THE RENT FROM PAYROLL™ ADVANTAGE

How Modest Changes in Lease Offer Terms Are Improving the Way Residents Perform and Communities Profit

Neighborhood Pay Services

JUNE 2014

NPS RENT ASSURANCE
RENT FROM PAYROLL

The Rent from Payroll™ Advantage

How Modest Changes in Lease Offer Terms Are Improving the Way Residents Perform and Communities Profit

TABLE OF CONTENTS

I Executive Summary 1

II Highlights 2

III NPS Rent Assurance® White Paper — The Rent From Payroll™ Advantage 3

A REDUCING PAYMENT RISK AND IMPROVING NOI WITH RENT FROM PAYROLL 3

B MORE CONDITIONALLY APPROVED CONVERSIONS AND MOVE-INS WITH BETTER TOOLS TO PERFORM 5

C NOI IMPROVEMENTS THROUGH LOWER VACANCY AND DEFAULT RATES, FEWER SKIPS AND EVICTIONS 9

D THE VALUE OF EARLY WARNING REPORTING 11

E REDUCTION IN LATE PAYERS / INCREASE IN RENEWALS 12

IV Conclusion 13

V About the Study 14

VI About Neighborhood Pay Services / NPS Rent Assurance 14

I. Executive Summary

Adoption of rent from payroll as a superior safeguard for reliable rent delivery is simple, seamless, transparent and proven as more effective than increased cash deposits in moving in more residents who stay longer, pay more reliably, and subsequently reduce the cost of unexpected move-out expenses associated with evictions and skips.

By the Numbers

Use of a rent from payroll platform at a 300-unit community with average annual rents of $10,000 per unit has the potential to increase economic occupancy 1 to 2 percent, correlating to annual revenue gains of $30,000 to $60,000 per community. Across a multifamily portfolio of 30 communities where 20 to 30 percent of the resident population is moved in using rent from payroll conditional lease offers, potential incremental earnings range from $0.9 million to $1.8 million. On the back-end, the performance of residents who move in with a rent from payroll option in lieu of higher cash deposits translates to significantly improved payment performance over the life of the lease leading to a 77 percent decrease in skips and evictions due to non-payment of rent. With a cap rate of 4 to 7 percent across this portfolio, the market value increase would range from $13 million to $45 million.

These are compelling reasons prompting many leading property companies to shift focus away from conditional lease offers comprised of additional cash deposits toward lease offers that include a rent from payroll option. Rent from payroll assures—prior to signing a lease and moving in—that residents utilize payroll direct deposit to segregate prorated funds each payday to be delivered for rent before rent money reaches their bank account and is used for other spending.

This white paper, **The Rent from Payroll Advantage**, focuses on value drivers and proven tools now available to the multifamily industry to assure a higher percentage of applicants can be converted and moved in to deliver rent reliably with corresponding, material impact in decreasing delinquency and bad debt. The opportunity for modest changes in lease offer terms designed to enable residents to perform throughout a lease will be shown as more effective in protecting and increasing the net operating income of multifamily portfolios than requirements for additional security deposits (or surety bond deposit substitutes) that focus on loss recovery when residents fail to fulfill their financial obligation to the community.

Rent from payroll assures—prior to signing a lease and moving in—that residents utilize payroll direct deposit to segregate prorated funds each payday to be delivered for rent before rent money reaches their bank account and is used for other spending.

II. Highlights

This white paper will illustrate the value of modest changes in lease offer terms to include a rent from payroll option as a more effective business driver to traditional cash security deposits or deposit substitutes among applicants conditionally approved based on credit.

Statistics show that **Rent From Payroll** is a proven mechanism to:

- Capture incremental revenue and NOI by increasing the move-in rate and payment performance of today's conditionally approved resident population
- Decrease delinquency and bad debt by reducing unexpected move-outs, evictions and turnover expenses
- Provide communities with funds in-hand for rent during unexpected interruptions in income
- Improve resident retention and renewals for more stable community populations
- Provide communities with continuous information on residents' ability to pay rent before payment issues arise

This report illustrates:

- How rent from payroll creates resident commitment to on-time payment performance before move-in and throughout the duration of the lease
- How strategic use of rent from payroll prioritizes funds for rent before money can be spent on other expenses
- The relative ineffectiveness of higher cash deposits or surety bonds on resident payment performance
- The negative impact of charging higher cash security deposits that deplete applicant savings and leave them with little to fall back on during a lease
- The value of utilizing rent from payroll to help residents save money, build credit and better perform, while reducing the need to recoup losses
- The value rent from payroll programs provide by delivering early warning of potential resident job loss and related payment interruption
- The advantages community staff realize from fewer rent collection hassles, a more satisfied resident base, and reduced unit turn

III. The Rent From Payroll Advantage

Rent from payroll solutions now provide the multifamily industry with a significant opportunity for increased revenue and cost savings versus traditional conditional lease offers that depend on increased security deposits. In fact, rent from payroll solutions achieve more move-ins, lower default rates and reduced default dollar amounts when compared with conditionally approved leases using security deposits or surety bonds alone, and provide motivated communities with more options in their lease offer strategies.

This results in higher and more dependable occupancies with lower exposure to both unscheduled vacancy (evictions and skips) and bad debt or unpaid balances to the apartment community.

