RESIDENT SCREENING

Screening Strategies for an Evolving World

Introduction

The Need for Better Risk Management

The 2020 economic downturn fueled by the COVID-19 pandemic profoundly impacted the multifamily industry—both operators and renters alike. Record job loss equates to fewer move-ins. Fewer move-ins stresses occupancy levels. Market volatility leads to supply and demand imbalances.

It all adds up to more business risk—and a greater need for innovative risk management tools and services.

A robust resident screening solution is key to reducing the bad debt triggered by credit-risky or fraudulent renters. But today, traditional credit scoring models and criminal background checks are not enough.

For property owners and operators in 2020 and beyond, reducing bad debt and driving higher occupancy and revenue will depend on a digital, data-driven and easy-to-use resident screening solution.

Unemployment rose higher in three months of COVID-19 than it did in two years of the Great Recession (2007-2009).[1]

1 2020 Trends and Challenges

While pandemic-associated job loss led to apartment renters struggling to pay housing costs this past summer (as many as 53% of residential tenants struggled to pay in July.[2]), the general trend today is positive: 80.4% of apartment households paid rent as of November 6, 2020.[3]

More good news—occupancy remains strong. Across the nation, low-rise properties with three or fewer stories are outperforming mid-rise and high-rise apartments for both rent growth and occupancy.

Even more impressively, that trend carries through each of the nation's large markets, as rent growth and occupancy in garden apartments run at or above the market average in all of the 50 largest apartment markets in the U.S.[4]

On the other hand, applicant fraud is on the rise, mirroring the trend historically seen during economic recessions. During times like these, conventional fraud detection methods such as in-person validation and reference checking no longer work. Typical scoring models either aren't flexible enough or are commoditized. Credit scores don't tell the whole story. And the applicant pool with thin files and international addresses is growing, making the reliance on a trustworthy source of data a must.

Reducing vacancy costs, identifying fraudulent applicants, and keeping up with regulatory compliance remains a universal challenge for multifamily properties, especially in an evolving marketplace.

2 AI and a Tale of Two Renters

Although not new, Artificial Intelligence (AI) technology applied to resident screening has evolved dramatically in recent years. Advanced algorithms are enhanced around the clock with outcome-driven machine learning and real-time behavioral data, meaning renter data is continuously updated and analyzed to improve predictability. And it gets smarter each day.

AI reduces errors, helping you feel more confident that your renter's financial performance is accurate. The ability to pay rent is measured by the usual data: debt-to-income ratio, credit score, etc. But ***willingness*** to pay is another important factor in determining who isn't and, perhaps more importantly, who will be a reliable renter.

To illustrate the importance of predicting willingness to pay, a 2019 Wall Street Journal article, **"Robots Are Taking Over (the Rental Screening Process),"** explained:

> **"Some people earn three times the monthly rent, but they may love eating out and driving BMWs. Another person may only make two-and-a-half times the rent but eat ramen and drive a 20-year-old car. In this case, the poorer ramen-eater would be the better candidate than the richer gourmand."[6]**

Together, analyzing both an applicant's capability and willingness to pay rent has proven to be a superior risk assessment model to more accurately predict a renter's financial performance.

Further, when combined with access to a real-time—and more relevant—database, multifamily properties and portfolios benefit from the highest predictability of payment performance possible with every single screen.

