

Maximizing your applicant pool: 3 screening criteria adjustments



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With an ever-changing applicant pool, you must make strategic adjustments to your screening criteria to ensure that you are renting to as many qualified applicants as possible. As 2010's rental season begins to take off, it's a good time for management companies to review their current acceptance criteria. First, you want to ensure that your screen-

ing criteria and corporate goals for 2010 are aligned, and that the former doesn't interfere with the latter. Next, you want to evaluate your existing screening criteria in the context of your current and future applicant pool.

Rental application volume has increased by 4% through the first few months of 2010, when compared with the same time

period in 2009; at the same time, the number of rejected applicants has increased by 1% (based on a study of RentGrow clients). Looking forward, properties will begin to see more and more applications as the "busy season" arrives, while also seeing the credit worthiness of their applicant pool continue to decline as those most impacted by the economic downturn begin to return to the rental market. Properly evaluating the risk of this growing population of "borderline" applicants will dictate a property's level of success in 2010 and beyond.

Based on current rental conditions and real-life success stories of our clients, we recommend three key screening process adjustments to consider for 2010:

1. Reduce the time period of evaluation

It is valuable to review the time period evaluated for credit and criminal history in your screening criteria and adjusting if appropriate. Companies could successfully increase their acceptance rates by reducing the time period evaluated for credit and criminal history. One 12,000 unit property management company in the Midwest reduced the number of years that credit data was scored from 2 years to 1, increasing the number of accepted applicants by over 5%, while at the same time maintaining a low delinquency rate. Another company decided to overlook misdemeanor criminal offenses over 5 years old, yielding them an additional 1% in acceptances.

2. Examine security deposit amounts

It's best to examine your security deposits levels periodically to determine whether or not yours are in line with local competition. In today's economy, qualified applicants can be won over with a more attractive deposit, such as surety bonds or monthly rental supplement programs.

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wine tasting fundraiser. It's a lofty goal, but one we believe we can reach with your help. This association's reach is expansive; we are all part of companies, rental communities, neighborhoods, families, etc.

In MHA's lobby sits a treasure chest of children's board books. It's hard to miss. What's easy is tossing in a book as you pass by to head into a meeting or class.

My son Barrett loves to play with Thomas the Train at Barnes & Noble. He also likes to stay longer than it takes me to drink

my caramel macchiato. I use the extra time to peruse the "bargain book" shelves for children's board books. Most are only about \$5.00.

As we've graduated to "paper" books at our house, I've also been able to weed out our own collection (saving a handful of favorites), and add to the treasure chest by way of "gently used" books.

MHA's Charitable Outreach Committee members bring a book to each monthly meeting. That small effort alone has already made a big impact.

As part of our book drive, the Charitable Outreach Committee is hosting an event on June 24th called the "Rooftop 'Raiser" at Dominion's The Bluffs at Nine Mile Creek in Eden Prairie. Admission is \$20 and one children's board book. All proceeds (and books) will go to People Serving People. Yes, enjoying a drink with friends after work on a rooftop this summer can now be considered charity work.

I don't expect to single-handedly eliminate homelessness in Minnesota. But I do know first-hand the inspiration found in a children's book. I know the real world isn't always wonderful, but providing a homeless child an escape into a world of wonder? Now, that's a different story. ■

Growing 1,000 Stories Tall

The story of
MHA members
donating over
1,000
children's board books
to the families of
**People
Serving
People**

How you can help

Bring a new or gently used children's board book to any MHA event, meeting or class. Together we can affect the lives of thousands!



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A++ apartments with 10-foot ceilings and all the bells and whistles.”

Apartments on the precipice of recovery?

Ryan Severino (REIS) believes the sector is “on the precipice of recovery; the next few quarters will tell us if we’ve turned the corner. 2011, 2012, and thereafter we’ll see a fairly healthy recovery.” First quarter results were stronger than the firm expected with asking and effective rents up slightly.

Kachadurian said one-third of the markets surveyed in ARA’s most recent Quarterly Market Update showed an increase in effective rents and that occupancy was unchanged or rising in 26 of the 29 markets surveyed.

Ron Johnsey (AXIOMetrics) concurred that first quarter numbers indicate that a recovery is taking place, but job growth is not picking up; people are staying where they are. Florida had its first negative migration; nearly every county in California is experiencing negative migration, too.

