

# **SOUTHEAST MULTIFAMILY & AFFORDABLE HOUSING BUSINESS**

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# It's Time to Fight Fire with Fire Against Fraudsters

*These tips will help ensure the bad actors behind renter fraud never step foot in your units, but we need to band together as an industry for meaningful, systemic change.*

Todd Watkins

**A**s a young lawyer, I passed up an opportunity to work at the SEC (think Bernie Madoff not Nick Saban). I turned the job down because I didn't want to spend all day thinking about fraud. I'm glad I turned down that job, but I find I still spend a lot of time thinking about fraud.

If fraud is using deceit to deprive another of their rights or property, then fraud is everywhere. Some fraud is horrible (Bernie Madoff stole roughly \$65 billion over the course of two decades). Some fraud is benign (my 21-year-old just retired her fake driver's license).

Fraud has been around since that snake first offered a famous woman an apple. And we know it will go on in the future. Indeed, by my calculation, we're less than one year from reading about the people who are just about to start defrauding the victims of Hurricane Helene.

Far from escaping fraud, our industry seems to be drowning in it. A poll published in January by the National Multifamily Housing Council found that nearly 95 percent of survey respondents say they have experienced fraud in the past 12 months. I bet the other 5 percent weren't paying attention. The result is more bad debt and more legal costs from having to evict people we shouldn't have rented to in the first place.

## Renter Fraud Then and Now

So, what is fraud, how did it happen, why is it growing and what can we do about it?

Renter fraud is when someone gets us to lease them an apartment they wouldn't qualify for otherwise. It used to happen because employers stopped giving meaningful references. This meant that someone who didn't have a steady income but did have a steady hand could just go down to Kinko's (Google it, Gen Zs) and forge a couple of pay stubs. Mix that with an unwitting or uninterested leasing agent, and, voila, a single individual got a single unit, usually for them to live in.

Now it's much more sophisticated, and, since the pandemic, much more common. According to a survey by RealPage, individuals have been joined by organized rings using an array of sophisticated practices to obtain multiple apartments.

It's growing largely because of the growth

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**TODD WATKINS**  
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of cheap technology and, let's face it, our own lack of diligence. When it comes to technology, cheap and really official-looking fake IDs can be ordered from China at a cost of \$50 for a pack of three, or so my kids tell me.

Forged checks can still be made at a FedEx store, but why go there when real checks can be ordered online using the account and routing information taken off a real check and then signed with a scanned version of a legitimate signature?

Better yet, a recent presentation by Snappt, a leading fraud-detection firm, detailed rings who will set someone up as an "employee" of a fraudulent LLC and then pay them back their own money in exchange for a small fee so the person can not only present pay stubs but also bank statements showing the money coming into their account. From there, these tactics can be used by large groups to lease and then sublease your units.

## We Are Part of the Problem

Fraud is getting easier, there's no doubt about it. But it is also aided by the unwitting, the uncaring and those who aren't vigilant. There was fraud before the advent of the internet and cheap technology. Undertrained and poorly motivated staff saw documents they knew were fraudulent and/or were presented by people they knew they shouldn't lease to. Still, they approved applications because they didn't know, didn't care or just didn't want to get involved.

I suspect that a more than healthy fear of being accused of fair housing violations has left

many staffers afraid to call out what they know is wrong. I also suspect that compensation structures that pay for leases but don't penalize for fraudulent leasing don't help.

This is also exacerbated by some of the tactics we tell site staff to use. The "look and lease" offers provide discounts to people who move in quickly, or at least before their deposit checks have cleared. The same is true of deposit alternatives and other tactics that reduce the friction in leasing. Reduced friction can mean more leases, but it means the prospect has less skin in the game. And the less skin in the game, the less incentive they have to pay.

If that's not bad enough, these factors only come into play when there are people involved. Online leasing allows for people to bypass humans entirely and rent units in the middle of the night when no one is paying attention.

## Go Scorched Earth on Criminals

So what can we do about it? For our part, there are a few things we're now doing to try to reduce fraud at our properties. First, we fight fire with fire. If they're going to use technology, we're going to use technology. We've worked with companies like the aforementioned Snappt, but it is just one of a slew of new companies that are using technology to go beyond the documents presented and verify tenant identity before fraud can occur.

Verifying identity typically involves some mixture of asking obscure questions from publicly available sources and AI. Law enforcement is even creating forensic groups that study new

WHAT'S ON MY MIND

types of fraud to try to stay ahead of their techniques. This is great, but, as you can imagine, fraud protection is not cheap and it's not foolproof.

Second, we're playing with our leasing incentives so that the one month free isn't the first month. That requires prospective tenants to have paid something before they can move in. We're also putting people behind the technology so that when a screening tool says an application should be approved "with conditions," more than one person, who doesn't get an occupancy bonus, has to agree to approve the lease and document their reasons.

These measures seem to be having some effect, but this battle is only going to get worse and, honestly, I fear we're going to keep losing as the cost of committing fraud is getting cheaper while the cost of preventing it is getting more expensive. That's only going to result in us paying more for fraud detection and charging more to residents, something no one wants.

So I have an idea. Not for each of us individually but for all of us, collectively. We should get our industry groups and trade associations to lobby for exemptions to the standard eviction timelines for cases of fraud.

Think of it as an E-Z pass lane where we don't have to wait the same amount of time, and tenants aren't given the same presumptions of innocence, once the landlord shows that the tenant rented the apartment under false pretenses.

Right now, in most jurisdictions, if a tenant using falsified documents moves into your apartment on Sunday and then stops payment on their deposit check on Monday, never having had any intention to pay, they can live rent free for months while you pay court costs and legal fees to evict them.

Why shouldn't there be an exemption to the landlord/tenant laws for fraud that says if the paystubs presented are from a company that doesn't exist or the identification you presented was fraudulent, you can be immediately evicted? It won't change the playing field entirely, but maybe, just maybe, it can decrease our operating costs and provide more units for people who really want them. ●

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