E-book

Rental Screening

Future-proofing your rental portfolio

The past year was one many sectors would like to forget and the rental industry is no different. **The housing industry seems to be one of the more visible sectors impacted by the global health crisis**, as the pandemic created many new issues while exacerbating legacy business problems for the rental market.

But COVID-19 also helped to accelerate innovation in the rental industry, as it did across other sectors. Andreesen Horowitz, a venture capital firm, estimates businesses of all kinds are experiencing at least two years' worth of digitization compressed into the six months that followed shelter-in-place restrictions.[1] What are the long-term implications for landlords and property management companies in this next phase and where are the opportunities for growth in the recovery? In this e-book, we'll explore the trends, tools and strategies that should be in your rental industry solutions playbook in 2021.

Continuing impact of the health crisis on the U.S. rental housing market

According to the U.S. Census Bureau, **the U.S. rental housing market serves 44 million households** across the country. Overall, renter households tend to be younger, less affluent and more racially diverse than homeowner households. The pandemic has created continued widespread housing insecurity for both renters and homeowners.

9.9 million Americans were not up-to-date on their rent or mortgage payments and were not confident that they could pay next month's rent or mortgage on time.

According to a U.S. Census Household Pulse Survey in October.

By December, boosted by stimulus payments, the numbers seemed to be improving with 5 million Americans (2.6 million renters and 2.4 million homeowners) not making their rent or mortgage payments. However, at the end of April, more than 8 million rental properties across the country reported being behind on payments by an average of $5,600, according to U.S. Census data.

But renters aren't the only ones feeling the hardship brought on by the pandemic. Nearly half of those 8 million rental properties aren't owned by banks or large property management corporations, but by individual landlords. According to government estimates, a third of individual landlords are at risk of bankruptcy over their own mounting bills for insurance, mortgage, etc.

Meanwhile, the CDC's moratorium on evictions has been extended to June 30, 2021. This has left landlords, property management companies and other companies involved in the housing industry wondering what the long-term effects might be to their bottom lines and strategic direction. As companies continue to reevaluate their approach, they should look for strategies they can implement today that will work as the rental moratorium continues but will also pay dividends as the rental market reopens and the economic recovery expands.

Reasons to be optimistic in 2021

With 2020 firmly behind us, multiple COVID-19 vaccines being dispersed across the globe, a $2 trillion stimulus bill signed in March with potentially more on the horizon, many in the U.S. are entering Q2 of 2021 with more optimism. However, uncertainty is still ahead, which leaves businesses and consumers alike, along with rental industry professionals, wondering when the world's largest economy will truly rebound.

Based on recent Experian data,[2] property managers and landlords have many reasons to be bullish. In this unprecedented year, marked by a global pandemic and a number of economic and personal challenges for both businesses and consumers, **Americans are maintaining healthy credit profiles and responsible spending habits.** One of the most telling proof points of this economic optimism—consumer confidence—in April rose to the highest level since the pandemic began.[3]

710
Avg. FICO® Score

$16,458
Avg. personal loan balance

$208,185
Avg. mortgage balance

$5,313
Avg. credit card balance

$38,792
Avg. student loan balance

$19,703
Avg. auto loan balance

Average credit score in the U.S. reaches a record high

Despite the overall economic decline, the average credit score in the U.S. climbed 1% (seven points) in 2020, reaching a record-high score of 710, according to Experian data from Q3 2020. Compared with the average growth seen over the past 10 years, the increase in 2020 is unusually high.

Snapshot: Consumer Credit and Debt

	2019	2020	Change
Avg. FICO® Score	703	710	+7 points (1%)
Avg. total debt balance	$92,479	$92,727	+$248 (0.3%)

Source: Experian

While growth expectedly slowed towards the end of the year, Q4 of 2020 saw solid job gains in the US labor market, with 883,000 jobs added through November and the U.S. unemployment rate falling to 6.7%.[4] Promisingly, unemployment is continuing a downward trend, with the April unemployment rate coming in at 6%, according to recent Experian numbers[5], with notable job gains in local government, education, and leisure and hospitality leading with an additional 280,000 jobs in March. Not only are these promising signs of continued recovery, they illustrate there are ample market opportunities ahead for the rental industry.

