

Rental Application Trends

Rental Application Trends: 3 Things to Watch For In 2010



After a turbulent 2009 filled with enormous job losses, record high foreclosures and a sluggish apartment market, members of the multifamily housing industry are wondering what to expect in the New Year. While economic recovery is far from complete, there are several interesting trends developing in the multifamily applicant pool. In 2010, based on analysis of a variety of external and internal data, RentGrow anticipates three key trends in the national applicant pool:

- **National applicant traffic will increase 8-16%**
- **The credit quality of applicants will decline**
- **There will be an increase in applicants with no credit history**

Applicant Traffic Expected to Increase

While applicant traffic may slow during winter months as it typically does, RentGrow expects applicant traffic to increase 8-16% over the course of the year compared to 2009. In early 2009, monthly traffic at apartment communities was off by as much as 20%, driven primarily by potential applicants either staying put or moving in with family. In 2010, *The Wall Street Journal* has forecasted that the United States will add approximately 1.2 million jobs. This job growth will drive an increase in applicant traffic as household formation picks up.

Decline in Credit Quality of Applicants

With job losses and home foreclosures at record highs in 2008 and 2009, the credit worthiness of the average American declined significantly. According to data from TransUnion, the average TransUnion credit score dropped by 6 points to 651 from Q3 2008 to Q1 2009. In addition, the Federal Reserve reported record high credit card delinquencies of 6.5% in Q1 2009, and this will continue to be seen throughout the multifamily applicant pool. With economic recovery, individuals and families will be trying to re-enter the traditional rental market, but their credit scores won't be as quick to recover.

Increase in Applicants with No Credit History

During the U.S. economic recovery, credit has been hard to acquire, and it's not going to get easier for most, specifically people with no existing credit history. Currently, 20% of applicants screened by RentGrow have no credit history available from the three major credit bureaus. This percentage is expected to increase in 2010 due to a growing rental population of young adults and major legislative reform effecting credit card companies.

The young adult population (ages 20-29) is the greatest source of rental growth in U.S. markets, with millions of young adults living at home. This demographic also represents the majority of those with no established credit history. With new consumer protections being implemented by the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act in February, including restrictions on issuing credit cards to people under 21 and marketing to college students, the number of young adults with no credit history will increase due to redirected lending policies for most credit card issuers. This legislation incents credit card companies to change their business model to target more established customers that will pay their bills on time, while shying away from riskier, new customers with no existing credit.

Conclusion

While applicant traffic will increase, property managers will be faced with a challenging applicant pool to qualify, due to changes in household formation patterns and the economic difficulty of the past few years. Understanding the economic and social trends affecting your current and prospective residents will allow you to better adjust your marketing and screening practices to best select tenants from the available applicants. In 2010, it will be crucial to work closely with your screening company to get the most out of this larger but challenging applicant pool.

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