



Confronting the Costs of Tenant Fraud

How property managers stay ahead of
technology-enabled application fraud

FIGHT TENANT FRAUD

Property managers are in a race against fraudulent rental applications.

To thrive in a competitive industry, property managers maintain assets and foster relationships with tenants. They need to focus on being brand builders, not detectives. Yet, they face a rise in fraudulent applications, created through increasingly sophisticated means.

According to industry estimates, one in every three applications contain some form of fraud. Furthermore, applicant fraud has increased 9% month over month since the COVID-19 crisis hit—a likely response to the current economic climate as well as recent changes to local and state eviction moratoriums. With rates like these, it's not surprising to learn virtually all property managers race against tenant fraud and its frustration. Oh, the stories they could tell, and as a fraud detection solution provider, we wanted to hear them.

In 2020, Snappt commissioned a survey of 100 residential property managers across the United States. Dallas-based ReRez Research talked with firms or owners who manage more than 1,000 units. Most of the respondents lead teams of professionals who vet applicants, while nearly a third do the work to qualify rental applicants themselves.

We wanted insight into the experiences of these property managers:

- How often do they suffer tenant fraud?
- What is the impact of tenant financial misrepresentation?
- What are they doing to stay a step ahead of fraudulent applications?

Answers to these questions may sound familiar, even daunting. Viewed as a whole, they lead to the central difficulty:

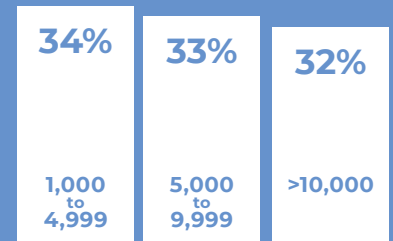
How can property managers outpace tenant fraud even as technology-enabled tampering makes it harder to catch?

Survey Demographics

Survey conducted by ReRez Research in 2020.
100 responses from property managers across the United States



Property management firms or owners managing more than 1,000 units



TYPICAL RESPONDANT:

Property managed: **2-3 bedrooms**

Renting for: **\$1,500-\$2,000/mo**

Employees (median): **2,000**



FRAUD IN THE NUMBERS

Facing varying pressures, some applicants inflate income to qualify for rental. Others hide financial gain to meet benchmarks for low-income housing. Some even disguise the source of income to hide criminal activity.

Aligned with similar findings across the industry, misleading information in rental applications is rampant: two thirds (66%) of respondents in this study have fallen victim to fraudulent rental applications and 41% say such applications are somewhat to extremely common. Of course, some fraudulent applications achieve their goal in secrecy, so the actual percentage of fraud victims may be higher with the frequency and cost remaining undercover.

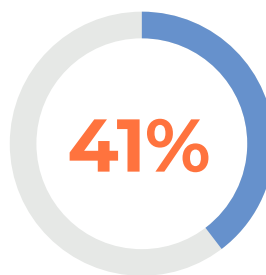
Overall, property managers maintain a cautious stance; they understand it is not if, but when, they will face tenant fraud. Furthermore, they feel the situation is not getting better: most of the respondents, 59%, say the incidence of fraudulent applications is staying the same or growing. Of those who feel the problem is rising, the typical estimate is 10% to 15% annually.

While the transition to online applications streamlines many rental processes, property managers find digital communication opens an avenue for misrepresentation. They estimate 15% of online applications exhibit tenant fraud, surpassing 8% of in-person applications with the same issue. With dismay, managers also recognize it is difficult to calculate 'the ones that got away,' surmising at least 10% of fraudulent applications—online and in-person—are currently slipping through without detection.

THE TYPICAL WORKLOAD

among those interviewed totaled 127 applications per month, though more than 30% of respondents process 350 applications and 15% wade through more than 1,500 applications per month. For all surveyed, most applications are received online.

127 applications
per month Avg.



say fraudulent applications are "somewhat to extremely" common



COSTLY AFTERMATH

When fraudulent applications escape notice, evictions increase. This becomes a spendy problem.

The typical annual eviction rate among property managers is 12%, while more than a third of respondents report an eviction rate of 20%. For those managers, one in five applications do not lead to an ongoing source of income, but to potential for months of maintenance headaches and expensive litigation.

Our survey shows the average cost per eviction reaches \$7,685 per incident due to unpaid rent, legal fees and other profit-eating outcomes. How much income does a property owner pass up when embroiled in months-long eviction sagas?

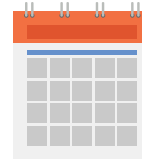
LET'S DO THE MATH:

A firm managing 3,000 units with a 20 percent eviction rate may endure 600 evictions every year. At \$7,685 per eviction that represents a total cost of \$4.6 million per year.

