

Giving Credit Where Rent Is Due

BY JANICE MYERS

The brightly colored logos of Visa, MasterCard, Discover and American Express are popping up everywhere. Grocery shoppers can charge their corn flakes at the Piggly Wiggly. Cosmetic surgery? No problem. The doctor takes Visa, MasterCard and Discover. Even the owners of apartment laundry rooms are happy to let residents clean their clothes and “put it on the tab.”

Is it time for property management to provide the same convenience for residents when it comes to paying rent? Opinions among those in multifamily housing are mixed.

Check or Charge?

Many property owners and managers are wary of accepting credit cards. Rent is a major “purchase,” and the merchant/manager is responsible not only for a flat transaction fee, but also for a percentage (approximately 2 percent) of the total amount. Accepting credit cards at a property where monthly rent is, let’s say, \$800, would cost management at least \$16 per unit per month. Multiplied by 50 units, this amounts to \$800 per month, or the rent from an entire apartment. Credit card regulations allowing merchants to pass these charges on to residents are complicated. No wonder the apartment industry has been slow to jump on the credit bandwagon.

“Accepting credit cards is a great leasing tool when the new applicant just doesn’t have his or her checkbook,” said Cheryl Jordan, Director of Strategic Business Services at AvalonBay Communities Inc. “And beyond that, it has proven to be helpful with closing prospects via telephone or Internet.” AvalonBay, a real estate investment trust (REIT) based in Virginia, manages more than 40,000 A- and B-tier apartments where rents average about \$1,400 a month.

Jordan’s company has accepted credit cards since late 2002. AvalonBay routinely accepts credit card payments through RentPayment.com, a third-party rent collector, Jordan said. “The high cost of accepting credit cards directly is not currently something we are ready to absorb, nor is it common industry practice.” Apartment communities also appreciate RentPayment’s faxed transaction confirmations, timely fund transfers and 24/7 customer service.

RentPayment, founded in 1999, allows property management to accept credit payments while in large part avoiding the associated fees. Company founder Matt Golis

Some management companies, such as AvalonBay and AIMCO, are discovering the benefits of accepting credit cards for rent payments while others remain guarded in their use.

Reprinted with permission from the September 2004 issue of UNITS magazine, published by the National Apartment Association (NAA). For more information about NAA, please visit www.naahq.org or call 703/518-6141.

BANK CREDIT

0030 0000 0200 8000

MRS GRANT





"RentPayment makes it possible for the resident to charge security deposits, application fees and rent in three ways—by fax, over the phone or online. We also can set up 'autopay.' "

—*Matt Golis*
Company Founder
RentPayment



"Before we accept the card from a potential resident, RentPayment verifies that the applicant is in good standing with the credit card company."

—*Cheryl Jordan*
Director of Strategic Business Services
AvalonBay Communities Inc.



"ServiceFirst helps management companies turn manual, paper-based, labor-intensive collection processes into automatic and electronic systems."

—*Paul Tschetter*
President
ServiceFirst Solutions

explained the concept. "For a nominal fee, RentPayment acts as a third party to collect rent or security deposits on behalf of the management company. The transaction cost is subsidized by the resident through a service charge imposed by RentPayment.

"RentPayment makes it possible for the resident to charge security deposits, application fees and rent in three ways—by fax, over the phone or online. We also can set up 'autopay,' " Golis said. And, property management benefits from accepting credit cards in a variety of ways. Take a lesson from car salesmen who know that once the customer leaves the dealership the probability of making the sale plummets. Golis said, "The availability of credit creates a sense of urgency in potential residents, who are more likely to sign a lease on the spot."

Charging Ahead; or Chargeback?

People who charge their rent don't necessarily have common motivations. Residents of A-list properties may see charging their rent as a means to earning additional card rewards (frequent flier miles, cash rebates, company gift certificates). For most of the B and B-minus property residents who pay by card, charging rent offers what Golis diplomatically called "cash flow flexibility." Around the holidays, in particular, he noted, "credit card rent payment spikes."

