MULTI-HOUSING NEWS

The E-Payment Explosion

As Technology Improves, Owners and Residents Are Eager to Embrace Automation

By James Murdock, Contributing Editor

FEBRUARY 01, 2005 -- Washington, D.C.—In a recent survey conducted by the National Multi-Housing Council (NMHC), property owners and managers ranked electronic rent collection as the no. 1 capability they want to add in upcoming software upgrades.

And no wonder: E-payment is hugely convenient for residents, and it can deliver significant savings to a property manager's bottom line.

But as multifamily firms begin offering this payment option, many are discovering that the technology poses some serious challenges. To name just two: Integrating e-payment systems with existing management software can be difficult. And Visa USA Inc. recently began cracking down on the transaction fees that some property owners pass on to residents who use that credit card.

E-payment providers, however, are wasting no time in addressing these and other concerns, evidenced in part by a recent industry consolidation: In January, the industry's largest credit-card processor, RentPayment, acquired a promising newcomer named eRentPayer Inc. The primary reason for the deal: RentPayment was eager to co-opt its competitor's advanced, feature-rich technology.

And all other e-payment providers are moving quickly to upgrade their features and functionality because they don't want to risk losing existing clients—or fail to get their fair share of the rapidly growing number of new ones.

Dennis Smillie, president of Multifamily Solutions Inc., believes that within the next few years, renters will consider e-payment as essential a utility as cable television. Property managers that don't offer the service will be at a serious, if not fatal disadvantage.

"Electronic payment is clearly where things are going because of the convenience for consumers," agreed Pat Gregory, chief information officer of United Dominion Realty Trust Inc., the nation's eighth-largest owner and fourth-largest REIT. "Most people don't even write checks anymore these days, and we want and need to make rent payment as convenient as possible for them."

Digitally Divided

The volume of electronic payment transactions for all goods and services surpassed that of paper checking for the first time in 2003, according to the Federal Reserve. As consumers put away their checkbooks, they are using online checking (also known as automated clearinghouse, or ACH, transactions), debit cards and credit cards to pay for everything from food and entertainment, to utility bills and mortgages.

Industry observers believe that rent is next in the e-payment revolution—and not just because of consumer demand.

"This is all about moving money and moving it more efficiently," observed David Cardwell, NMHC's vice president of capital markets and technology. "Automated payment systems are attractive to owners because they get better control over bad debt, they see reduced float times and they get automation of their books."

These are some of benefits that AvalonBay Communities Inc. has experienced since the REIT, which owns more than 40,000 units, began offering e-payment way back in 1995. Most of AvalonBay's residents who pay electronically do so with regularly scheduled ACH transactions.

"It allows us to better forecast our cash flow because we know the money will come in on a certain day every month," said Cheryl Barraco, AvalonBay's director of strategic business services. Even though AvalonBay has yet to fully automate its e-payment system and must still manually enter data into its property management software, "we're getting electronic payments more efficiently and predictably than with paper checking."

But many property managers are still waiting to see a return on their investment. The problem is twofold.

Smaller e-payment providers often cannot devote the necessary resources to designing software that integrates seamlessly with the wide variety of property management systems in use. Second, even some large management companies continue to use older DOS-based systems that are far less flexible than newer Web-based platforms.

"There's a lot of room for improvement," said Bryant Shoemaker, vice president of marketing for Yardi Systems Inc. "Right now, there are several different systems for doing rent payment, and there's not really a standard way of interfacing."

Poor data integration means that although e-payment providers can authorize credit cards and process payments, property managers must often still reconcile account ledgers and manually enter payments into the rent rolls within their property management software.

Integration and reporting gaps also can arise from the way e-payment providers subtract transaction fees from rent payments, noted Glenn Murray, vice president of cash flow products and sales at Realm Business Solutions Inc., which partners with Yardi to offer e-payment as a module within Yardi's Voyager software.

And still other integration gaps occur when payments are returned due to insufficient funds. Many e-payment providers cannot capture bad payments and cannot automatically post them back to the resident's account with late charges, said Dean Schmidt, senior vice president of product development for RealPage Inc., which offers an e-payment module within its OneSite property management system.

Two-Way Flow

Some e-payment providers will custom design products to ensure clients have seamless data integration and reporting. But other firms, such as RentPayment, are choosing to simply acquire companies that have already developed more flexible platforms.

"It was a build versus buy type of decision for us," said Matt Golis, RentPayment's CEO. "A lot of the features our clients were asking for were ones that eRentPayer already offered on a very modern, flexible Java platform. Doing a deal with them immediately allowed us to gain access to that technology."

Among eRentPayer's attractive features is two-way integration. Not only does the software post payments directly into the rent roll of a property manager's database, explained Dan Urbina, an executive vice president of eRentPayer, but it exports data from the rent roll to "pre-populate" forms on the Internet portal where residents pay rent.

When a resident logs onto a property-specific Web portal, Urbina explained, he or she is taken to a page actually located on one of eRentPayer's servers. During this process, eRentPayer's software automatically accesses a tenant's account balance so that when the renter is ready to pay, all necessary information—name, apartment number, rent balance, etc.—is already entered.

Two-way integration is an added convenience for residents, and it also makes account reconciliation easier for property managers. Urbina said that eRentPayer is currently the only firm to offer two-way integration, but he admitted that it won't have this edge for long. Observers agreed.

"Whatever you have today, I'll have tomorrow and vice versa," said Smillie. "If you've got a bell or a whistle that's unique and it's got traction, people are going to replicate it."