A panel of operators concurred that the first quarter of 2010 saw a sizeable bump in performance but disagreed whether this was a seasonal effect or stabilization in the markets. They noted that they are beginning to see some “unbundling” of people moving out of their parents’ houses in some markets.

Bruce Webster (Lincoln Property Co.) said that 60-70 percent of the people coming in the door are looking for the cheapest apartment possible and that closing ratios on the first visit are down a bit. Even value shoppers are making two to three visits these days.

Signs of life in the capital markets

Prices for apartments are coming back up, life insurance companies may be getting back into the action and the CMBS market has risen from the dead, according to the capital markets panel. Jeanette Rice (Verde Realty) noted that according to ULI, there is \$150 billion in capital waiting to buy commercial real estate of all types, not just apartments.

But Lawrence Souza (Johnson Souza Group) warned that “this is a very complex period in capital markets,” expressing concern about another potential boom/bust cycle.

Souza believes we’re in a mini bubble with cap rate compression. Indeed, Kachadurian says cap rates were lower in 73 percent of the markets surveyed in ARA’s latest Quarterly Market Update.

Souza notes that there are lots of distressed securities still out there, banks still need to clean up their balance sheets and there will be more distressed properties in 2011-2013.

Doubling up?

Panelists addressed the ever-popular issue of “doubling up.” Erin Ditto (Bell Partners) called into question the conventional wisdom that residents “double up” in a recession. She reported that Bell Partners’ occupants-per-unit has dropped from 1.86 to 1.63 since 2008, and vacancies are more common in 3-bedroom units than 1- and 2-bedrooms units.

In a separate panel, however, AXIOMetric’s Johnsey said that in the first quarter of 2008, 1-bedroom units outperformed 2-bedroom units in all markets except San

Diego. Today, 2-bedrooms or 3-bedrooms are posting the smallest rent declines, which signals more doubling up.

A Chicago snapshot

Dr. James Shilling of DePaul University presented his research on the Chicago market. He found that multifamily values are down 25-45 percent and there is \$13 billion (or 30 percent of debt) value at risk.

Three percent of 7+ unit buildings are in foreclosure and \$1.5 billion in loans have been given extensions. One out of eight properties—74,000 units—are experiencing rental shortfalls. Out of \$44 billion multifamily loans in Cook County, the \$18 billion originated in 2005, 2006, and 2007 is causing most of the stress.

Fundamentally flawed homeownership

Jonas Fisher of the Federal Reserve Bank of Chicago presented his research into interest-only mortgages. He found that they were a key predictor of which areas faced house price bubbles. In fact, absent a bubble, he observed that borrowers and lenders prefer traditional mortgages.

Fisher explains that his research suggests subprime lending wasn’t the problem *per se* and his work also suggests that the peak rates of homeownership we saw were never justified by the fundamentals.

The jobs-apartment demand connection

That job growth drives apartment demand is common knowledge, but Jay Lybik (Equity Residential) pointed out that Los Angeles County lost 200,000 jobs last year, yet saw 25,000 units of positive absorption. He noted that while multifamily researchers generally focus on a few economic and demographic data points, such as job growth, clearly there are other factors that need to be studied.

Jack Kern (Kern Investment Research) agreed and recommended that apartment researchers make more use of psychographics—the interests, activities and opinions of consumers—rather than simply studying demographics to better understand how our residents are making decisions and what influences them.

Finding apartment data: Census Bureau

The Forum opened with a special workshop explaining the best sources for different types of data. The Census is the key source

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3. Better understand your cancellations

As application fees have fallen, and in some cases disappeared entirely, cancellation rates have increased significantly. Historically, 10-15% of applicants who applied and were accepted would cancel prior to move in. In recent years, this number has doubled to an average near 30%. For every 100 accepted applicants that your company is able to attract, nearly 30 of them are choosing to take residence elsewhere. By monitoring and studying this applicant group, you can better understand why this is happening and ultimately reduce your number of cancellations.

Although no one can control our current economy, property managers can make the proper adjustments to lessen the blow. By honing in on maximizing each property’s applicant pool, property managers can keep vacancy issues at bay during this tough economic time. It is wise to discuss possible strategic criteria adjustments with your resident screening provider to maximize the true potential of your applicant pool; they can help to qualify the best of the bunch and fill your vacancies with qualified renters. ■