Neither Jordan nor Golis, however, has detected a difference in the number of chargebacks, where the merchant is billed back

when the card holder disputes a charge, between residents of A- versus B-tier communities. "Chargebacks are rare," Golis said. "We've proven the critics wrong."

"We've had very minimal chargebacks, with less than 0.5 percent of payments disputed," Jordan added. "Before we accept the card from a potential resident, RentPayment verifies that the applicant is in good standing with the credit card company." Once the resident moves in, the reality that management "knows where you live" encourages residents to make good on their payments. No need to hire a P.I. either, since managers can easily monitor the no-pay's comings and goings.

Village Green Cos., managers of 27,000 luxury apartments in eight Midwestern states, began accepting online credit card payments in early 2004. Like AvalonBay, Village Green works with a third party, in this case Payment Service Network. Unlike RentPayment, which caters strictly to the apartment industry, Payment Service Network provides secure online credit card services for a broad variety of online merchants.

Brian Owen, Director of VG Select (ancillary services) for Village Green, explained why his firm started accepting credit cards. "It's a matter of competition, both in attracting residents and streamlining the collection process," he said. "E-commerce is a fact of life these days." At present, only about 5 percent to 7 percent of Village Green property residents pay rent electronically. That percentage is rapidly rising, however, a trend Owen hopes will continue.

Circumventing the Middleman

ServiceFirst Solutions, a two-year-old card processing company that caters exclusively to the apartment industry, offers a Web-based payment service and a traditional merchant account. Observing with chagrin that the apartment industry has been among the last to globally embrace credit cards, company President Paul Tschetter outlined two distinct lines of thought among property management.

"Many management companies consider accepting credit cards just another amenity or marketing tool," he said. "They tend to be more attracted to the third-party process because it is less expensive," removing the credit card company's transaction fee in favor of the service company's smaller fee.

But more and more management companies are willing to pay for a traditional credit card service themselves. In fact, AIMCO, which manages more than 280,000 apartments nationally, has accepted credit through merchant accounts for six or seven years.

"For these companies, directly accepting cards is more than an amenity—it's a revenue management tool that is well worth the expense," Tschetter said.

Instant approval or rejection through a point-of-sale processing terminal all but eliminates the company's financial exposure, and community staff spends less time manually processing payments that straggled in over a week or two, driving to the bank and dealing with checks returned due to insufficient funds. With these benefits, he said, "ServiceFirst helps management companies turn manual, paper-based, labor-intensive collection

processes into automatic and electronic systems.”

Tschetter said that for apartment owners, third-party collections can pose other disadvantages. “Introducing another money-handling step adds processing time and increases the number of individuals with access to financial transactions and confidential client data,” he said. “Rent-payers may become alarmed when an unfamiliar merchant name appears on their monthly charge statements. And in cases of delinquency or contested payments, the third party can complicate the process.”

Since its founding in 2002, ServiceFirst has worked with 35 medium-sized management companies. Collectively, they represent approximately 70,000 apartments, mostly at A and B properties. Why use ServiceFirst when a management company can set up a merchant account through thousands of financial institutions, including banks? Tschetter said, “We cater exclusively to property management, which is a value-added. There’s a major disconnect between traditional card service companies and the apartment industry. But at ServiceFirst, we understand the unique needs of the apartment industry, especially the financial and legal aspects of collecting rent.”

The discount rates paid to some card companies—a percentage of the total ticket—may become more favorable in the near future. The four big cards offer various rates to merchants based on sales volume, the nature of the industry and the structure of the merchant’s business (i.e. sole proprietorship vs. moderate-sized company vs. giant corporations). Rent is a big-ticket, recurring item, and the potential market is huge.

“American Express and Discover recently launched aggressive marketing campaigns targeting the apartment industry,” Tschetter said. This development has lowered the rates extended to property management companies. “Many management companies think that, if they accept credit cards, they will lose 3 or 4 percent of their bottom line. This is a misconception. Some of the discount rates have become extremely competitive just in the past six months.” ■



Janice Myers is a freelance writer based in Albuquerque, N.M.