As a modest, proactive adjustment to standard conditional lease offers, rent from payroll also offers applicants a resource to save money at move-in, avoid late fees during a lease, and enjoy peace of mind month after month in knowing that rent will be delivered on time, which builds their credit profile with services that report all funds received as rent to a major credit bureau.

This report illustrates the value that **NPS Rent Assurance**, the leading rent from payroll platform, has delivered to multifamily portfolios across the U.S. by engaging residents in pre-emptive measures for assured rent savings from payroll as a condition of lease signing before keys exchange hands.

REDUCING PAYMENT RISK AND IMPROVING NOI WITH RENT FROM PAYROLL

A

The improvements to Net Operating Income (NOI) using rent from payroll begin in the leasing office. Any experienced apartment owner or manager knows the drill: a rental prospect seems on the cusp of signing a lease, but the credit report isn't ideal. With apartment rents and revenues linked directly to conversion rates and occupancy, it can be difficult to deny this applicant and send traffic elsewhere. That's why growing numbers of applicants with less than perfect credit from large renter sub-groups, like Gen X and Y, are providing owners and operators the financial incentive to introduce new options in lease offer terms that address payment risk. The result: communities using rent from payroll are making it easier and more affordable for more prospective residents to say "yes" to a lease. In fact, since many apartment communities depend on conditionally approved applicants for 20–30 percent or more of total prospect traffic, the impetus for changes to lease offer terms is significant.

Since many apartment communities depend on conditionally approved applicants for 20–30 percent or more of total prospect traffic, the impetus for changes to lease offer terms is significant.

Screening services that provide guidance in terms of different upfront security deposit requirements help an owner/manager minimize the impact to NOI should the applicant move-in and eventually default or skip out on their lease. The resulting collection costs on the resident's bad debt, however, coupled with any unit damage and associated costs for turning a vacant unit, are far greater than the security deposit that can be charged, making the decision to rent to conditionally approved prospects a difficult one for leasing staff and asset managers alike. This all too common scenario emphasizes the need for improved payment assurance from conditionally approved applicants.

Traditional methods of minimizing payment risk include the use of guarantors and increased security deposits and are not conducive to closing leases. Increased security deposits require the prospect to assemble more up-front cash, possibly stressing their personal financial situation further and, ironically, increasing the probability that the community will have to deal with payment issues after move-in. Yet for the apartment owner, security deposits do not have any built-in mechanism to assure future rent payments—they merely cover a small percent of losses should a renter skip or default on their lease. With the average cost of turning a vacant apartment due to a skip or eviction often surpassing $4,000[1] , the security deposit isn't even enough to cover losses.

Changing Role of Security Deposits

While security deposits were originally designed to protect against resident damage to a unit, their use has evolved as a competitive lease offer term designed to convert a prospect, and their effectiveness, as such, is being reconsidered.

"We have several communities where our renter profile contains a number of residents who struggle with managing their money on a paycheck-to-paycheck basis," explains Jason Whittington, vice president of business solutions for Indianapolis based Gene B. Glick Company, a Midwest developer and property manager of more than 20,000 units in 10 states. "As part of a corporate-wide effort to reduce bad debt, one of the things we had brainstormed with the property managers was the idea that it would be great if we could figure out a way to get rent money from residents before they had a chance to spend it on something else."

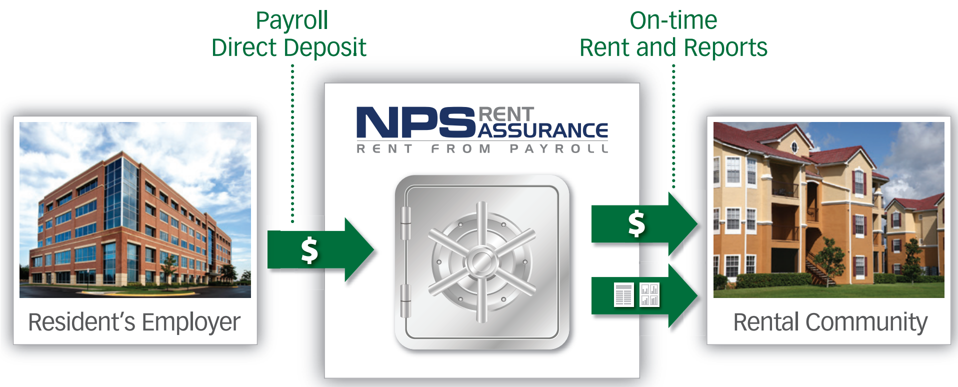
By requiring less upfront cash from the applicant and delivering assured rent payments to the apartment owner, rent from payroll solutions achieve higher conversion rates, more move-ins, lower default rates, and lower average default dollars when compared with conditionally approved leases using security deposits or surety bonds alone. Leasing offers that include a rent from payroll option help applicants qualify for a lease at a cost that won't drain their savings and eliminate any financial cushion, setting them up to fail during the lease. Instead, rent from payroll provides a tool for residents to be able to pay rent on time once they've moved in.

