

The Paradox of AI

Why you don't have to sacrifice efficiency for equality.



Introduction

Fraud perpetrated against multifamily businesses has been on the rise in recent years. According to Forrester, a leading research and consulting firm for B2B software companies, 97% of property management companies have experienced some form of fraud¹. This is a trend that has increased both during and after the pandemic.

Fraud detection technology is rapidly improving, but there's a stronger tool in our arsenal that many are afraid to use. AI has the ability to identify and track patterns to help you root out fraudulent applications by improving identity verification, rental and criminal history checks, and other financial factors like debt to income ratio layered on top of other factors you're already screening for. This includes the basic need to pay rent or uphold the length of the lease. Consideration of all of these factors is beneficial because it helps you select the residents that best meet your needs. That leads to a stronger performance data profile and approvals at speeds much greater than legacy processes.

¹ Reputation Unveils 2022 Property Management Report Findings and Rankings

However, many property owners are hesitant about using AI during the application and approval process because of the possibility they could violate fair housing laws due to potential biases in the machine learning algorithms.

The truth is that many operators are already using some form of rules based algorithm or a statistically validated scoring model like FICO to make decisions around credit worthiness. It makes sense to take this to the next level by screening against other behaviors to ensure that you have the highest quality residents that meet all of your criteria. AI can do this but some believe that it may introduce biases and violate regulatory obligations.



This creates a paradox that is hard for some operators to wrap their head around. As businesses, we want to create a more effective application process, but it is equally important to ensure the process is fair, consistent, equitable, and doesn't discriminate against protected classes. Regulatory compliance and AI do not compete with each other but rather can complement one another when applied properly.

These two scenarios could be perceived as ["contradictory-yet-interrelated"](#) elements of the application process that create positive outcomes, are often polarizing, and require a mindset of being able to "hold two opposing views simultaneously", which is the very definition of a paradox. For multifamily businesses to succeed in the long term, they not only need to maximize efficiency, but also stay compliant with local fair housing laws and regulations².

² Six paradoxes of leadership

Currently there is a fear that using AI at any point in the screening process might run them afoul of Fair Housing. These fears are valid, but only if the application of AI does not intentionally take these laws into account. These fears can be alleviated when you partner with the right AI vendor who values both efficiency and equality and who apply your approval criteria consistently for every applicant, regardless of age, race, ethnicity, nation of origin, and disability.

Technically speaking, we use AI in a precisely controlled manner. This includes sufficiently “grounding” our models and “incentivizing” them to be aware of these compliance obligations. While we use best in class AI technology, the application of it is bounded and guided by the immense amount of context that exists within the Entrata Platform.

Utilizing AI to analyze and help you choose the right residents for your property might even introduce to residents that might be a good fit, but may have been rejected in the past because they don’t have traditional credit history³. This potential increase in the rental pool is the result of you having access to far more historical data related to your applicants than the credit bureaus have to determine an individual’s credit worthiness, which will help you make more informed decisions than you were previously able to do.

Throughout the course of this ebook, we’ll provide suggestions for how to successfully implement AI into your application process, highlight other AI use cases, and discuss the possibility of updates to fair housing regulations to take into account new technologies.



³ Fed watchdog: Fair Housing Act, ECOA must evolve with realities of AI

Finding the right AI partner for your business

First and foremost, you need to ensure the data that your partners use to train their algorithm is of the highest quality. AI is only as good as the data it's trained on and only as good as the data it's trained on. When setting up your database, you want to make sure the data is consistent, accurate, complete, deduped, current, relevant, standardized, and follows data governance and security policies⁴. If any of these areas are lacking, it could hamper your ability to make correct decisions for your business. Because the end goal's dual purpose is to save time AND adhering to fair housing standards, it's paramount that you don't introduce biases into your algorithm with bad data.

It's scary to give control over to technology, but if AI is used with the right intent and built in such a way to eliminate biases against protected classes outlined in Fair Housing, it can significantly accelerate the application process and save time for your employees. The end result is an outcome that is both equitable and efficient. You don't have to give total control over to AI—it's recommended to implement a driver-assisted model where your team sets the rules and can jump in and take over for AI at any point in the leasing journey.

Before embarking on an AI journey at your company, make sure you have well-crafted policies in place that promote your company goals. It's important to know the criteria that you want in an ideal applicant and what outcomes you want from the leasing process⁵. It's important to have clearly defined and vetted applicant risk criteria in place before starting to use technology to augment the application process.

For example, you'll want to be able to preserve the privacy of applicants, while also providing reliable and valid results that will ensure that decisions you make are justified—all of which are required by fair housing⁶. The end result of incorporating AI is to eliminate mistakes or discrimination caused by human error while also creating a process that is more efficient. One of your goals of the project might be to reduce the lead to lease process by a certain percentage. Whenever setting goals, make sure they align with your overall mission and vision as a company and that they are both quantifiable and stretch your capabilities⁷.

