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## **Standardize Your Leasing Practices for a Healthier Bottom Line in a Challenging Market**

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When the apartment industry is healthy, owners and property management firms invest in property management software. Today, with “same store” rental applications down 7.4 percent year over year, the industry is more focused on maintaining occupancies as a matter of preserving property valuations than on disciplined processes and back-office efficiency.

Faced with this pressure to maintain occupancy and NOI performance, owners now have to choose between taking on more renter performance risk by offering larger concessions to applicants or keeping rents/concessions at existing levels and risk losing prospects to another property down the street. As a result, many owners are renting their units at steep discounts and incurring mounting bad debt in the process.

But changes in the marketplace also create opportunities. Difficult times often challenge companies to take a closer look at how they conduct business and to seek out practices and performance improvements that help contribute to a healthier bottom line.

Now is the time for owners and property managers to standardize their leasing processes while increasing their focus on maintaining good renter credit quality and pricing practices. Standardized leasing practices offer a number of benefits:

- **Maintain Fair Credit and Fair Housing Standards** – Standardizing your leasing process allows your firm to better comply with Fair Housing and Fair Credit requirements. Consider the credit card industry which relies solely on information provided in an application and sophisticated statistical modeling and scoring tools to make decisions about whether to decline or accept an applicant and to determine how much credit to extend to accepted applicants.

Today’s poor labor market has impacted so many applicants’ financial pictures that compromised credit histories are now commonplace. These types of sophisticated applicant scoring tools are available for use in the multifamily environment and standardize the approach to assessing applicant risk. Similarly, a standardized leasing approach can help your onsite team make sound, objective business decisions based on a consistent set of risk standards. This consistent approach takes the guesswork out of the equation and helps your organization better comply with Fair Credit and Fair Housing requirements.

- **Maximize Traffic Volume** – Studies show that 50 percent of all email inquiries from prospective residents receive no response or are answered too late. This is because onsite staffing levels are lean and stretched by competing priorities. By gaining visibility to all unique rental inquiries and standardizing your follow up with the help of professional call centers and lead management software, you can capture every lead and ensure that prospects receive appropriate follow up. This can help you maximize the reduced traffic flow that characterizes the market today and close more leases.

- **Identify The Best Applicants** – By using the proper tools such as lead management software, online leasing programs and statistically based screening, you can identify and harvest the best quality renters from a larger pool of applicants even when the overall quality of residents is down as a result of the recession.
- **Set Effective Pricing** – Setting your price should never be guesswork. Yield management software and market performance benchmarking tools offer better visibility into your market and access to actual competitive data and market analytics around traffic, pricing and renter quality. Relying on these kinds of tools provides real-world insight into how your market is pricing its product so that you can make better informed decisions about rental rates at your community. Just as importantly, adhering to those pricing decisions allows you to remain competitive without compromising your NOI goals.
- **Mitigate Your Renter Performance Risk** – While bad debt is a cost of business that cannot be eliminated, establishing a standardized security deposit approach and adjusting your rules governing deposits based on an applicant's risk profile can effectively mitigate your exposure. With the help of sophisticated resident screening programs that can assign levels of performance risk, your leasing agents will automatically know what security deposit level to require from A-credit residents versus B- and C-credit residents.

The same would be true if you were to offer a security deposit alternative in the form of a surety bond in conjunction with the resident screening program. Having a standardized approach to offering security deposits and security deposit alternatives relative to applicant performance risk provides a level of coverage superior to offering a much-reduced security deposit as a rental concession. As a result, you can significantly and directly reduce the amount of your bad debt exposure, which will help improve your communities' NOI. The lower-cost surety bond option is more attractive to renters and property operators in these challenging times because it lowers the cost of moving in.

- **Align Business Objectives** – Aligning management level and community-level business objectives relative to standardized leasing practices means that everyone will be better positioned to work toward the same business goals, with greater clarity on how to get there. The number one objective in today's environment has to be the preservation of property valuation, or at a minimum, the deceleration of the drop in property valuation. With valuations projected to drop by as much as 30 percent by this time next year, management and onsite leasing staffs need to work together to protect their NOI to safeguard their property's valuation.
- **Leverage Best practices** – Successful businesses work to uniformly identify, adopt and adhere to best practices in order to achieve maximum operational, financial and risk management efficiencies. A standardized approach to leasing workflow processes is a good best practice to work towards, and given the marketplace conditions, a best practice that will generate both short- and long-term returns on investment.

While standardizing leasing practices will deliver benefits in a down market cycle, they will also better prepare owners and property management firms to capitalize on future market upswings in the areas of rent increases, renter credit quality and traffic maximization.

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