



Some apartment managers are using rent-from-payroll strategies, others, advanced collections technology.

Avoiding Collections Complications

BY LAUREN BOSTON

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When it comes to the status quo on rent collections, apartment managers no longer have to accept skips and evictions due to non-payment of rent as an unavoidable blight on the leasing cycle. In fact, a rise in “anti-collection” rent payment strategies and technology solutions promise to alleviate property managers not only from chasing down bad debt balances, but also from having to collect monthly rents at all.

Rent from payroll, in particular, enables residents to self-select automatic payroll deposits to an FDIC-insured account administered by an independent rent assurance provider, which then delivers a lump-sum rent payment to the property on time every month. Since residents’ employers automatically forward funds from payroll every pay period, there’s no chance of funds becoming discretionary income and spent elsewhere, which provides the property company assurance rent will be paid.

“We want to bring to the table programs, policies and procedures that owners can’t always implement on their own, and when we start talking about a rent from payroll program, our owner clients are really excited about it,” says Art Lieb, Direc-

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tor of Operations for Atlanta-based Provence Real Estate. “It gives the owner peace of mind over delinquency because it solves the battle we are constantly trying to fight—having rent drop down the list behind car payments and credit card payments. With rent from payroll the owner is getting paid before anyone else does and is assured of not dropping down that list.”

Even if a resident faces job loss, the accrued balance in rent from payroll accounts often cover additional rent payments. According to one provider, because deposits are made consistently on a pay period-basis, 85 percent of the time rent from payroll customers have already accumulated deposits of 50 percent of their next month’s rent; 65 percent of the time rent from payroll accounts hold at least 74 percent of the next month’s rent, and 20 percent of the time rent from payroll accounts already have received 100 percent of next month’s rent.

Anti-collections technologies and strategies, like rent from payroll, also alleviate the friction in the leasing office between managers and residents when it comes to paying rent, and provide ongoing assurance for predictable cash flow. An analysis of 6,597 leases conducted for the 2014 NAA Education Conference & Exposition determined that use of rent from payroll significantly decreased skips and evictions due to non-payment of rent (and the associated bad debt) by 77 percent.

Additionally, rent from payroll converts more prospects, particularly conditional approvals, where residents opt in to an automated rent payment mechanism in exchange for moving in without extra cash security deposits. As a result, conversions of

indicator that the air-conditioner or lights were left on after a cleaning crew was in, or after a make-ready. It could also be an indicator that something more concerning is going on, such as a property manager renting a unit under the table for cash. Unlikely, but possible.

Companies that have a vacant cost recovery program that also looks for these types of issues and proactively points them out can save money that directly impacts their expense line.

The Best Defense is Good Offense

Selecting prospective residents who have a high likelihood of paying rent is the best way to reduce collections and bad debt. That’s why more operators are incorporating rental-payment history in their screening processes.

“Rental payment history data helps you decrease your bad debt because you are bringing in more qualified applicants at the front end of the process,” says Tracy Levesque Jedrey, President of Virginia-based GrayCo Properties. “A higher-quality resident on the front-end reduces the need for collections on the back-end.”

In a recent study of more than 750,000 apartment residents, one company found that residents with the highest credit scores show much lower rates of default. However, within that population, those with negative rental history are more than four times as likely to default as those with positive rental history. Additionally, renters who have two or more prior rental debts and likely are serial skippers have a 35 percent default rate, which is

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conditionally approved residents improve on average by 57 percent when rent from payroll is included as an option in the terms of the lease. More move-ins, significantly less skips and evictions and automated on-time rent payments have the anti-collections movement in property management gaining in popularity.

The Invisible Thief

As if occupied apartments don’t present enough of a challenge, apartment owners and managers must also deal with vacant theft.

Whether intentional (a resident doesn’t put the electric bill in their name) or unintentional (the electric company doesn’t input the resident’s name on or before the date the resident moves in), the end result is still the same: Lost income.

Although some companies see that 25 percent to 35 percent of vacant cost recovery expense can be billable to residents, many often forget about the other 65 percent to 75 percent—where real opportunity exists to save on expenses that are not billable or collectable.

For example, a high electric bill in a vacant unit could be an

nearly six times higher than those with positive rental history.

What’s more, rental payment history has proven to be an effective bad-debt recovery tool for apartment companies that share outstanding balances and write-offs.

“We all know that when someone is skipping and they go to rent somewhere else, they almost never include in their application that they are living at the place that they are skipping from,” says Chris Jenkins, Vice President of Financial Planning for Equity Residential. “Using rental payment history really helps us prevent those individuals from renting at another community without clearing up their rental account with us.” ■■

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Thank You

Thank you to RealPage, Experian RentBureau and Neighborhood Pay Services for contributing to this article. For a list of NSC members who provide billing and collections, see pg. 70.