Your goals should revolve around streamlining operations to reduce potential loss due to fraudsters, reduce the likelihood of criminals living in your communities, and maximize the "applicant yield" from the leasing funnel.

4 Data Quality For Good AI Outcomes

5 Using AI to Promote Equitable and Affordable Housing

6 Using AI to Promote Equitable and Affordable Housing

7 Step-by-Step Guide on How to Write OKRs for Machine Learning Researchers

Whenever you deny an application, make sure that you have the proper documentation in place to justify it. According to the Consumer Financial Protection Bureau guidelines, “Adverse credit reports require that adverse decisions, including landlord decisions to reject prospective tenants, be explainable. In addition, states such as California and Illinois have begun implementing their own consumer and employee protection laws governing AI.”⁸

You should not hand over your entire application process to AI, rather, look at different steps in the process where AI can assist you. These are processes that are manual, time consuming, and repeatable. Examples of these include, rental and criminal history criteria, financial factors beyond income verification like debt to income ratio, and identity verification.

It would be invaluable if you were able to identify fraudulent individuals early in the lead to lease journey so you’re not wasting time on unqualified applicants. Using AI coupled with PreciseID to identify if someone is using the wrong name, address, social security number, or is falsifying pay stubs is a good place to start⁹. If you are worried that AI could introduce biases in the approval process, beginning with accuracy and truthfulness of data is a good starting place¹⁰.

Fighting fraud is a time-consuming process. Eliminating it as early as possible in the funnel will allow your teams to focus on other more important strategic initiatives and help stabilize rental rates¹¹.

AI isn’t a new concept in multifamily

While using AI to vet potential residents for screening elements beyond credit worthiness is in its infancy, AI has long been used in the multifamily industry. Chatbots are powered by AI for many businesses, they act as the first point of contact for applicants and help them get routed to the right person or push them further down the funnel toward completing an application.

Additionally, generative AI (i.e. ChatGPT, Bard, etc.) is gaining traction for streamlining resident communication and helping ensure those messages are both consistent and detailed. Implementing a machine learning algorithm to accelerate the approval process is just taking the use of AI to its next logical step. It intakes the application and the screening data collected about the individual, and makes a suggestion to approve or deny based on your customized screening criteria—and can analyze data much quicker than your site teams are able to.

⁸ Using AI to Promote Equitable and Affordable Housing

⁹ Fraud And The Housing Affordability Crisis: 5 Factors Multifamily Operators Need To Keep In Mind

¹⁰ Fraud And The Housing Affordability Crisis: 5 Factors Multifamily Operators Need To Keep In Mind

¹¹ Fraud And The Housing Affordability Crisis: 5 Factors Multifamily Operators Need To Keep In Mind

Vetting processes need an update

The Fair Housing Act of 1968 has played an important role in providing housing access to classes that have previously faced discrimination. The Act was amended in 1988 to strengthen enforcement while adding families with children and persons with physical or mental disabilities to the protected classes.

There is currently a push for federal regulators to update the fair housing laws to make it easier for property owners and operators to take advantage of new technologies, like AI, without fear or risk of being cited for violation of the Fair Housing Act and being sued by former applicants who were denied a lease¹².

“As our financial system evolves, it is critical that we adapt our application of the Fair Housing Act and ECOA to deal with technological change and other developments.”¹³

—Michael Barr, Federal Reserve Vice Chair

As mentioned previously, these new technologies could do more good than bad and provide a more broad understanding of creditworthiness of individuals who don't have “traditional credit history” because you would be utilizing more data points as part of the review process. When applied correctly, it can eliminate much of the human biases that previously redlined certain groups of people.

¹² Fed watchdog: Fair Housing Act, ECOA must evolve with realities of AI

¹³ Fed watchdog: Fair Housing Act, ECOA must evolve with realities of AI

Conclusion

Hopefully by now, we've alleviated any fear you may have about partnering with AI providers at your properties. When you do decide to make the leap, don't forget to be thoughtful in the partners you choose to build your algorithm and take into account the various factors that make up fair housing laws and regulations as well other criteria you deem important. When the criteria in your algorithm is applied consistently to every applicant to measure risk, you shouldn't be worried about whether or not you're violating fair housing regulations.

With the worries out of the way, you can focus on leveraging AI to vitally improve the application process, saving countless hours spent by your team reviewing applications and increasing satisfaction among applicants because you were able to reduce much of the friction associated with signing a lease.

AI and machine learning also make the application review process more scalable. They are enabling a centralized operations model that is becoming increasingly popular in the industry. When you're able to centralize leasing operations, it opens up site teams to focus more on improving the resident experience and allows you to add additional specialization to your team. Instead of having to be jacks-of-all-trades, you can put team members in a better position to succeed by letting them do what they do best, whether that be sales or customer service.

To learn more about how to incorporate AI at your properties, request a demo today!

Request Demo



Entrata powers over 20,000 communities worldwide helping clients achieve and exceed their goals.

