In an increasingly competitive rental market, understanding and using tenant demographics and preferences to strategically select payment channel offerings enables real estate property managers to improve their tenant experience as well as save money and enhance accounts receivable management.

This white paper reports on how different age groups view both traditional payment methods and emerging payment technology, and how those views influence their rental payment behavior. It also suggests the payment methods — including a number of newer electronic channels — that real estate property managers might want to consider offering based on the generational demographic mix of their tenants.

**DRIVE FOR EFFICIENCY: TRADITIONAL GOAL BUT NEW CHALLENGES**

In any service industry, companies must be efficient and tightly manage costs in order to be successful. While new technology is helping to meet such goals, there are new challenges exacerbating the traditional pressure to be efficient in real estate property management.

For instance, tough economic times have led to more people foregoing home ownership in favor of apartment living. For real estate property managers, the housing crisis created a business opportunity by increasing the demand for apartments. However, at the same time, this trend resulted in greater competition.

Because of the escalating demand for apartment space and the low cost of entry, many non-traditional providers have taken the leap into the commercial real estate market. This new competition is heightened in the property management arena, with many firms taking management responsibilities in house. What’s more, many apartment brokers are expanding their roles to include the full cycle of real estate management activities, including those traditionally performed by property managers, such as rent collection and property maintenance. As such, apartment brokers are becoming a new source of competition.

**SHIFTING GENERATIONAL DEMOGRAPHICS**

Another big challenge for real estate property managers has been a shifting of generational demographics among their tenants.

In addition to efficiency, a traditional success factor in the service industry has always been the ability to keep customers satisfied. In real estate property management, that means meeting the needs of existing and prospective tenants. But what they want often differs based on their age. And today there are some generational demographic trends challenging property managers as they pursue customer satisfaction.

First, seniors, the largest generation, represent a growing percentage of apartment dwellers. And, second, the gap between what seniors want and the desires of the younger generation is as wide as it has ever been. This divide between age groups is particularly evident regarding the use of technology for making rent payments.

**TECHNOLOGY AND EXPECTATIONS**

The most recent Federal Reserve Payments Study, results of which were released in April 2011, revealed that the number of checks written each year was falling at a rate of almost 6% a year, while electronic payments volume was rising at more than 9% a year. This trend plays right into the challenges that real estate property managers face to increase efficiency, maintain profitability and remain competitive in today’s tough business environment.

**GROWTH IN ACH VOLUME, 2005-2012**

Accepting electronic payments can help property managers increase their working capital by converting rent payments into available cash faster, allowing them to utilize the cash for short-term investing or paying down debt. It can also help property managers reduce bank costs, as financial institutions are pricing.
their services to incent greater use of more efficient electronic payments and convert paper checks to electronic form as early in the deposit cycle as possible.

Electronic payments also provide an important tool for reducing payment fraud. The annual Payments Fraud and Control Survey conducted by the Association for Financial Professionals (AFP) continues to show that check fraud remains the predominant form of payment fraud — by a wide margin over various forms of electronic payment fraud.

PERCENTAGE OF ORGANIZATIONS AFFECTED BY PAYMENT FRAUD VIA VARIOUS PAYMENT METHODS

[](image)

Source: 2013 AFP Payments Fraud and Control Survey

Clearly, accepting electronic payments offers a number of financial advantages for real estate property managers. Furthermore, the growing popularity of electronic payments, along with emerging technology that is making the process of initiating such payments more flexible and convenient, has many renters expecting to be able to make their rent payments electronically.

But here’s where renter demographics make a difference. Many renters still prefer the paper check drop-off method of payment, but the ones who want to pay electronically may not want to pay through certain electronic payment channels. So how can a property manager determine what payment options a renter will appreciate the most, and which ones they should offer? A key factor is the age of the tenant or prospect.

**UNDERSTANDING RESIDENT PREFERENCES: AGE MATTERS**

Houston-based J Turner Research conducts studies aimed at supporting marketing efforts in the apartment industry. The firm’s 2012 survey, “What Do Residents Want?,” looks at trends in resident technology and communication preferences. Specifically, the survey explores online apartment search patterns, behaviors and preferences across properties owned by 10 participating multifamily firms. Among other things, the study delves into how apartment tenants and prospects of different age groups use smartphones, tablets and other devices for research and communicating with apartment operators and property managers, as well as patterns in their use of social media and online apartment rating and review sites.

In conducting its research, the company looks at the preferences expressed by tenants in the following generational demographic categories:

- Silent Generation (Ages 66+)
- Baby Boomer (Ages 45-65)
- Generation X (Ages 31-44)
- Millennial Generation (Ages 18-30)

Here’s the basic premise of the J Turner Research generational studies, as explained in the 2012 “What Do Residents Want” study results:

> “Understanding resident preferences is critical to successfully delivering the amenities and customer service that drive satisfaction at multifamily apartment communities.”

The J Turner Research studies don’t investigate specifically which payment methods that tenants of different age groups prefer. However, it seems clear that the generational demographic focus of the J Turner Research studies can be instructive for real estate property managers when applied to the issue of payment channels. Below we take a look at how tenants in each generational category view technology in general and today’s payment alternatives, and how their preferences can inform the decisions real estate property managers make about which payment channels to offer.

**THE SILENT GENERATION**

Seniors are more wedded to paper checks than any other generation. While every age group has its exceptions to the general rule, tenants and prospects in the Silent Generation, who have written checks all their lives, tend to be more comfortable with paper rather than electronic payments. They generally prefer to make rent payments by mailing a check or walking over a check to the property manager’s office.
We have already established that accepting check payments increases payment processing costs and is an impediment to efficient cash management. That being the case, how can a property manager afford to keep offering a paper check payment option to keep its senior tenants and prospects satisfied?