How Rent From Payroll Works

The mechanics of rent from payroll leverage standard payroll direct deposit features available from most employers. The solution enables applicants to quickly and easily agree to prioritize funds from payroll and essentially remove themselves from the rent payment process. The applicant uses a simple form authorizing his/her employer to direct deposit installments automatically each payday to an FDIC-insured rent savings account managed and controlled by the rent from payroll provider. Each month, the rent from payroll provider aggregates deposits and then transfers one lump sum via ACH covering rent for each resident participating in the program to their apartment community. As such, the need for rent collection by on-site staff is eliminated for rent from payroll users. Likewise, automated employer deposit of rent funds directly from payroll eliminates any opportunity for residents to spend money elsewhere prior to rent being paid and acts as an early warning when deposits are missed.

"The issue we were trying to solve was how to create a payment discipline for conditionally approved residents who found regular rent payments challenging while trying

[1] Multifamily Executive Magazine February 2013



to, of course, capture as much occupancy as possible," says a national training director for a publicly traded REIT of nearly 30,000 apartment units in 18 states and the District of Colombia. "Once a rent from payroll system is set up for the resident, it becomes effortless for them; they set it and forget it. They get their paycheck with their rent installment already segregated by having it directly deposited into a separate account. They don't have to come into the office. They don't have to do anything online, because everything is already taken care of. We have residents on this program because we've asked them to be on it, but we have a lot of residents who also just like the idea and convenience of it, particularly if they've ever not paid rent on time and had to pay a late fee."

"Once a rent from payroll system is set up for the resident, it becomes effortless for them; they set it and forget it. They get their paycheck with their rent installment already segregated by having it directly deposited into a separate account. They don't have to come into the office. They don't have to do anything online, because everything is already taken care of."

B

MORE CONDITIONALLY APPROVED CONVERSIONS AND MOVE-INS WITH BETTER TOOLS TO PERFORM

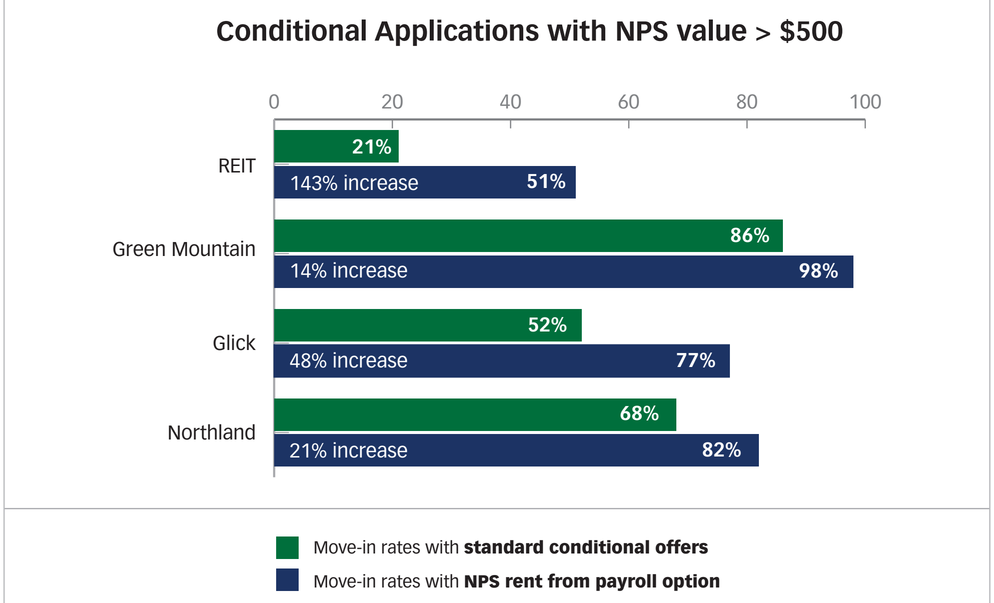
When opting for a rent from payroll lease versus a lease with an increased up-front security deposit, conditionally approved applicants will convert at a much higher rate. This results in higher and more dependable occupancies with lower exposure to both unscheduled vacancy and bad debt to the apartment community.

According to a recent Neighborhood Pay Services (NPS) Rent Assurance performance analysis of 6,597 conditional lease applications at approximately 50 communities across the country where NPS Rent Assurance is deployed, the use of a rent from payroll option results in substantially higher move-in rates when compared with move-in rates for standard conditional offers requiring additional security deposits. The average impact on the move-in rate of conditionally approved applicants when opting for the NPS rent from payroll solution across different cohorts is an increase of 14 percent to 143 percent.

"Using NPS Rent Assurance as an alternative offer to higher security deposits has had a consistently positive impact on conversion rates, move-ins and incremental income across our portfolio," says Steven P. Rosenthal, president and CEO of Newton, Mass.-based Northland Investment Corporation with 21,000 units in eight states across the country. "Particularly at communities that see higher volumes of conditionally approved residents, rent from payroll improves Northland's conversion, increasing occupancy and on time rent payments."

Rent from payroll improves applicant move-in rates by 57 percent on average.

Chart 1: NPS Impact on Move-in Rates



In some cases, the NPS Rent Assurance rent from payroll platform can have an even greater impact on move-ins across a portfolio. One of NPS' largest clients, for example, is willing to allow conditionally approved applicants to use their surety bond product only if they enroll in the NPS rent from payroll platform. NPS Rent Assurance was deployed to improve conversions on conditional approvals at select communities in the firm's Mid-Atlantic portfolio. Looking at 542 conditionally approved applications in 2013 across these properties, this client experienced a move-in rate of 21 percent with the use of increased security deposits. When the NPS Rent Assurance rent from payroll platform was opted for as an alternative, the move-in rate jumped to 51 percent, an overall 143 percent improvement over increased security deposit required leases.