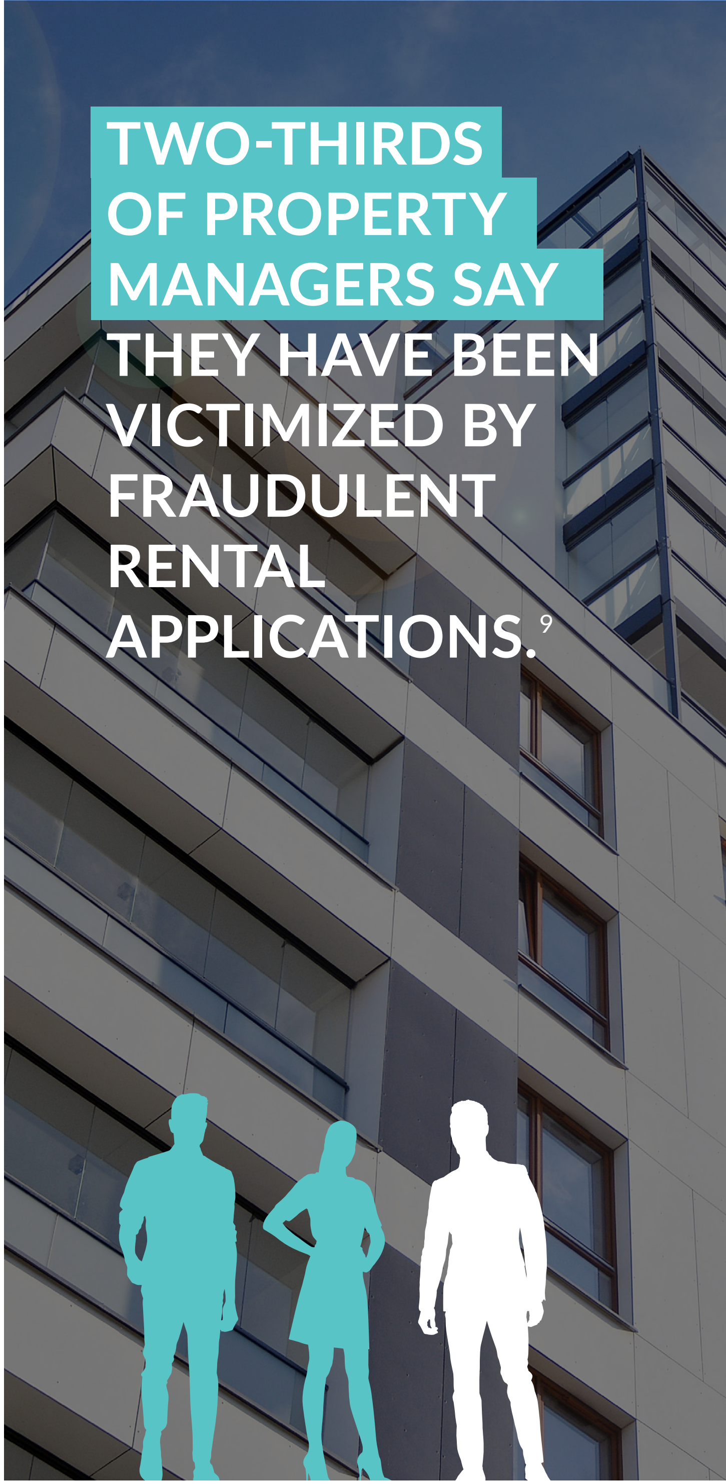
3 Who's Who? The Fraud Factor

Whether a prospect commits fraud by misrepresenting their income, disguising their source of income, or using fake identification, the outcome is the same: increased evictions, vacancies, bad debt and loss of revenue for property operators.

There are three major types of rental application fraud most commonly faced:

1. **First-Party Fraud -** The individual uses their own identity intending to commit the fraud but is deceptive about their information and intentions. Fake and altered financial documents are standard.
2. **Third-Party Fraud -** When an imposter uses another person's information to open new accounts or take over existing ones without the individual's awareness. Imposters can get information such as a name, date of birth or social security number to secure an application through the pipeline.
3. **Synthetic ID Fraud -** The fastest-growing form of fraud is when applicants combine real and fake information to create an identity. The goal is to gain access to an address to establish credit. The fraudster runs up high balances or maxes out credit cards under this false identity.