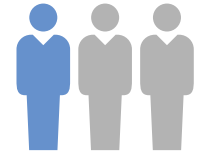
More than 20% of those surveyed estimate almost one in three evictions are due to fraudulent applications, a depressing statistic. The typical property manager says 15% of evictions come from tenants who submitted fraudulent rental applications. In the example assuming 600 annual evictions, this would equate to more than \$1.3 million per year in costs related to fraudulent rental applications alone.

In addition to the costly havoc of evictions, managers report the second most concerning problem resulting from tenant misrepresentation is that of physical damage to the property. In no time flat, rough renters can cause thousands of dollars in damage to plumbing, electrical and other systems.

Following evictions and damage outlay, managers list other factors in their top five problems that stem from tenant fraud, including missing good tenants, criminal activity at the property, and loss of reputation.



12%
The typical
annual
eviction rate



While **1/3**
report more
than 20%
eviction rate

Average cost
per eviction
\$7,685



What is fraudulent or criminal impact on genuine renters and the property's reputation?

How does it affect a community to observe consistent eviction notices? While some costs related to unpaid rent or damage are straightforward, these financial effects are more challenging to estimate.



CHASING FRAUDULENT APPLICATIONS

Why are fraudulent applications on the rise? Property managers cite a greater number of self-employed applicants and online rental applications as well as more prolific and sophisticated tools to alter financial documentation.

Managers rely on a number of services to vet applicants. Most commonly, they run a credit check and obtain a criminal history report, though they also check for prior evictions and confirm ID. In most cases, there are effective, efficient and affordable services available to property managers in these validation efforts.

Checking the accuracy and reliability of documentation submitted by applicants is another story. Spotting documents that have been fraudulently altered is the biggest issue for property managers working to verify data; in our study, 58% rate the task as somewhat to extremely challenging.

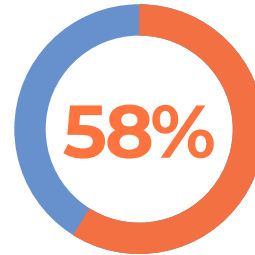
For instance, pay stubs rank as the most common documentation property managers require from applicants; however, they are also viewed by the same professionals as the easiest to alter and most difficult to verify. In addition, pay stubs are not available for self-employed applicants.

Other documentation gathered by property managers include bank statements, tax documents and employment letters. To ensure files have not been altered, calls to the issuing institution to validate the information has been the only traditional recourse. This takes time--too much time--according to half of the property managers surveyed. In fact, typical managers report they spend four hours to vet every application. One in five respondents say they toil more than ten hours to reach the same goal, equating to hundreds, even thousands of man-hours every month depending on the volume of rental applications.

Property Managers spend **4-10 hours** vetting an application

Keeping up with the latest signs of technology-enabled alteration is a big job for even the most experienced manager. They need an easier and more reliable way to track down inconsistencies and lies.

With no automated product to check documents, property managers must look for alterations manually