Rent from payroll shows higher conversions than security deposit secured leases, regardless of whether additional security deposits are in the low range (< $350) or the high range (≥ $1,000).

Chart 2: Northland Investment Corporation Rent from Payroll Move-in Rates

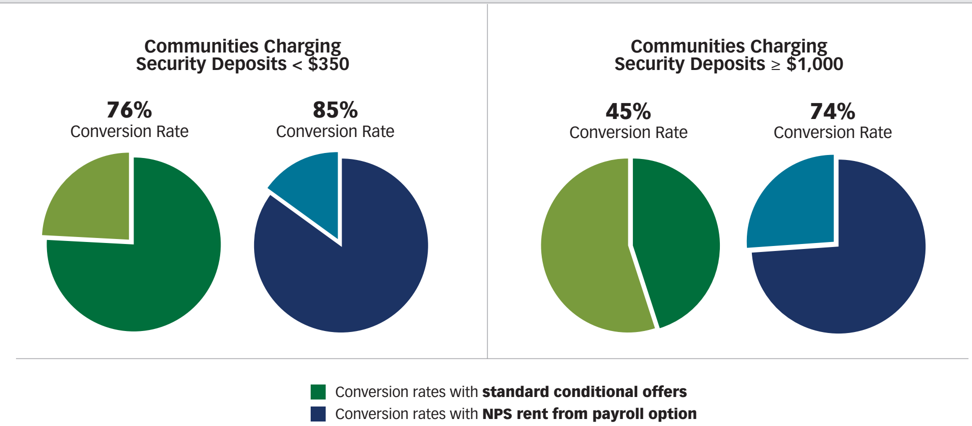
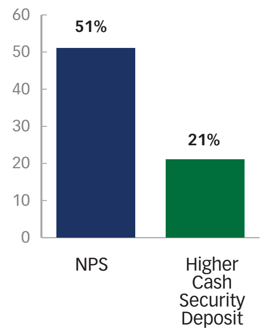


Chart 3: Rent from Payroll Move-in Analysis*



A 30,000 unit publicly traded REIT has seen an improvement in move-in rates up to 143 percent when using rent from payroll versus increased security deposits on conditionally approved applicants.

*Distribution of conditionally approved applicants based on partial deployment of NPS Rent Assurance within client portfolio prior to full rollout.

Looking at our communities using the NPS Rent Assurance rent from payroll platform, there is a substantial improvement in conversion rates and move-ins that highlight a clear NOI success story for the company. "As those residents stay in place and pay rent in-full and on-time, the occupancy improvement coupled with certainty of rent is an NOI improvement that our firm can appreciate in terms of annual incremental revenue," says one client's national training director. "For our conditionally approved customers, the rent from payroll offer is an opportunity where the alternative of an increased security deposit is much more costly for them. Rent from payroll provides the resident with a choice, and typically a more attractive choice, a more affordable choice, and a choice that keeps their rent payments on track."

For both aggregate and property-level performance analyses of rent from payroll versus additional security deposits, the move-in conversion rate improvement with rent from payroll remains consistent. Indeed, applicant acceptance of rent from payroll as a resource to save money at move-in, to avoid late fees during a lease, and as a mechanism for peace of mind in knowing that rent will be paid on time, has motivated communities to include more options in their lease offer strategies. "We were initially concerned that we might lose some conversions from applicants who might sense they were giving someone else access to their paycheck," explains Whittington. "We were consequently surprised when our initial analysis showed conversion ratios going from a low of 20 percent to, in some cases, 65 to 66 to 67 percent or more for the rent from payroll conditional offer that resulted in increases in both incremental occupancy and revenue. Data is still coming in from the rest of our communities that have implemented NPS Rent Assurance, but I expect a similar type of result in their conversion process as well, and, as a result, we are rolling out NPS Rent Assurance across an additional 40 communities."

Apartment owners and managers benefiting from rent from payroll say the overall NOI improvement is significant enough to boost returns on investment during asset disposition. "Certainly, the increases in incremental move-ins and the reductions in unexpected move-outs played a key role in helping to stabilize earnings at our communities," says Cathy Voge, who implemented NPS Rent Assurance at Green Mountain Realty. "Those earnings improvements contributed to our successful sale of those communities at much higher values than we would have otherwise achieved."