The key is for property managers to use banking services that enable them to post paper checks to their accounts quickly and/or turn them into electronic deposits. Some services that add efficiency to A/R management include:

- **Property management lockbox.** Property managers can direct tenants to mail their payments to a special post office box, where the remittances are collected multiple times a day by the lockbox bank and posted to the property manager’s account. A bank lockbox service can eliminate so-called “desk float” or “administrative float,” where checks sit idle in a property manager’s office waiting a day or more until an employee has time to transport them to a local bank branch for deposit. Desk float slows cash flow and increases fraud risk.

- **Remote deposit capture.** With this service — provided both by banks alone and by banks in concert with some accounting software — a property manager can run check payments delivered to the office through a desktop scanner each day and deliver the check images to the bank for deposit. Remote deposit capture speeds the deposit process, which improves cash flow and saves staff time by eliminating the need to physically transport checks to the local bank branch.

Property managers catering to the Silent Generation also need to be aware that these days, some portion of the monthly rent for many seniors is being paid by their children. As a result, managers whose properties include a significant number of seniors may want to offer payment options that appeal to the children of the Silent Generation, who typically are Baby Boomers or members of Generation X.

**BABY BOOMERS AND GENERATION X**

The younger that tenants are, the more comfortable they tend to be with electronic payment solutions. Some Baby Boomers still cling to paper, but many are moving to electronic bill payment. For instance, some are paying rent by allowing their property manager to initiate a monthly Automated Clearing House (ACH) debit of their bank account. Others are paying through a bank online bill payment service.

Online bill pay services accept payment instructions electronically; however, they often send a paper check to the property management company. Also, many online bill pay services consolidate payments from multiple tenants of the same property management company into a single check payment, which they send to the property manager with an itemized list of the individual tenant payments.

Whether the property manager receives a check, or a check and a list, paper payments require manual effort to research and then post to the property manager’s A/R system. Even if the property manager receives such paper payments through its lockbox service, they often must be treated as rejects because they don’t have a remittance stub, creating the need for time-consuming research.

To address this challenge, some banks offer a remittance processing service solution. This service consolidates the property manager’s online bill payments and delivers them in their preferred electronic format, so the payments can post automatically to the property manager’s A/R system.

Members of Generation X are generally comfortable using bank online bill pay services, but they are even more likely than Baby Boomers to opt for a full electronic payment alternative using the Internet and possibly a mobile device. To meet this need, property managers can work with a bank to establish a branded portal on their company website. Payments initiated in this fashion are typically completed electronically using ACH or card payment options.

**WHAT MILLENNIALS WANT**

The youngest tenants, of the so-called Millennial Generation, are the most comfortable with electronic payment alternatives. In fact, it’s not an exaggeration to point out that some younger members of the Millennial Generation have never even written a check.

As a result, property managers targeting this large segment of potential renters should consider offering payment alternatives that take into account Millennials’ desire for flexibility and convenience, and their utter fearlessness when it comes to using web-based payment channels.

Millennials want to make rent payments on their own terms — when and how they want, which usually means over the Internet. But that doesn’t mean with a desktop computer. They are more likely to want to pay with a smartphone, tablet or some other mobile device. Often
they want the option to use a mobile device to access a payment page at the property manager’s website.

Other Millennial preferences around rent payments include:

• They want a no-hassle, automatic process that registers them, at the time they sign the lease, to make rent payments at a web portal.

• Each month, when it’s time to make a rent payment, they want to be alerted, via text message or e-mail (not by paper mail).

• They want the alert to offer a link to the payment page, so they don’t have to visit a separate website and execute a separate log-in. In other words, they want a seamless process.

• When making payments, they prefer an intuitive, easy-to-use payment site unencumbered with advertising messages or graphics.

A property management payment portal is the ideal solution for the most technologically savvy generation. Banks provide a URL or link to the manager’s website that allows the tenant to securely access and review rent statements, choose between a checking account debit or a credit card for paying the rent, and set up reminders. All this can be accessed through the Internet or the mobile web.

Millennials also are comfortable with social media playing a part in the rent payment process. In response, property managers have established Facebook pages that offer electronic payment services to tenants. Tenants can “like” the offering to indicate their interest and even click on a link to visit the property manager’s payment portal and start making electronic payments.

EFFICIENCY AND MARKETING SUCCESS

Maximizing the use of electronic payments helps property managers achieve greater accounts receivable management efficiency. At the same time, understanding generational payment method preferences can help them be more effective marketers and provide a competitive advantage, and in that way contribute to the bottom line.

As a customer retention strategy, property managers can analyze their existing tenant base and offer the payment channel offerings most likely to satisfy their residents, based on generational demographics. Additionally, those who are looking to attract more tenants of a particular generation can do so by highlighting in marketing communications the availability of that generation’s preferred payment methods.

It’s easy to fall into the trap of continuing to “do things the same way we’ve always done them.” But demanding that tenants pay a particular way, whether it’s by mailing a paper check or using a web-based payment portal, is likely to be ineffective from a marketing standpoint, because it fails to take into account age-based preferences. A more effective strategy for most property managers would be to offer a full array of cost-neutral payment options, including various electronic alternatives, as a way of promoting both tenant satisfaction and A/R management efficiency.

CONSULT WITH YOUR TREASURY MANAGEMENT BANK

The payment alternatives that property managers choose to offer can impact their working capital management, ability to minimize payment fraud and overall marketing success.

Keeping up with the latest technology-based payment methods is a challenge. But your treasury management bank can help you analyze your tenant base and marketing goals so that you can select the best payment methods to offer.

To learn more, contact your Capital One Bank® Treasury Management advisor.