For you, the cost of managing fraud is high—in both hours and dollars. One in five property managers reports that it takes more than 10 hours to vet an application, and 58% say it's a somewhat-to-extremely challenging task. The typical property manager reports 15% of online rental applications show fraudulent information, with another 10% of fraudulent applications slipping through the cracks.[8]

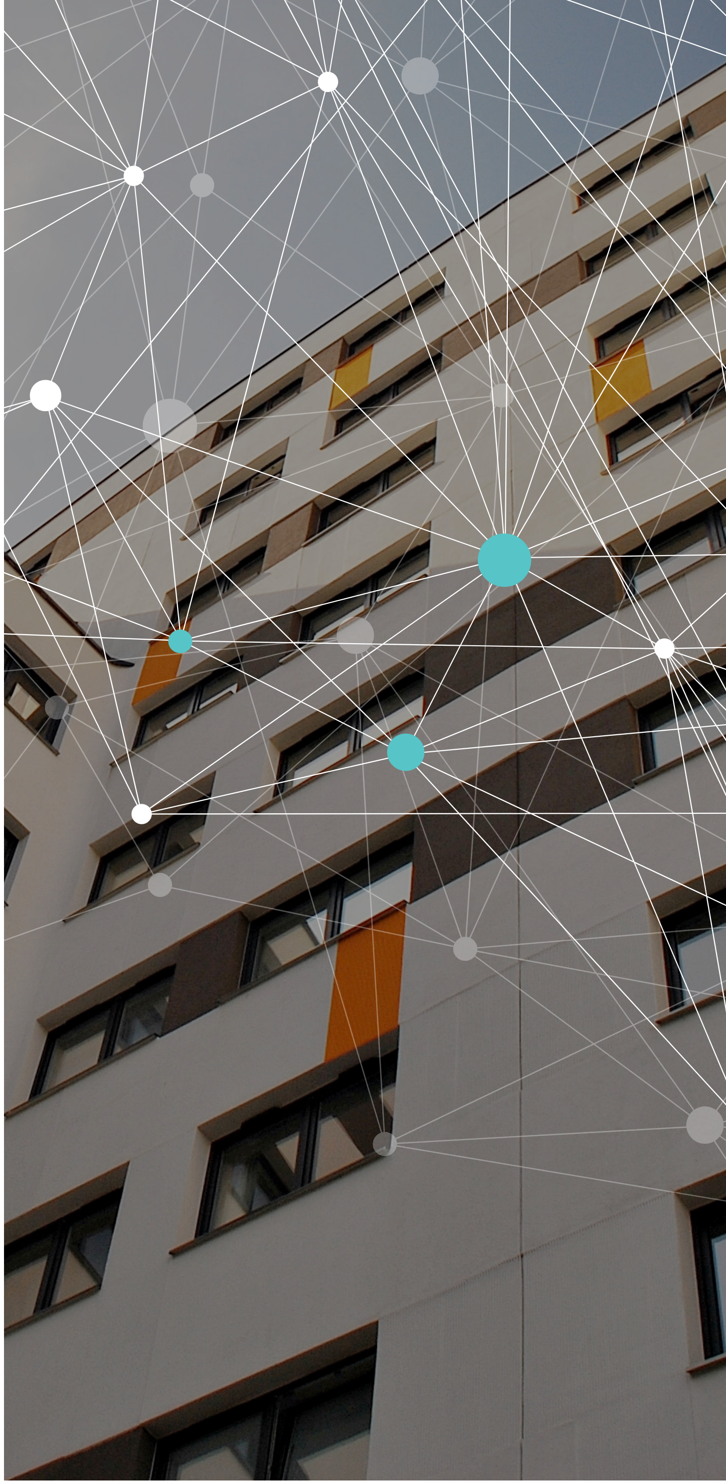


4 A Moving Target: Unit Type, Demand and Occupancy

For risk managers, compliance managers and property managers, adjusting thresholds for the various unit types on their properties can be complicated and time-consuming.

Advanced AI resident screening solutions offer algorithms that automatically adjust inventory and prospects according to thresholds and market demand. Access to extensive real-time data provides the intelligence and visibility needed to be proactive, maintain appropriate pricing, and boost occupancy.

In 2021, AI Screening will further advance the ability to tailor risk by unit type, demand and occupancy, allowing you to take on more calculated risk and say "yes" more often—without incurring more negative lease outcomes.