Applying a 25 percent increase to the conversion/move-in rate of the conditionally approved applicant pool at a typical 300-unit property results in $60,000 of incremental

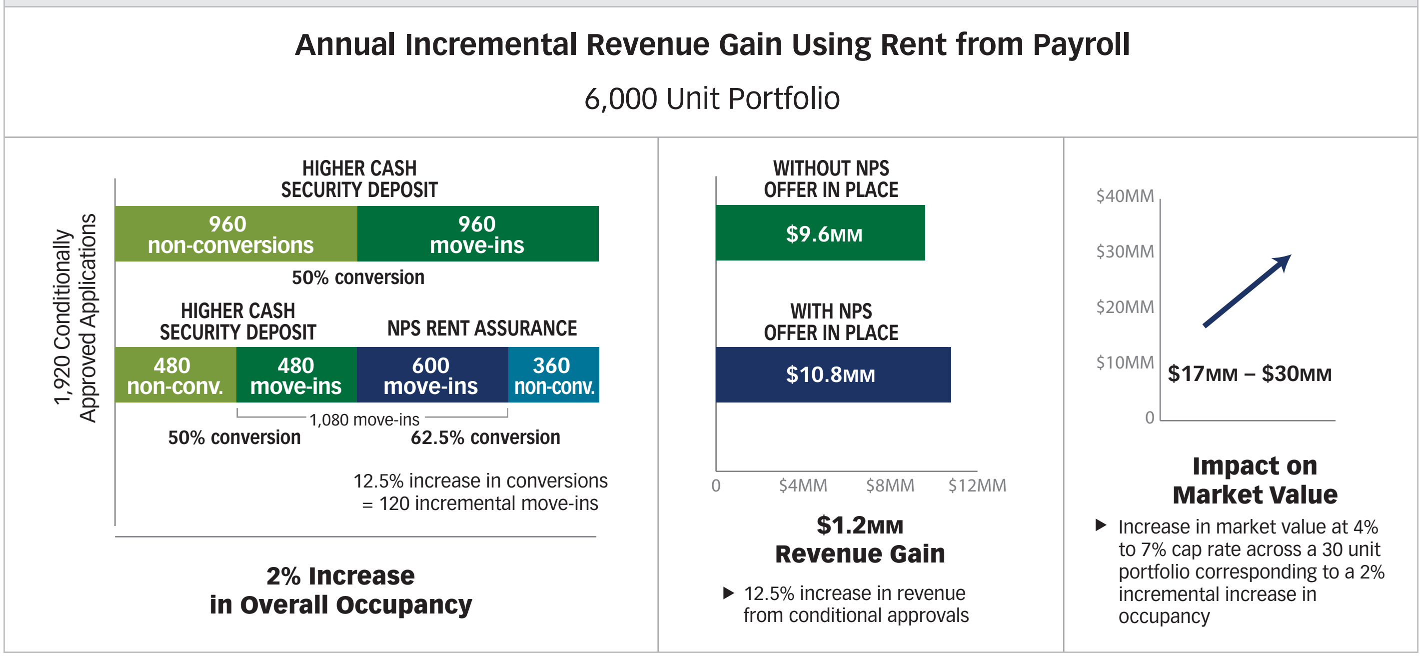
"For our conditionally approved customers, the rent from payroll offer is an opportunity where the alternative of an increased security deposit is much more costly for them. Rent from payroll provides the resident with a choice, and typically a more attractive choice, a more affordable choice, and a choice that keeps their rent payments on track."

NPS RENT ASSURANCE
RENT FROM PAYROLL

$30 Million Increased Market Value

annual revenue (where 50 percent of the conditionally approved applicant pool agrees to a rent from payroll lease) or a two percent increase in economic occupancy with six additional residents. Applied across a portfolio of 20 communities, incremental annual revenue is projected to start at $1.2 million. The portfolio's value at today's 4 to 7 percent cap rate, therefore, increases by $17 million to $30 million across all assets, well worth corporate attention.

Chart 4: Annual Incremental Revenue Gain Using Rent From Payroll Platform



Incremental revenue gains and improvements to NOI are part and parcel of the core value proposition of rent from payroll solutions. Spread across an entire portfolio, the use of rent from payroll as an alternative to conditional approvals with security deposits alone or security deposits combined with surety bond products, quickly begins to positively impact the bottom-line.

> "At Northland, we're always looking to pick up that extra two percent of economic occupancy which has an enormous impact on profitability," says Rosenthal. "We were pleasantly surprised to see residents readily accept a rent from payroll lease offer even at our higher-end communities. Compelling data across our portfolio is also showing significant improvement in payment performance and reduced unexpected move-outs of residents using NPS Rent Assurance versus those residents who opted for our internal surety bond program alone. Based on these results, we're currently reviewing our offer criteria to determine what adjustments are warranted in order to improve on-time rent performance and further mitigate move-out expense risk."

NOI IMPROVEMENT THROUGH LOWER VACANCY AND DEFAULT RATES, FEWER SKIPS AND EVICTIONS

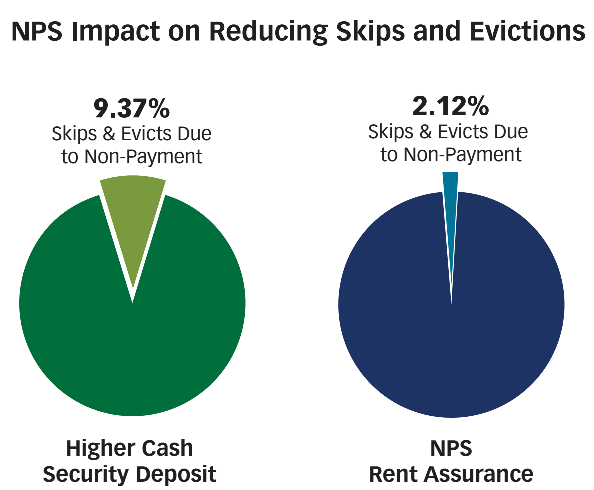
C

After move-in, the performance of residents enrolled in the rent from payroll platform vastly exceeds conditionally approved leases with additional security deposits from both a length of stay and a bad debt standpoint, further improving property NOI.

