

Trends in Applicant Traffic and Quality

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

At RentGrow we have a bird's-eye view of multi-family industry trends - our customers manage thousands of properties totaling more than half a million units across the nation. In this article we decided to share some interesting data and trends that we have observed in recent months.

Traffic

The trend is clear: Compared to last year, traffic is down in leasing offices around the country. This chart demonstrates the % change in processing rates across RentGrow's client base:

Resident Screening Processing Rate Change - 2009 v. 2008

Month	Ch%
Jan	-20.4%
Feb	-15.3%
Mar	-4.0%
April	-15.9%
May	-13.7%

The theme for the last 12 months has been lower year-over-year traffic by 10-20%, with some clients reporting traffic declines of 25% or more. We are assuming the lower rates will probably persist into 2010.

What does this mean for our clients?

10-20% fewer applications translates into a smaller pool of applicants to choose from. It means that every person calling, visiting or applying to live at your property is at least 20% more valuable than in past years - and the effort and expense required to get them to apply and move in is 20% higher. These days, the need to "give it 120%" is very real!

Applicant Credit Quality

On average, the applicants visiting leasing offices this year have weaker credit profiles than last year, continuing a trend that began in 2007. The U.S. economy has shed 5 million jobs in the past 18 months, and the foreclosure and banking crises have weakened the financial profiles of many individuals.

We conducted a study of applicant credit quality across hundreds of thousands of applicants screened by RentGrow between 2007-2009, and found that applicant credit quality in Q1 2009 was 1.7% lower than Q1 2008 and 3.9% lower than Q1 2007. (As an interesting side note, the negative trend is evident in market rate properties but does not necessarily hold for affordable properties.)

This is consistent with reported trends in the population at large - a recent USA Today article mentioned that from Q3 2008 to Q1 2009, the average Transunion credit score dropped 6 points. California saw a 10-point drop, and Arizona 11. (Click here for the full article: http://www.usatoday.com/money/perfi/credit/2009-05-26-credit-scores-recession_N.htm)

What does this mean for our clients?

Unless you are in a regional market that's unaffected by these trends, you need to think about the impact on your business and adapt.

Now is a good time to review your rejection rates in the context of your revenue and occupancy goals. It may be time to modify your acceptance criteria, but that doesn't mean simply drop the bar. Use a scalpel, not a sledgehammer; for example, you may want to consider:

- Adjusting deposit levels for marginal credit profiles
- Adjusting the number of years of credit items that you score
- Removing foreclosure items from scoring

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that, assuming an applicant has adequate income, he should be more credit worthy after a bankruptcy than before. First, discharged old debts will no longer have a claim on future income. Second, bankruptcy cannot be filed again for a number of years.

You can set your qualifying requirements as high as desired re-

garding financial criteria. In practice, however, you should not set standards so high that you never find anyone meeting those standards. The important issue for landlords is to establish selection criteria that make good business sense and to evaluate every applicant against those standards without discrimination.

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Setting Aside a Property Management Legal Fund ...continued from page 1

are filed and once the process begins even winning the lawsuit can be costly. Luckily, most of the filings are incidental and occur in small claims court and you can represent the property without hiring a lawyer, and if you have well-documented everything, generally you will win. But that's not always the case. This is why I often recommend that property managers set aside a small legal war chest; a legal fund for future lawsuits.

How much should your legal fund be? This often depends on which state your properties are in and which city. In rural areas you won't need much, but you will still need some. In larger cities you are playing with the sharks and you'll want to be the biggest shark of them all; and you thought property management was easy didn't you? Well, this is why you need a lawsuit war chest, and why each month you need to set aside a percentage of the

rental monies. Please consider all this.

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- Removing medical debts from scoring
- Adjusting Rent/Income Ratio criteria
- Bolstering your decision process with supplemental/alternative applicant data such as Civil Court Records and/or Rental Payment History records

Conclusion

Now more than ever, it is critical that you get a maximum return on your marketing and sales efforts. For our part, we are encouraging everyone to sharpen their marketing and leasing skills and review decision criteria and rejection rates. A lot of effort and expense go into keeping occupancy rates high and expenses

low. The days are getting longer and the seasonal pick-up in leasing activity is upon us. Now is the time to fine-tune your leasing practices.

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

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