Conclusion

Managing Risk Today—and Tomorrow

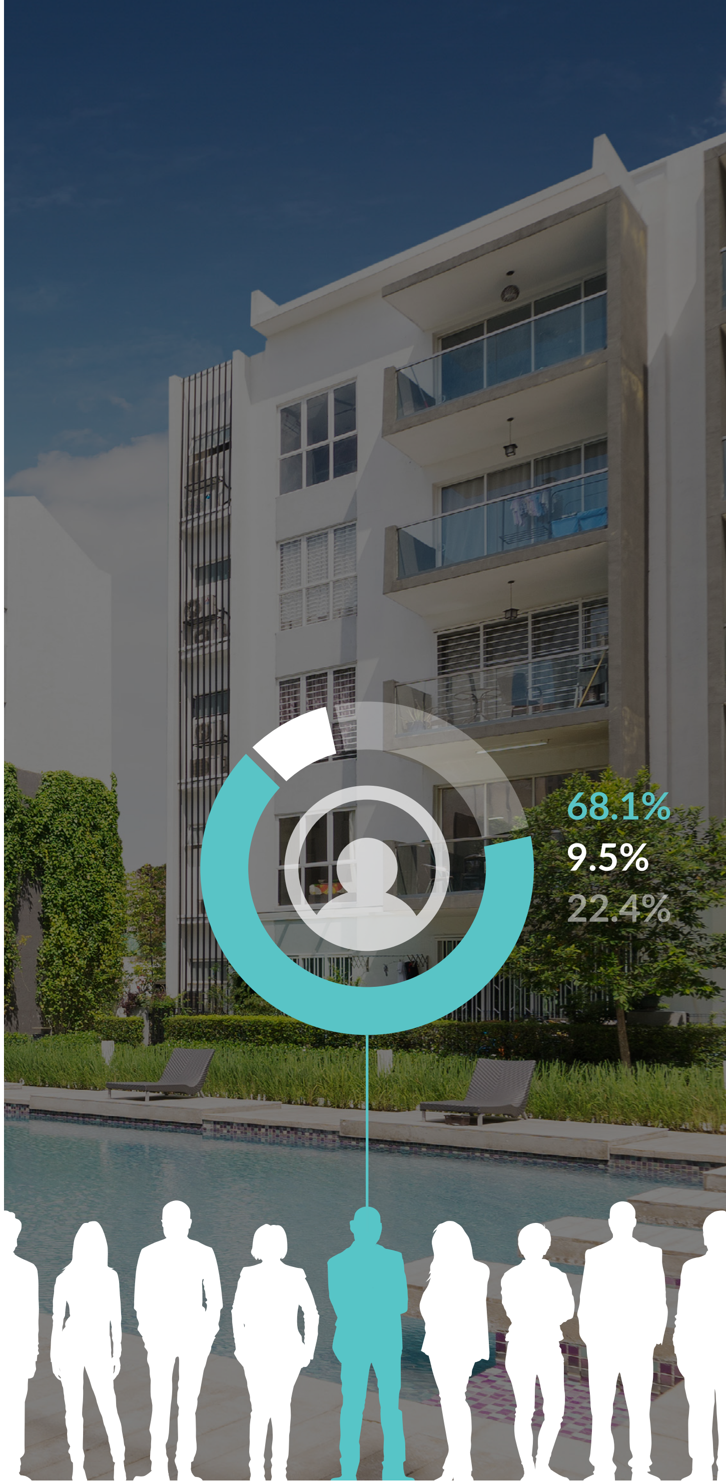
Are you able to access a holistic view of applicant risk at your properties?

Are you confident your fraud prevention capabilities will serve you successfully in the years to come?

Are you striking an optimal balance between maximizing revenue and minimizing costs?