Residents using the rent from payroll platform typically exhibit a 77 percent decline in default rates due to skip or eviction compared with residents who move in with standard leases.

According to the NPS Rent Assurance analysis, of the 4,665 conditionally approved residents who moved in between 2011 and 2013, the overall rate of skips and evictions for residents on a rent from payroll platform stood at only 2.12 percent, compared with a 9.37 percent skip/eviction rate for residents utilizing increased security deposits. The NPS Rent Assurance rate in some groups was as low as 1 percent versus 6 percent for those conditionally approved who moved in and paid higher security deposits.

Chart 5: Rent from Payroll Move-out Analysis



77% Decrease
in Evictions/Skips and Bad Debt at Move-out

- Skip/eviction rates and corresponding bad debt decrease by 77% for residents on a rent from payroll program.
- On 1,000 conditionally approved move-ins, the cost of unexpected move-outs drops by more than $250,000 using an industry average of $4,000 per turn.

Skip/eviction rates and corresponding bad debt decrease by 77 percent to a low of 2.12 percent for residents on a rent from payroll program.

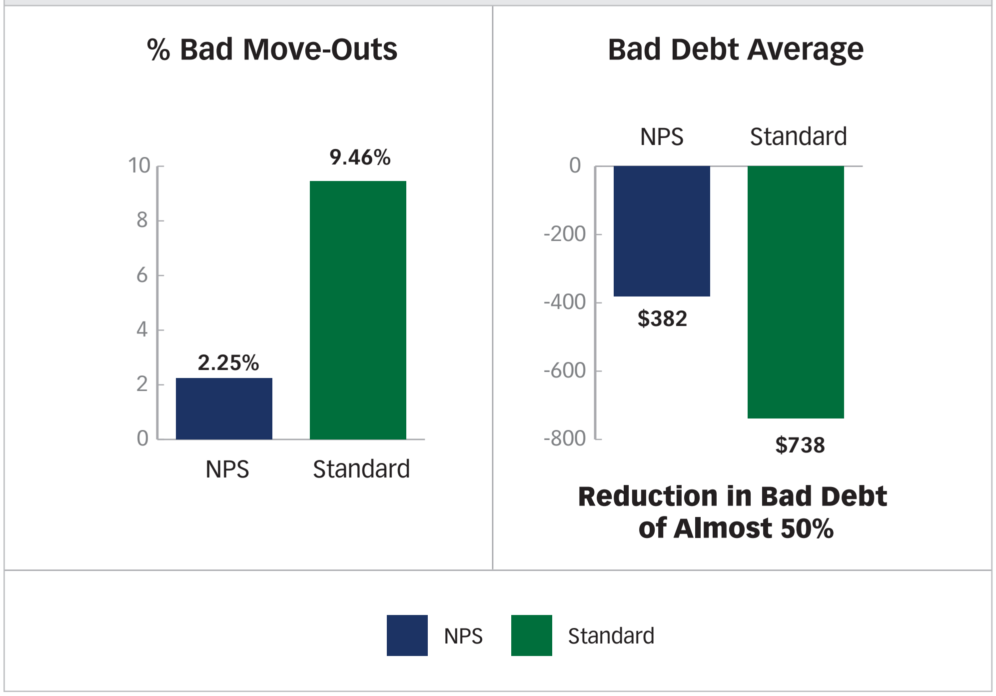
In addition to much lower skip and eviction rates overall, use of the NPS rent from payroll solution also results in significantly lower levels of bad debt. For apartment owners and managers focused on maximizing revenue and reducing operating expenses, rent from payroll delivers a triple value benefit: more economic occupancy, minimized collection efforts and associated costs, and the lowest average dollar amount of bad debt expressed as an outstanding, unpaid balance due to a skip or eviction.

Looking at an NPS Rent Assurance performance analysis of 4,386 move-ins in the Northland portfolio from 2012-2013, the significance of utilizing rent from payroll to both the skip and eviction rate due to non-payment, and the overall average bad debt dollar amount expressed as an outstanding balance, becomes quite clear. On average, conditional approvals that eventually moved in showed an 8.07 percent skip/eviction rate due to non-payment. For conditionally approved residents who opted for an increased security deposit, the skip/eviction rate was 9.46 percent. However, conditionally approved residents on the NPS Rent Assurance rent from payroll platform saw their skip/eviction rate plummet to only 2.25 percent.

"Intuitively, it makes sense that we can reduce our unexpected move-outs and associated expenses because of the reporting function of our rent from payroll provider that notifies us of potential issues and gives us more time to react before rent is late," says Whittington. "Because deposits are due from employers every time a resident is paid, there's far more opportunity to work with a resident to resolve a potential issue and for everyone to come out ahead."

Use of rent from payroll cut bad debt balances resulting from skips or evictions by 48 percent at Northland Investment Corporation, an average savings of $356 versus leases that had higher security deposits.