Drop in credit utilization, delinquency drives score growth

In 2020, consumers reduced their credit card debt—the most commonly held form of revolving debt—by 14%. This in turn impacted average credit utilization, which dropped 3.5 percentage points, from 28.8% in 2019 to 25.3% in 2020.

Snapshot: Consumer Credit Utilization

	2019	2020	Change
Avg. credit card debt	$6,194	$5,313	-$879 (14%)
Avg. credit utilization	28.8%	25.3%	-3.5 percentage points (12%)

Source: Experian

Along with lower credit card debt, consumers have reduced their average number of accounts reported as late (their delinquency rate). Since 2019, the average percentage of accounts 90 to 180 days past due (DPD) dropped by 53%. The percentage of overall accounts that were 30 to 59 DPD decreased by 37%, and the percentage of accounts 60 to 89 DPD declined by 36%, according to Experian data.

Focus strategies for rental growth

Rising credit trends and expanding scores can point to whitespace in the market. Not only are these promising signs of continued recovery, they illustrate there are ample market opportunities this year. It's important to have access to data and tools to navigate the rental market intelligently, while mitigating as much risk as possible.

Customer experience

Perhaps one of the first complications brought on by shelter-in-place orders and social distancing was their effect on customer experience. Seemingly overnight, property owners and in-markets renters had to rethink the traditional rental process. From viewing, application and contract-signing, every aspect of the leasing lifecycle needed to go digital.

Digital applications and identity verification, along with touchless viewing can minimize leasing staff and applicant exposure in the near term.

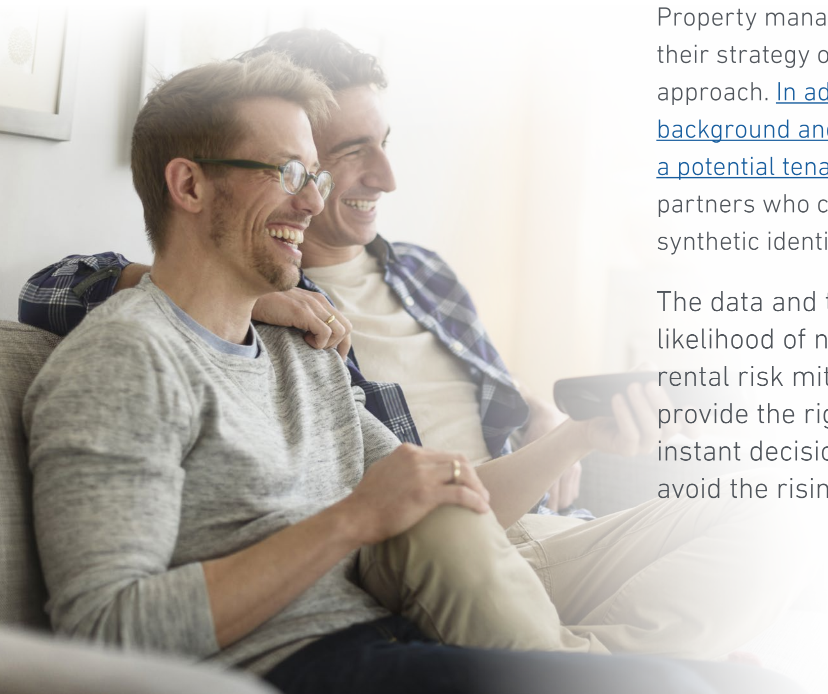
But the pandemic has likely changed the expectations and behaviors of renters who now have grown accustomed to conducting virtual real estate tours and finalizing leases and other financial transactions at home so they could easily social distance. As such, landlords and property management companies should think of these capabilities as long-term investments as they create an opportunity to improve the rental customer experience by reducing friction in the rental process: allowing quick and efficient application submission, leasing decisions, and deposit and rent collection. Leading edge companies employ solutions that allow them to embed credit functionality into their websites and mobile apps using modern, RESTful APIs. Not only does this enhance the information included in a rental application with credit report data but it also allows tenants to easily apply for more than one property at once, enhancing their experience at the same time.

