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Credit-Card Firms Look to Get Foot in the Door

By Ray A. Smith, The Wall Street Journal, 948 words

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IT IS HARD TO THINK of an amenity that has vexed landlords and managers more than credit cards.

Credit-card companies have long pushed to get landlords to accept their cards for rent, and recently they have made it easier for owners and managers to accept cards. Consumer advocates, worried that tenants will dig themselves deeply into debt, have fought against the practice.

Tenants, meanwhile, appear to be ignoring the battle and for the most part are still paying their rent by check. The residents who do charge their rent generally do so once in a while, often during the December holidays when they are tight on cash.

"What we are finding with credit cards more residents are using that for one-time, rather than monthly occurrence, like the security deposit or the application, we're not seeing them use their card every month for rent," says Lyn Lansdale, vice president of strategic business services at AvalonBay Communities Inc., an Alexandria, Va., apartment real-estate investment trust that now accepts MasterCard and Discover throughout its portfolio of 148 properties.

Some landlords say it is worth it even at that low usage rate because accepting cards gives their properties a competitive advantage over those that don't accept cards. They also believe automatic rent payments with credit cards are more efficient, saving them in costs and manpower and time spent on processing checks.

Ms. Lansdale of AvalonBay said the company isn't disappointed in the low card usage rate. "We didn't really have a specific goal for how many would use credit cards to pay rent," she says. "Whether it was 3% or 40%, we wanted to make it convenient for them. We wanted to offer another option for them."

But a recent survey of renters conducted by ApartmentGuide.com, a nationwide

apartment finder and locator, ranked acceptance of credit- card payments for rent last on its list of most important amenities, behind reputation of the complex, laundry facilities, proximity to work, cable or satellite TV, variety of floor plans, high-speed Internet, allowance of pets, professional landscaping and swimming pool.

The most obvious enticement to use a card -- rewards points or frequent-flier miles -- is generally only a factor for high-end renters, not the vast majority of tenants who do not participate in these programs.

To reward low- and middle-income tenants, Visa and payment processor PropertyBridge last month launched "Payment Perks," a program that allows residents who sign up to have rent paid on their credit cards to participate in free-rent drawings or get store coupons and gift certificates and merchandise rebates.

One reason for the low usage rate is that tenants are often charged a fee to use their cards. Like merchants such as retailers, apartment landlords and managers often have to pay a transaction fee, usually around 2% to 3% of each transaction. That can add up for an owner or manager with a big portfolio if a lot of renters are using the cards. Some owners choose to pass the cost on to the renter.

Tenants at AvalonBay, for example, pay the transaction fee if they use their credit card. Other landlords have also dealt with the cost issue by working with processors that charge the tenant a fee rather than the landlord -- even though they run the risk of alienating renters.

In an effort to entice more renters to use their cards, RentPayment, a processing firm that works with apartment owners and managers to enable acceptance of credit cards, announced this month that it was reducing the fees it charges residents who choose to have rental payments automatically deducted from their credit cards, to a flat \$12.95 per transaction instead of 2.95% of the amount of the rent paid.

"On the properties where the owners pick up the fee, or where it's buried in the rent, you will find a lot more residents using their card, it's then treated as an amenity," says Leigh Curry, president of Curry Conduit Services Inc., a Yardley, Pa., marketing and consulting firm for the apartment industry. "The problem is most of the owners don't want to pick up the cost."

Mr. Curry says that owners that have implemented credit-card acceptance haven't found a lot of penetration when they charge a fee. "When you get into situations where it's very high-end, or a student housing situation, and the owner picks it up, then it works," he says. "If the owner is going to absorb the cost, he will get a bigger penetration."

Some see the fees as the cost of competition. "There is an expense," says James Cunningham, executive vice president of Columbus, Ohio- based Casto Communities Management Inc., which accepts credit cards throughout its 6,600-unit portfolio in Alabama, Florida, Illinois, Indiana, Ohio and Pennsylvania. "That [2%] discount rate does cost us money. We would lose 2% if everyone used [their credit card]. But the overall value . . . it's an intangible. You have to think did the value of the card program add to the decision to rent with us?"

With usage still relatively low overall, the credit-card companies and third-party processors are working on ways to make the systems that enable credit-card payments do more than just process the payments.

Discover plans to test an apartment-industry specific money- management system that allows renters as well as landlords and property managers to keep better track of rent-related expenses. Though the company says any card can be used in the program, clearly the use of Discover cards would be more than welcome. The company is planning an all-out launch in the fall.

PropertyBridge and Visa recently announced a collaborative effort that promises landlords and apartment managers integrated data reporting and reduced overall account administration.

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