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Electronic Payments: A Centralized Approach to an Evolutionary Issue



By Jason Gardner, PropertyBridge

NOVEMBER 07, 2006 -- *Jason Gardner, president of PropertyBridge, argues that the benefits to the apartment company of implementing a centralized, electronic rent collection system is well worth the costs.*

We are surrounded by industries that have adopted an automated data methodology for financial transactions. Why has the multifamily industry been slow to adopt these types of systems when the value and benefit is real and immediate?

From retail to manufacturing to the airline industry, transactional data is collected electronically to allow operational managers to make informed decisions. You pay onsite or online for goods, whether at a Gap or Safeway, and the data from the transaction is immediately available throughout the enterprise.

Within multifamily, we typically see a decentralized approach to collecting rent and lease related payments—property managers depend on onsite staff to collect payments, enter data manually and then get checks to the bank, often twice a day during rent week (the first week of the month).

Thus, it may come as a surprise that, when compared side by side with a centralized approach, the cost of collecting paper checks manually may be more expensive. Some of the factors that should be considered include: 1.) staff time spent on collection of check, ledger entry and deposit slip entry; 2.) administrative entry of transaction data into the accounting system; 3.) daily trips to the bank to deposit payments; and 4.) losses due to data entry errors, lost and late payments, fraud, non-sufficient funds (NSFs).

The expense of electronic payments should not be measured by the transaction cost. Instead, it should be measured by the cost of not implementing a program. The benefits are real. Property managers

typically see that the productivity of onsite staff drops during rent week, although productivity during this week could be equal to any other week of a given month.

The automated collection of rent and lease related payments can help managers achieve this goal. A centralized approach, in which an electronic process is initiated as soon as the payment is received and data is integrated with other business systems, fits an automated data methodology similar to most other industries. This approach makes sense from both a convenience and economic standpoint, and is becoming more and more commonplace within the multifamily sector.

Lower costs and increased productivity as a result of improved visibility, reporting and accounting reconciliation will lead to greater efficiency and better predictability. How you measure costs will provide the data needed to convince colleagues that implementing an electronic payments system will provide a return on investment and an increase in net operating income.

The vendor can provide you with a white paper and cost calculator to help you define the cost associated with a decentralized payments process. PropertyBridge has found that most property managers can save between two and three dollars per payment by implementing a centralized strategy. This includes a more productive workforce, fewer checks that are lost or bounced, and deposits that start accruing interest in days instead of weeks.

Multifamily firms that have adopted a true electronic payments initiative have been able to quantify their strategy. The data is positive. However, the investment in time and money should not be underestimated. The change starts with business leaders, and should develop into enforcement of policy at the property. The success of the program comes down to the property manager recommending and reinforcing electronic payments as the preferred payment method for residents.

This can be done by way of incentives or amenities that support the overall goal of the organization. At a high level, all transactions should be captured electronically from lease-up (e.g., a prospective resident putting a deposit down by credit card) to rent and through to move-out. The data aspect is key to the growth of the organization. When the onsite manager is part of the process, the enterprise will benefit.

To achieve significant adoption of electronic payments there first needs to be a focus on payment types that match up to the demographic of a given community. When appropriate payment types are offered, there is less apprehension by a resident to make a payment. The program clearly benefits the enterprise; however, the residents ultimately drive the adoption of a payment type at a given community. The program needs to work for all involved.

The cost of electronic payments is handled differently by real estate owners and managers. The vendor works with managers to sell the concept of electronic payments to the property owner, including the benefit of faster receipt of funds and greater visibility into payments collected across the portfolio. As an owner, the ability to have a revenue collection strategy in place defines an overall baseline strategy regarding revenue management. This level of visibility is equal to other industries described above.

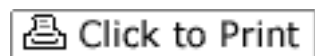
The evolution of rent collection from a decentralized approach to centralized approach is achievable. There are many companies both large and small, owner and manager, that are accomplishing this today. They have realized the need to streamline operations. The costs are real—however, the savings are realized quickly, and the project will pay for itself.

Jason Gardner is president of PropertyBridge, a provider of automated payment processing services to real estate owners and managers. The company's platform enables residents to pay rent and other lease-related transactions using an array of payment types, including credit and debit cards, Automated Clearing House, check scanning, online bank bill payment, person-to-person payment and lockbox services.

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