RealPage® Screening offers the tools, knowledge and insight you need to lease with confidence, compliance and reduced liability. With RealPage Screening, you can:

- **Reduce bad debt** by $39 per unit per year
- **Reduce early terminations** by 41% year-over-year
- **Reduce skips and evictions** by as much as 59%
- **Access the industry's largest rental payment database** with over 35M lease outcome records
- **Leverage identity verification data** from 36 billion records to identify and prevent applicant fraud, saving up to $72 per unit per year
- **Rely on dynamic thresholds** to help ensure your inventory and prospects are adjusted accurately, your property remains valuable, and your occupancy rate increases
- **Seamlessly integrate** with your current property management system



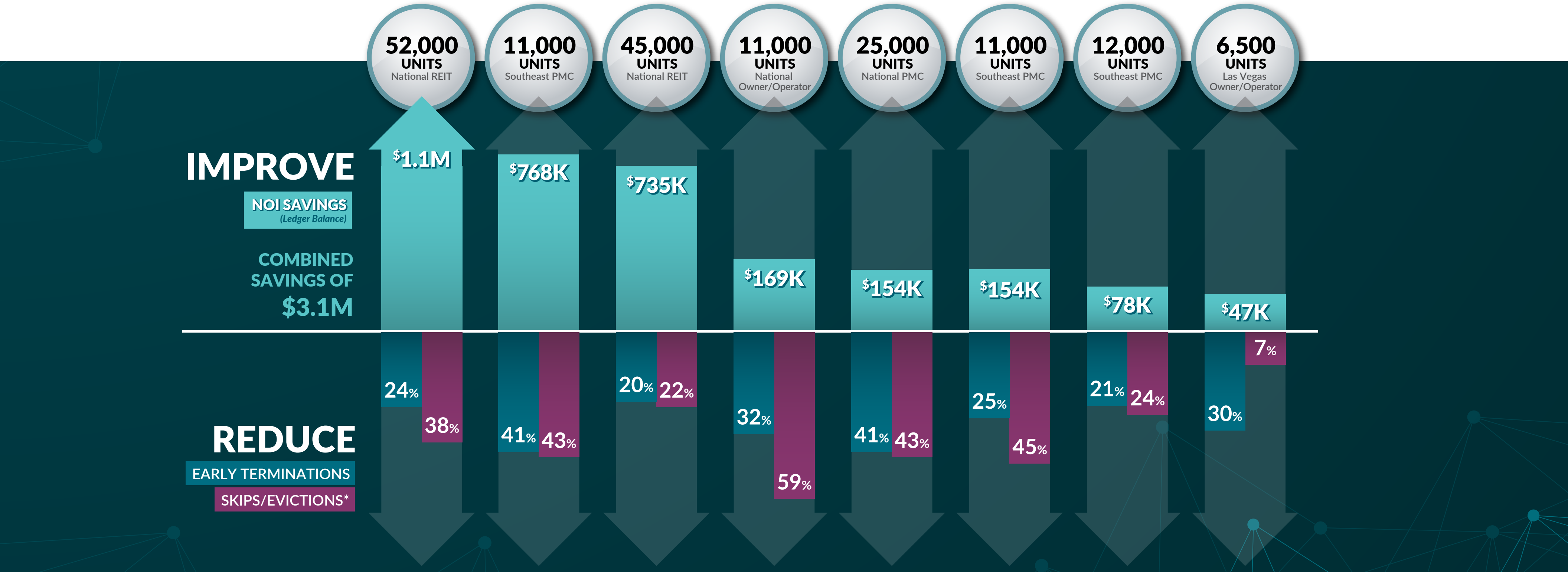
Addendum

AI Screening Success Stories

To get a more detailed picture of how RealPage Screening can help your organization, take a look at the ways leading property management companies have benefited. This infographic measures monetary savings, risk reduction and improved ROI across 8 property management companies of varying sizes, ranging from 6,000 to 52,000 units.

Find out how to start mitigating risk and optimizing yield today—and tomorrow.
Schedule a custom demo by contacting us:

www.realpage.com/resident-screening | or by calling **87-REALPAGE.**



NOTE: Statistics presented from 8 property management companies ranging from 6,000 – 52,000 units (total 173,984). Results timeframe: 4/18/2019 - 8/18/2020.

Appendix

Sources

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