Reducing risk and preventing fraud

Operational difficulties, the surge in digital demand, along with the uncertainty created by eviction moratoriums, have put the need for risk reduction and fraud prevention front and center for rental industry and property management professionals. Moreover, as we come out of the health crisis and move into recovery, companies should focus on strategies that seek to maintain occupancy rates, reduce losses and help maintain compliance. In addition to clearly stating processes and procedures to prospective renters, this starts with incorporating insightful data and verification services into the application and decisioning process that ensure the best tenants are being selected. Industry-leading companies are leveraging Experian's Renter Risk Score in their decisioning because the score is a much better indicator of the likelihood of a lease going bad. This in turn helps to reinforce retention of optimum clients and premium pricing in subsequent lease years.

These same data, tools and scores are also key to a property management company's fraud prevention strategy.

Aside from dealing with first-party and third-party fraud, the fastest growing fraud type accounting for 85% of all identity fraud in the country—synthetic identity fraud—has now set up residence in the rental industry.



Property managers and rental industry professionals need to pivot their strategy on fraud from a reactive one to a proactive, preemptive approach. In addition to the credit report, make sure you're pulling the right background and eviction data that can not only help you assess the risk of a potential tenant but also verify their identity. It's important you work with partners who can quickly help you predict, mitigate, identify and shut down synthetic identities and other types of rental fraud even before they happen.

The data and tools implemented should also predict or identify the likelihood of nonpayment and reduce disclosure risk. Together, these rental risk mitigation tactics not only verify identity in real time and provide the right background information and employment data for instant decisions, they also help property managers and landlords avoid the rising application fraud associated with the health crisis.

Reducing cost and increasing efficiencies

Along with the risks and uncertainty brought on by COVID-19, the rental industry has also seen new expenses brought on by the health crisis, i.e. cleaning requirements and staff safety protocols. Rental industry professionals and landlords should look for every opportunity to reduce costs and realize efficiencies. The good news is that many of the tools and tactics implemented to improve the renter experience and reduce risk also create efficiencies and cost-savings in the process. Using online tools to eliminates the time, resources, and paperwork required to process applications and verify applicant information. **Leveraging the right data and insights to prioritize the right applicants avoids future potential complications and loss of income from future evictions.** (Evictions cost an average of $7,685, according to the National Association of Realtors).

It's clear COVID-19 will be a part of everyday life for the foreseeable future. However, like the saying goes, there's opportunity around every corner. Rental industry professionals have the opportunity to implement meaningful strategies that can help shepherd them through the health crisis and also future-proof their portfolios, all while reducing friction and improving the customer experience across the leasing life cycle.

For more information on tools you can use now to future-proof your rental portfolio, visit Experian's Rental Industry Solutions hub.

About Experian

Experian® is an industry-leading provider of tenant verification services and background check solutions. Landlords, real estate agents, and property management companies can quickly determine the risk of new applicants by leveraging our data on more than 220 million individuals, along with partner data.

Every 24 hours, RentBureau receives updated rental payment history data from property owners/managers, electronic rent payment services and collection companies and makes that information available immediately to the multifamily industry through our resident screening solutions. This quick turnaround and robust data impact every point of decision making – from identifying higher-quality residents and improving bad-debt recovery to streamlining the collections process so businesses can build positive renter relationships.

[1] https://a16z.com/2020/05/21/fintech-newsletter-may-2020/#digital-acceleration
[2] This analysis compares annually representative data from 2019 with the most recent data from the third quarter (Q3) of 2020.
[3] https://www.experian.com/innovation/thought-leadership/state-economy-report-apr-2021.jsp
[4] Experian State of the Market Trends Report for December
[5] https://www.experian.com/innovation/thought-leadership/state-economy-report-apr-2021.jsp

Experian
475 Anton Blvd.
Costa Mesa, CA 92626
T: 1 888 414 1120
www.experian.com