In a field where products are continually improved, Smillie added, property managers should focus less on current products and instead research a technology provider's financial ability to continue developing its system. They should also research "soft capabilities" such as product training and customer support.

Flummoxing Fees

Even as e-payment software evolves, unexpected events can force technology providers and property managers alike to change their business practices. Exactly this kind of change is currently underway following Visa's decision in November to begin enforcing its rules regarding the transaction fees that merchants (i.e. landlords) can pass through to a resident.

When residents use their credit cards at a swipe machine in a leasing office, Visa and other card companies don't allow property managers or their e-payment processors (or any merchant), to pass through transaction costs. Merchants must instead pay these costs themselves. Since most "card present" multi-family transactions (i.e. ones where a buyer presents the card in person) are for low ticket items such as application fees, property managers are willing to absorb the cost.

But properties are much less willing to absorb transaction costs when it comes to rent payment, because these transaction fees—generally around 3 percent—can represent serious money and can significantly eat into profit margins.

For this reason, e-payment providers are encouraging renters to use credit cards online, which is considered an "alternative channel" to card-present transactions. In alternative channels, card rules allow merchants to pass transaction costs through to consumers in the form of convenience fees.

Until recently, e-payment providers were treating all credit cards alike. When it came to online payments, they were passing through percent-based convenience fees to renters.

MasterCard and Discover allow this practice; Visa, as it turns out, does not. In November, Visa revealed that e-payment providers were violating its rules, which state that merchants may only pass along a fixed, flat convenience fee.

(American Express sets policies directly with merchants. ACH transactions, meanwhile, are generally so inexpensive that property companies can absorb the cost or pass them along with a nominal convenience fee.)

Most e-payment providers were violating Visa's rules out of ignorance, Golis said. Visa communicates only with a merchant's bank, never directly with a merchant, so e-payment providers were simply unaware of its policies.

But the kicker is that Visa's rules go even further than addressing a flat fee, Golis continued. Visa requires that the fee must be the same for all payment methods accepted through the same alternative channel: Meaning that when it comes to online transactions, Visa effectively sets the terms for itself as well as for MasterCard, Discover and ACH transactions.

Visa controls a huge portion of the credit card industry—60 percent of the worldwide market, according to the company's web site—and observers have long said that this dominance allows Visa to throw its weight around in setting transaction rules.

The problem with Visa's flat-fee rule, multifamily executives contend, is that whereas percent-based fees take into consideration the price difference between a three-bedroom apartment and a one-bedroom apartment, a flat fee does not. In determining an appropriate flat fee, therefore, property managers either risk setting it too low to cover their highest rent exposure; or setting the fee too high to be fair to one-bedroom renters.

Many property firms are simply dropping Visa to avoid the flat-fee problem, which means Visa is missing out on a sizeable revenue stream from the industry—something it is unlikely to stomach for very long.

Visa declined to comment for this story. But according to Golis, who is in contact with Visa, the card company is evaluating the possibility of formulating new policies for the multifamily industry.

In the meantime, e-payment provider Property Solutions Inc. has developed what it sees as a solid solution for complying with Visa's rules: It offers Visa as a payment option only by telephone.

"That's the obvious solution because [the telephone] is a specific channel," explained Ben Zimmer, president and COO of Property Solutions. "The Internet is one channel, the phone is another, and you can apply different fees for each of them."

Zimmer admits the phone solution is cumbersome, though, as it incurs added labor. So, like everyone else in the e-payment industry, he is hoping that Visa will set new policies.

Checking in the New Century

It's not just that credit cards and ACH transactions are supplanting paper checks. The very nature of checking itself is changing thanks to the wide-ranging implications of The Check Clearing for the 21st Century Act (Check 21), a law which became effective Oct. 28, 2004.

The new rules put forth by Check 21 mean that the float time for checks has fallen from an average of five to seven days, to less than 24 hours—in line with the availability of funds authorized by a credit card company. Check 21 rules also allow for on-site check scanning, eliminating the need to visit a bank and further compressing processing times.

And technology providers are moving quickly to make on-site scanning possible. For example, RealPage Inc., a property management software provider, offers users of its OneSite Payments module a combination credit-card swipe/ check-scanning machine that enables residents' paper checks to be deposited directly into an owner's bank account. Other e-payment providers are sure to follow suit.

The E-Payer Profile

About 30 percent of multifamily owners and managers currently have e-payment capability, according to a recent National Multi-Housing Council survey. But determining how many people actually pay their rent electronically is difficult.

The best estimate, according to multifamily executives and e-payment providers, is that an average of 5 percent of all tenants pay rent electronically in any given month.

Although no one is tracking the demographics of residents who prefer to pay rent electronically, there are some clues about what type of resident is more likely to do so.

In student housing, e-payment usage can be as high as 40 percent, said Matt Golis, CEO of RentPayment. Echo Boomers are already accustomed to using the Internet for a wide range of purchases, he explained, and rent is no different. (Parents, it should be noted, also seem to find it easier to pay their children's rent electronically.)

Affluent and less affluent renters alike are paying their rent electronically, according to industry observers, but different income groups have different reasons for doing so.

Some renters use their credit cards to earn incentives such as frequent flier miles. Other renters, who are traveling or who simply don't have the cash to pay their rent on time, use credit cards because the fee to do so, generally between 2.5 and 2.9 percent, is less than the fee for late rent, which can be as high as 10 percent. And still other renters simply prefer the convenience of regularly scheduled, inexpensive automated checking.

Links referenced within this article