Chart 6: Northland Move-out Analysis



The lower the credit profile of the applicant pool, the greater the impact of assured payment with rent from payroll. But even at communities where average applicant credit scores are higher, the impact on bad move-outs and associated expenses is significant. At communities that require an additional security deposit of $350 or less, rent from payroll reduced the skip/eviction rate an impressive 83 percent from 13.37 percent among security deposit backed residents to a nominal move-out rate of only 2.51 percent with the NPS Rent Assurance platform. From a dollar perspective, an even greater disparity was seen on security deposit backed conditionally approved leases, which resulted in an average unpaid balance of $698, compared to unpaid rent from payroll balances of only $162, on average.

Among the most credit challenged conditionally approved residents, including those who had to pay an additional security deposit of $500 or more, or who required an override from a manager to move-in, NPS Rent Assurance continued to show significant reductions in both the skip/eviction rate (50 percent decrease) and the outstanding average balance of bad debt (48 percent decrease).

To look at the impact on a typical 300-unit property with a five percent rate of skips/evictions per year, use of a rent from payroll platform such as NPS Rent Assurance will conservatively reduce the number of skips/evictions by 50 percent. At a cost of $4,000 per skip/eviction, cost savings directly tied to using the NPS Rent Assurance platform are estimated at $30,000. Applied across a portfolio of 30 communities, rent from payroll can thus save a property owner/manager a projected $900,000 in unexpected move-out expenses.

Rent from Payroll v. Surety Bonds

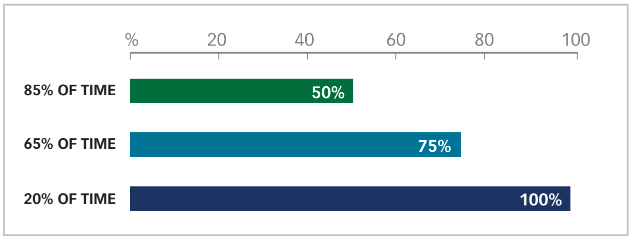
One of the greatest findings was realized by analyzing the performance of conditionally approved applicants who were allowed to move in using a surety bond product. Out of 1,106 conditionally approved residents who moved out from this group, more than 28 percent resulted in either a skip or an eviction, demonstrating the need to include added payment assurance with a rent from payroll solution in conjunction with a security deposit alternative.

While the low-cost economics of a security deposit alternative indicate applicants place a premium on liquidity, results do not bode well for payment performance. By pairing the security deposit alternative with a complementary rent from payroll option like NPS Rent Assurance, the resident has the tools to both move in and to perform while living at the community. Property companies deploying surety bond products have the opportunity to implement improved safeguards by combining them with a rent from payroll option.

THE VALUE OF EARLY WARNING REPORTING

D

One of the reasons rent from payroll results in fewer skips, lower eviction rates and bad debt balances is the program's direct deposit mechanism from employers to secured rent savings accounts. These accounts are controlled by independent rent from payroll service providers with infrastructure linked to technology-enabled tracking, reporting and disbursement functions. These features point to major differences between rent from payroll platforms and payment services, including ACH platforms that require residents to have a bank account. Since rent deposits occur during every pay period, residents often have monies accrued even if terminated or laid off. In fact, at the time of job loss, for 85 percent of their rent from payroll customers, NPS has received at least 50 percent of the next month's rent; 65 percent of the time, NPS has received at least 75 percent of next month's rent, and 20 percent of the time, NPS has received 100 percent or more of the next month's rent.



Gene B. Glick Company values the automatic notification of job loss when using NPS Rent Assurance versus relying on a resident to communicate their job loss verbally or by not paying rent or skipping on their lease. "With NPS Rent Assurance, we find we have some portion of rent in the account that provides an opportunity to work with the resident, giving us the chance to avoid the costs of a move-out and unit turn," Whittington says.

Gene B. Glick Company values the automatic notification of job loss when using NPS Rent Assurance versus relying on a resident to communicate their job loss verbally or by not paying rent or skipping on their lease. "With NPS Rent Assurance, we find we have some portion of rent in the account that provides an opportunity to work with the resident, giving us the chance to avoid the costs of a move-out and unit turn," Whittington says. "It is our policy to provide the resident on the NPS program a defined length of time to find new employment after job loss. That's something we typically would not offer to the resident who is not on a rent from payroll program."

When it comes to job loss or even interruption of work days, the accrued balance in most NPS residents' accounts creates a larger buffer providing Gene B. Glick Company and other apartment owners/managers more flexibility in dealing with changes in employment status that could cause a resident to be late with rent. Plus, the NPS rent from payroll platform immediately notifies property clients when a payroll deposit is short or not received—a clear indicator that the resident's employment may have changed.

Those early warnings are a key rent from payroll advantage appreciated at Gene B. Glick Company and Green Mountain Realty alike. "With our residents enrolled in the NPS rent from payroll platform, even when there was job loss, the impact was significantly minimized by the early warning reports when any resident deposits were not received," Voge says. "This helped us to address unexpected vacancy issues well in advance, compared to sometimes being at a loss to help residents where we had no insights into their ongoing employment, or lack of it."

E

REDUCTION IN LATE PAYERS / INCREASE IN RENEWALS

Operators like Glick and Northland are also seeing great opportunities to avoid move-outs and their associated costs during renewals for residents who have paid late during the previous term of the lease. By offering these residents a chance to enroll in the NPS Rent Assurance rent from payroll platform as a condition of renewal, property managers are able to avoid turnover when in the past they would not have allowed poor performing residents to renew.

