conversions and reduce the bad debt associated with skips and evictions. In June, Camden Property Trust,

CFLane, and Trinity Property Consultants all announced adoption of rent from payroll as a new tool to help existing and future residents pay rent in a timely manner and qualify for new leases and renewals.

Particularly for conditionally approved residents with less than perfect credit, the use of rent from payroll is enabling leasing managers to move in more applicants without requiring additional up-front security deposits that can drain already stretched personal savings. According to a recent study by NPS Rent Assurance, rent from payroll increases the conversion of conditionally approved residents by 57 percent versus the use of additional security deposits.

“We were surprised when our initial analysis showed conversion ratios going from a low of 20 percent to, in some cases, 65 to 66 to 67 percent or more for the rent from payroll offer that resulted in increases to both incremental occupancy and revenue,” 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.

Released at the 2014 National Apartment Association Education Conference & Exposition, the [NPS Rent Assurance study](#) of 6,597 conditional lease applications at 50 communities across the country also found that the overall rate of skips and evictions for residents on a rent from payroll platform stood at only 2.12 percent, compared with a 9.37 percent skip/eviction rate for residents moved in with increased security deposits—a 77 percent total decrease in skips and evictions.

“By linking rent to automated payroll deposits, rent from payroll replaces the ‘pay and pray’ method of moving in residents with higher security deposits that do nothing to assist with money management every month when rent is due,” says NPS president, Richard Levitan. “As an alternative to increased security deposits, rent from payroll provides cost savings and payment automation to a segment of the resident universe that needs additional tools to perform reliably, which in turn helps communities increase incremental occupancy and reduce bad debt from unexpected move-outs and evictions.”

For multifamily operators looking to dispose of assets, rent from payroll improves predictable cash-flow and resident retention, all leading to increased NOI.

“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 rent from payroll at Green Mountain Realty. “Those earnings improvements contributed to our successful sale of those communities at much higher values than we would have otherwise achieved.”

So, will security deposits eventually go the way of the dinosaur? Despite the benefits of using rent from payroll with conditionally approved residents, Levitan predicts total extinction of security deposits is unlikely. “Like so many things, the use of rent from payroll will depend on the asset and the market conditions,” he says. “We’re confident that delivering increased economic occupancy will soon be recognized as more profitable than cash upfront that typically doesn’t cover losses.”

Full results of *The Rent From Payroll Advantage: How Modest Changes in Lease Offer Terms Are Improving the Way Residents Perform and Communities Profit*, are available via the [NPS website](#).