Most rate this task “somewhat to extremely” challenging



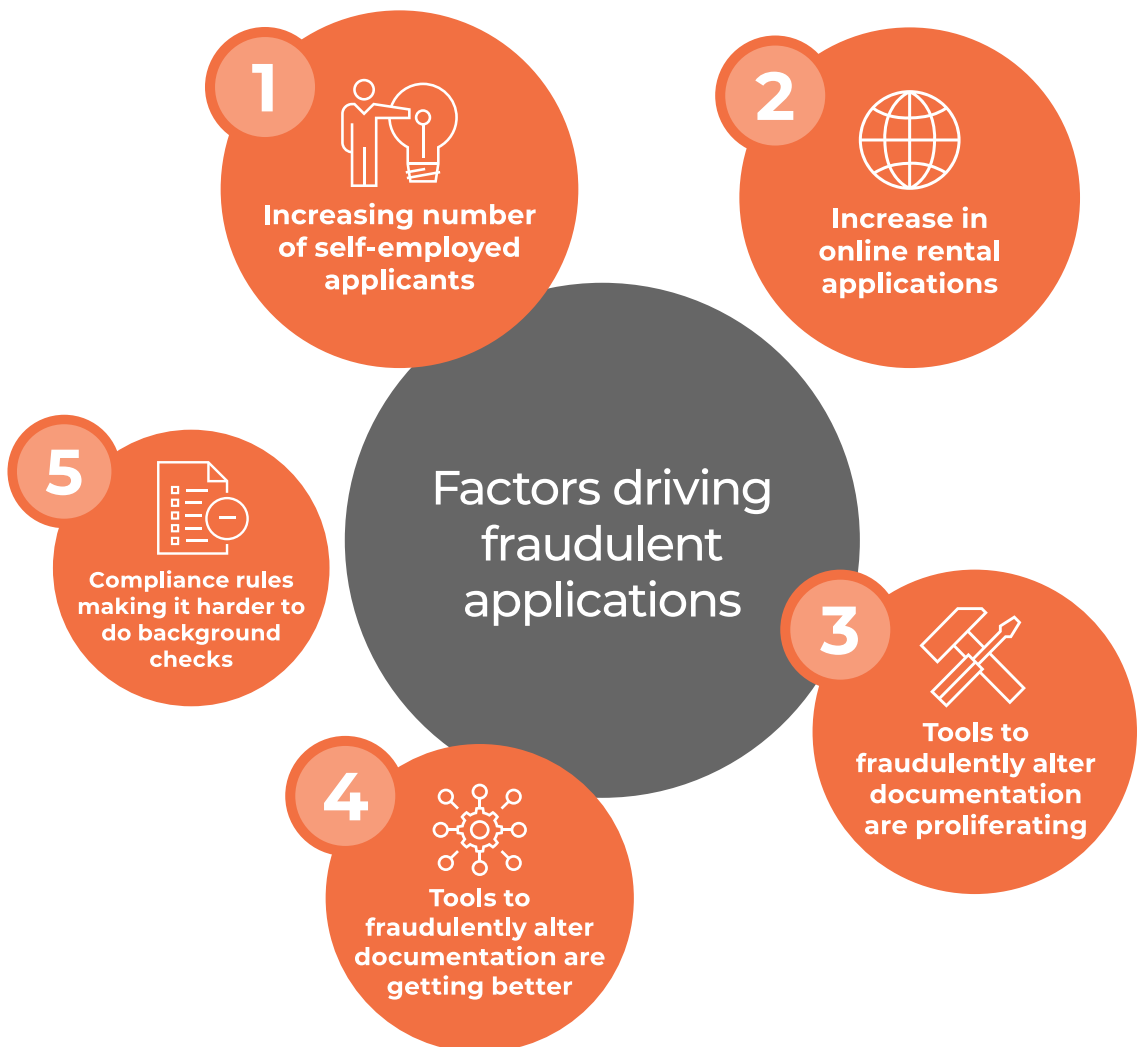
Half say it takes too long to do manually



WHAT WILL GIVE PROPERTY MANAGERS A HEAD START?

More manual processing will only increase the strain on personnel with no promise of return: due to high-tech trickery and laborious communication, squinting at screens or poring over paper applications to detect document tampering does not guarantee discovery nor does waiting on hold to talk with issuing institutions for financial documentation.

Managers need to spend their energy and expertise on maintaining and improving the property and building relationships with tenants. The majority of respondents use a fraud detection service or product, but more than half of the property managers rate their solution as extremely ineffective to only somewhat effective at spotting fraudulently altered documents.



RECOMMENDATIONS

For the race, best practices as well as the latest technology advancements can speed vetting, authenticating and processing any application.

1

Keep your eyes on the opponent.

Is the visual quality of every document what you would expect? Or, does it look like it has been copied multiple times? Ensure account numbers carry across separate documents. Check that transactional details and other numbers are aligned and match formatting in verified documents you've received from the same source in the past.

2

Make sure the numbers add up.

Call all the telephone numbers on a document to make sure they work; but, how do you know the person on the line is a prior employer or an accomplice in crime? Look up contact information for issuing organizations or corporate HR departments yourself. Ask questions for details such as a start-date, specific information a friend would be unlikely to know.

3

Take the inside lane.

Does the narrative across all sources of an application stay on track? Inconsistencies or dead links for live documents are a red flag. How do applicants feel about submitting paperwork in person? Peruse LinkedIn pages and review histories through online databases such as sba.gov or opencorporates.com to ensure a company is legitimate. Ask applicants to print statements in the leasing office.

4

Break away with technology.

While these practices may slow down fraudulent rental applications, they require a lot of energy and time from managers who have other, high-level tasks at hand.

To outpace technology-enabled document tampering, many property managers lace up the latest technology-enabled detection from Snappt. Instead of spending four to 10 hours vetting an application, they spend minutes uploading digital documentation for image and historical analysis as well as data-driven review using algorithms tuned to catch document manipulation. Within 24 hours, Snappt certifies whether documentation is fraudulent or authentic and keeps property managers compliant with industry requirements.

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