"It is a resource that our managers have at their disposal to make a renewal offer to a resident who is struggling to pay rent on time…"

Even when balances are ultimately paid in full, the resident who habitually pays rent late or in arrears creates time and resource-consuming inefficiencies for property managers. "From a mission perspective, it is not very good service to our residents to keep them in a cycle of paying both rent as well as late fees every month," says Whittington. "That's one of the things that I like most about the NPS Rent Assurance program: not only does it improve our bottom line, I also feel like we are providing a great service to our residents, some of whom can really use the help in managing their money. There are not many things that we can talk about in this industry that are like that."

Property managers might even reach out to residents with poor payment patterns up to six months prior to a renewal to discuss enrollment in the rent from payroll solution as a condition of continued residency. "It is a resource that our managers have at their disposal to make a renewal offer to a resident who is struggling to pay rent on time or paying rent 30 days in arrears and otherwise would not be qualified to renew," the national training director says. "We want to be very proactive about utilizing rent from payroll at the communities where we offer it as another tool for our property managers to try to save both occupancy and rent. It's much easier to renew a resident when you haven't had to confront them about rent payments."

To that end, the national training director notes that in addition to working in concert with surety products at move-in, the NPS Rent Assurance rent from payroll platform works seamlessly with her company's use of revenue management pricing systems. Since rental rates are set before an applicant is presented with a conditional offer, the push for incremental occupancy gain through higher conversion rates of conditionally approved residents has helped optimize pricing across an asset or portfolio of assets. "The sooner a prospective resident can move in, and the longer of a lease term they can accept drives most of our rent and pricing adjustments."

In addition to substantially decreasing bad debt levels when incidents do occur, rent from payroll offers communities a resident-friendly amenity for managing payment risk that increases move-ins and economic occupancy, eliminates late rent payments, and improves the underlying NOI and market value of multifamily assets.

"Providing a mechanism to assure that the resident is committed to on-time rent delivery as a condition of lease signing is something unheard of before in multifamily," says Rosenthal. "As an industry, we've always depended on cash deposits to cover payment and unexpected move-out risk, and have had only limited leverage once a resident moves into a unit, aside from an eviction that no one wants, to make them perform. The NPS Rent Assurance rent from payroll platform works for both residents and communities alike in that all parties are invested at the get-go in on-time rent delivery."

In addition to substantially decreasing bad debt levels when incidents do occur, rent from payroll offers communities a resident-friendly amenity for managing payment risk that increases move-ins and economic occupancy, eliminates late rent payments, and improves the underlying NOI and market value of multifamily assets.

IV. Conclusion

Results of this white paper, **The Rent From Payroll Advantage**, provide compelling data to support re-evaluation of how property owners/managers construct lease offers for applicants conditionally approved based on credit. Results demonstrate the substantial value to economic occupancy and reduction in delinquency and bad debt of providing residents with a simple, pre-emptive mechanism linked to automated payroll deposits to assure consistent payment reliability and cash flow throughout a lease. Benefits of deploying a rent from payroll solution versus requiring an increased cash deposit are proven more cost-effective in moving in more residents with demonstrated commitment and tools to assure payment performance.

The traditional practice of requiring conditionally approved applicants to 'pay their way into a lease' with increased cash deposits (or deposit substitutes) are shown as less effective than rent from payroll, or some combination of rent from payroll and deposit alternatives, in protecting multifamily operators from future loss of occupancy and revenue.

Opportunities exist for meaningful incremental revenue and improved market value based on modest changes to conditional lease offers that more effectively disengage residents from monthly management of their paychecks in order to assure funds for rent are delivered on time.

Opportunities also exist in building more stable resident populations, which ultimately benefits both residents and multifamily operators alike.

V. About the Study

The performance analysis of rent from payroll versus standard conditionally approved lease offers with security deposits contained herein is based on evaluation of a statistically significant sample size of 6,597 conditionally approved applicants at approximately 50 multifamily communities across the United States during 2011-2013, with monthly rents ranging from $600 to $1,600. Participating firms included Gene B. Glick Company, Green Mountain Realty, Northland Investment Corporation, and a 30,000 unit publically traded REIT in the NMHC Top 50. Results are based on partial deployment of NPS Rent Assurance at communities within these client portfolios prior to full rollout of the program.

VI. About Neighborhood Pay Services

Based in Boston, Mass., Neighborhood Pay Services (NPS) pioneered the NPS Rent Assurance rent from payroll platform to significantly improve rent payment performance and create opportunities for incremental economic occupancy and revenue for multifamily portfolios. The company specializes in programs that assure payment reliability for multifamily communities and provides an easy, secure and more affordable mechanism for conditionally approved applicants to accept lease offer terms and, subsequently, perform on par or superior to residents who move in with higher security deposits or without conditions. As a service to enrolled residents, NPS reports all funds disbursed to communities to a national credit bureau.

For more information, visit:
www.NPSRentAssurance.com or call **866-436-2187 x114**

NPS RENT ASSURANCE
RENT FROM PAYROLL

www.NPSRentAssurance.com
phone: 866.436.2187 x114
email: info@neighborhoodpayservices.com