

More Rental Vacancies and Riskier Consumers = Tough Decisions for Property Managers

By Mike Mauseth

Since the recession began in December 2007, national rental vacancy rates have increased 11.46 percent from 9.6 percent to 10.7 percent (at the end of 2009). In that same time, TransUnion's Credit Risk Index (a statistic developed to measure changes in average consumer credit risk within various geographies) increased 9.54 percent, reaching an all-time high level of 129.67. This dynamic puts property managers in a unique position – there are more properties available to rent, but prospective tenants are bringing more risk to the table than ever before.

The Credit Risk Index uses 1998 (TransUnion considers it a representative year of credit performance) as a baseline for comparison. A value of more than 100 represents a higher level of relative risk. Thus, U.S. consumers today are nearly 30 percent more risky than they were in 1998.

Increases in credit risk and rental vacancy appear to be more pronounced in areas hit hardest by the recession. In Phoenix, rental vacancy rates have increased 132.47 percent (from 7.7 percent to 17.9 percent) during this recession while its Credit Risk Index has jumped 23.79 percent to 149.82. The state of Florida has experienced a 9.39 percent increase in rental vacancies (from 14 percent in Q4 2007 to 15.3 percent in Q4 2009) while its Credit Risk Index jumped to 151.50, approximately 20 percent higher than it was at the start of the recession.

What can property managers do to limit their risk? First, they should determine the threshold of risk they are willing to take. There is a growing trend of having access to tailored recommendations based on the type of property and their own level of comfort with risk.

These tailored recommendations for landlords provide advice on what type of security deposit to request based on the applicant, the property and the owner's risk threshold. For example, this allows a beach house to receive a different recommendation than a city dwelling, because it will have a different type of tenant, likelihood of default of rent, risk to the property, etc. This tailored information is being bundled with a full credit report, fraud alerts, renter identification, verifications and national criminal histories. This all-in-one solution to manage properties provides the same tool set as those with larger properties under management firms.

It also would be beneficial to look into criminal background checks of potential tenants. While the credit riskiness of a prospective tenant is important, many property managers are just as interested to learn of any criminal history.

Though TransUnion forecasts the Credit Risk Index may decline at the end of 2010, it is worth noting that this statistic has increased for 12 straight quarters and will likely take a few years to reach more standard levels. With this continued risk, it's imperative that property managers put in place strategies that will keep their risk levels to a minimum.

Mike Mauseth is a vice president in TransUnion's rental screening business unit and may be reached at mmauset@transunion.com. More information about TransUnion rental screening can be found at www.MySmartMove.com or www.CreditRetriever.com.