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Robots Are Taking Over (the Rental Screening Process)

Landlords are using artificial intelligence to vet prospective renters

For decades, when you applied for an apartment, the landlord—or a tenant screening company hired by the landlord—would examine your credit file and pay stubs to verify your *ability* to pay rent. But today, landlords are using the artificial intelligence revolution to predict something else: Your *willingness* to pay rent.

"Some people earn three times the monthly rent, but they may love eating out and driving BMWs," said Matt Davis, senior vice president of financial services for RealPage, a software and data analytics provider to the real-estate industry in Richardson, Texas. "Another person may only make 2½ times the rent, but eat ramen and drive a 20-year-old car." This summer, RealPage rolled out an artificial intelligence-based tool that would likely score the poorer ramen-eater as a better candidate than the richer gourmand.

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Do you think that AI-powered rental screening will make access to rental properties more or less fair? Join the conversation below.

Rental screening using artificial intelligence is possible because of advances in machine learning, in which algorithms parse large troves of data, make decisions, then further refine the decisions. Companies that specialize in tenant screening have been big adopters of AI-driven tools. The credit bureau TransUnion also offers such a product, which it calls ResidentScore 3.0.

Companies say that the benefit for landlords is more confidence in the tenants they select and the terms they offer. For renters, say the companies, the benefit is more fairness, especially for candidates who might be turned away by traditional screening methods.

But as with any algorithm-based decision-making process, the fear is that the machines will bake in prejudices that lock some groups out of the rental pool.

“If we do not use technology to minimize bias, we are just going to be amplifying the bias,” said Lisa Rice, president and chief executive officer for the National Fair Housing Alliance.

RealPage built its tenant-screening algorithm with 20 years of data it collected while using conventional tenant-screening tactics. The company uploaded data on 30 million leases and asked the computer to find patterns in tenants who “moved in, moved out and didn’t owe the property any money,” said Mr. Davis.

What RealPage learned upended many tenant-screening orthodoxies. While all renter debt types have historically been weighted the same, it turns out that people with student debt were better renters than people with credit card debt. A renter who is consistently a few days late with rent is better bet than someone who is very late just once. People with thin credit histories aren’t necessarily bad renters, just people new to the financial system.

HelloRented is using an AI-screening process in a new business model it created. The company, founded in 2017 and based in both New York and Tel Aviv, is so confident in its AI assessments of tenants that it takes on some of the landlord’s risk of renting to them.

Founder Jeremy Esekow said he designed the company to serve “internationals, gig-economy freelancers, millennials, and anyone who doesn’t have a stable pay stub.”

In the HelloRented program, the prospective tenant submits to a computer analysis of spending and earning behavior based on their credit file, bank account and public records.

“We had an applicant who every Friday night would go to a casino and spend a pretty substantial amount of money,” Mr. Esekow said. “Gambling does not necessarily make you a bad tenant, but it’s a risk factor.”

HelloRented then scores the candidate, and if the landlord accepts them as a renter, facilitates the paperwork. Then, instead of paying a deposit to the landlord, the renter pays a sign-up fee and monthly “membership” fee to HelloRented for about 1% of the monthly rent. HelloRented covers any renter-caused damages, up to four times the monthly rent. If a renter does not want to become a member, they can opt to pay the deposit instead, Mr. Esekow said.

Mutale Nkonde, an AI policy adviser and fellow at the Berkman Klein Center for Internet and Society at Harvard Law School, sees “red flags” in algorithmic tenant screening. Bias worms its way into algorithms via “proxies,” or characteristics that are more common to one group of people than another, she said. While companies may claim their algorithms don’t contain such proxies, that is hard to verify.

“Because the algorithms are protected by intellectual property laws, we have no way of scrutinizing them,” Ms. Nkonde said.

Companies say their algorithms don’t disadvantage people in federally protected classes, including race, religion, sex, or age. But even if they did, Ms. Rice said that proving discrimination might be hard. “If a company proves they had a business justification, the plaintiffs then have to prove that there is a less discriminatory alternative,” she said.

Things to know about AI-driven tenant screening

1. Algorithms work fast. HelloRented can screen a tenant in a few seconds while the person is touring the unit with the broker, Mr. Esekow said. The downside is speedy rejection, too. "For those we turn down, we actually set a delay for a few minutes," he said. Such denials are rare, he said, but when they occur the company reviews the candidate's data points used by the algorithm before alerting them.

2. Turned down by a landlord using an AI tool? If an AI-based tool rejects someone, and the rejection was based on information that came from a credit report, the landlord is legally required to explain why, under the Fair Credit Reporting Act.

3. The biggest beneficiaries of some platforms: Newcomers to the financial system—including recent graduates, repatriating expats or immigrants—with thin credit files, and freelancers who lack one steady paycheck.

4. Welcome to the future. Currently, large management companies are most likely to deploy AI screening tools. About 65% of all renters live in "mom and pop," small-scale buildings, Mr. Rice said. However, "the potential is that one hundred percent of the market will be facing algorithm-driven tenant screening," said Ms. Rice.