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Rental application trends: Three things to watch for in 2010

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After a turbulent 2009 filled with enormous job losses, record high foreclosures and a sluggish apartment market, members of the multifamily housing industry are wondering what to expect in the New Year. While economic recovery is far from complete, several interesting trends are developing in the multifamily applicant pool. In 2010, based on analysis of a variety of external and internal data, RentGrow anticipates three key trends in the national applicant pool:

* National applicant traffic will increase
* The credit quality of applicants will decline
* Applicants with no credit history will increase

Applicant Traffic: On the Rise

While applicant traffic may slow during winter months as it typically does, RentGrow expects applicant traffic to increase 8% to 16% over the course of the year compared to 2009. In early 2009, monthly traffic at apartment communities was off by as much as 20%, driven primarily by potential applicants either staying put or moving in with family. The Wall Street Journal forecasted that the United States will add approximately 1.2 million jobs in 2010. This job growth will drive an increase in applicant traffic as household formation picks up.

Applicant Credit Quality: Fading

With job losses and home foreclosures at record highs in 2008 and 2009, the credit worthiness of the average American declined significantly. According to data from TransUnion, the average TransUnion credit score dropped six points to 651 from Q3 2008 to Q1 2009. In addition, the Federal Reserve reported record high credit card delinquencies of 6.5% in Q1 2009, and this trend will continue throughout the multifamily applicant pool. With economic recovery, individuals and families will be trying to re-enter the traditional rental market, but their credit scores will not be as quick to recover.

Applicants Lacking Credit History: Increasing

During the U.S. economic recovery, credit has been difficult to acquire, and it is not going to get easier for most, specifically people with no existing credit history. Currently, 20% of applicants screened by RentGrow have no credit history available from the three major credit bureaus. We expect this percentage to increase in 2010 due to a growing rental population of young adults and major legislative reform affecting credit card companies.

The young adult population (ages 20-29) is the greatest source of rental growth in U.S. markets, with millions of young adults living at home. This demographic also represents the majority of those with no established credit history. New consumer protections implemented by the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act in February include restrictions on issuing credit cards to people under 21 and marketing to college students. Accordingly, the number of young adults with no credit history will increase as most credit card issuers redirect their lending policies. This legislation provides incentive for credit card companies to target more established customers who will pay their bills on time and shy away from riskier, new customers with no existing credit.

Conclusion

While applicant traffic will increase, property managers will be faced with a challenging applicant pool to qualify, due to changes in household formation patterns and the economic difficulty of the past few years. Understanding the economic and social trends affecting your current and prospective residents will allow you to adjust your marketing and screening practices to make the best possible tenant selections from available applicants. In 2010, it will be crucial to work closely with your screening company to get the most out of this larger, but challenging applicant pool.

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