

Screening Strategies

in Tough Market Conditions



By Mike Lapsley, president and CEO, RentGrow, Inc.

In 2008, people were inundated with headlines of foreclosures, an economy in recession, bailouts, and a shrinking employment rate. While ringing in the New Year has been a welcome event for all, economic forecasters are predicting that 2009 will be another challenging year for myriad of industries and businesses, including multi-family operators. "Following the downturn in the economy experts say rental demand will soften and rents are expected to remain flat throughout 2009," according to Ron Devries, Vice President of Appraisal Research Counselors, a real estate appraisal, research, and consulting firm. Aligned with this prediction, Chief Economist, Mark Obrinsky of the National Multi Housing Council (NMHC), predicts that vacancy rates could reach 7.9 percent or higher by year end, due to job losses.

Tough times call for innovative measures. Here are a couple points that save money and provide strategies for maintaining (and possibly increasing!) occupancy rates.

Save Money

Use efficient screening services. A top-notch screening system will allow you to customize the order in which the reports are run and can be programmed so your process is controlled, consistent, compliant, and cost-effective for each applicant. While it may seem appealing to have a flat rate, keep this in mind: 15-20% of applicants don't meet the average management company's credit screening criteria, making criminal and eviction searches unnecessary on those applicants. In other words, with a "bundle/flat fee" model, you end up paying for a number of unnecessary reports; in the "tiered" model, you pay roughly 1/3 of that price.

Avoid hidden fees. Fees may include annual or monthly fees, surcharges for accept/reject letters, and extra charges for updating applicant information.

Maintain (And Even Increase!) Occupancy Rates

Contemplate excluding foreclosures and medical debt from screening criteria. In 2008, the number of foreclosures played a large factor in the economic downturn. Many of these people were good renters before they moved to a single family home, and many would like the opportunity to become good renters again. Still, you need to ensure your tenants can pay the rent. What to do? Consider adjusting your criteria. Ask your screening provider if they offer the option to remove foreclosure items from scoring. This will allow you to approve applicants whose credit is acceptable without the foreclosure, provided the monthly rent is less than what the applicant was paying on his or her mortgage. Another way to factor in more applicants is by applying the same rule to medical debt. If you take away the medical debt and the applicant is approved, then you can consider accepting him or her. Medical debt isn't a reliable predictor of the applicant's rental payment behavior or indicative of his or her ability to meet his or her monthly financial obligations.

These options give you the ability to expand your applicant pool in sound, measured ways, allowing you to increase occupancy, while controlling your risk.

Adjust your period for reviewing credit history. Running credit checks is a way to lower your risk level, and credit reports typically include seven years of history. You may want to consider changing that threshold from seven years to two or three years. This allows you to hone in on recent payment history rather than older history, while expanding your range of qualified applicants. With the current credit crunch, it becomes a balancing act of weighing out your options. You may find that, scoring seven years of history excludes a handful of qualified applicants.

Remember, the ultimate goal is to cut costs and increase revenue while managing risk and retaining responsible residents. Work with your screening provider for the most cost-effective screening solutions and develop innovative ways to maintain and even increase occupancy during 2009. ■

Mike Lapsley is president and CEO of RentGrow, Inc., the resident screening experts (www.rentgrow.com). He can be reached at lapsley@rentgrow.com.