

AI SCREENING: A SEISMIC LEAP AHEAD

OVERVIEW

RealPage® is excited to announce its new AI-based scoring model for tenant screening. The new algorithm is a measure of the risk for a prospective renter. RealPage will maintain a group of decision criteria that accompanies the AI model to empower PMCs to make well-informed decisions on applicants.

ABOUT AI SCREENING

AI Screening employs machine-learning and advanced statistical techniques combined with behavioral patterns to accurately predict the good renters. This new innovation obliterates credit score-only models and delivers results of tremendous significance to dramatically reduce the risk of bad debt and financial loss for property owners and managers. The result is a **cost savings in excess of \$400 million*** to property owners and managers in the industry.

AI Screening leverages the RealPage proprietary rental payment history database, which contains more than 30 million lease outcome records, the largest and most comprehensive in the industry. Additional third-party consumer and transactional data is supplemented into the data set and continues to deliver clear differentiation between RealPage and other resident screening providers. The data set continues to grow with every lease transaction, outcome, and financial performance

result. Most notably, AI Screening creates a huge delta from credit-based scoring models, which only look at the ability of a renter to pay. This innovation considers both **capability to pay and willingness to pay** by examining with greater specificity additional financial data, behavioral data, and patterns within that data.

HOW AI SCREENING WORKS

The phrase 'Artificial Intelligence' is often used in today's marketplace and can be confusing to understand. Artificial Intelligence is defined as creating a prediction or determining predictability by using a massive data set to drive better decisions without direct human input. Artificial Intelligence means that RealPage now has a model that creates colossal predictive power.

AI Screening also uses machine learning and advanced statistical techniques to identify the right applicants. We have made use of statistics and combined probabilities with a supervised learning model known as a Support Vector Machine (SVM). The machine then creates a binary linear classifier. This simply means that we can now classify and conduct regression analysis on prior results and outcomes and teach the system how to improve.

As a result, predictions are dramatically improved from existing models in the market and we are able to continue improving those results over time. Thus, **powerful predictive scoring**.

With the data science out of the way, let's focus on how behavioral data inputs are essential to the high-performance nature of this scoring model. AI Screening adopts the techniques described above and makes better use of the **behavioral patterns in financial data**. Great emphasis is placed on financial liability and rental payment history to better differentiate between low-risk and high-risk renters. The model has revised the input variables and drives higher correlation between those parameters.

Not only does AI Screening **reduce bad debt and increase net operating income**, it achieves substantial improvements. The net impact of the score will **return hundreds of millions of dollars in financial losses** back to the PMCs across the industry.

There are three primary transformations within AI Screening that clearly differentiate it from other rules-based or statistical-based models:

- 1. Rental History:** This is a radical overhaul. We have completely transformed the method by which rental payment history is considered. AI Screening considers consumer behavioral and transactional patterns that drive predictability using both positive and negative payment data.

Our proprietary rental history database—**more than 30 million records and growing**—contains explicit and itemized lease information such

as move-out balance, damages assessed and payment behavior. These elements are major differentiators and allow our software, as an example, to reward some thin-file applicants. Using AI Screening not only prevents potentially bad renters from becoming residents, but also vastly improves the opportunity to successfully obtain good renters.

- 2. Debt-to-Income:** With AI Screening, debt-to-income treats liabilities differently. We enhance successful rental outcomes at the property by splitting different types of debt. The type of debt factors into the equation because long-term, low-interest debt, like student loans or car payments, is not the same as higher-risk revolving credit card debt or short-term loans at higher interest rates.

Considering different types of debt allows AI Screening to consider applicants based on greater specificity in their financial lives. This is critical for the industry. As an example, by reducing the impact of educational loans, AI Screening provides opportunity for previously discounted demographics to be considered. Historically, renters with a thin file or no file would be excluded from successfully obtaining a lease. Modifying this component empowers owners and managers to make better leasing decisions without harming occupancy or revenue.

3. Rent-to-Income: This criteria is deprioritized within AI Screening. The category has been the most prominent explanation for gaming the application processes.

Prospective renters falsify true income data and ‘sneak’ through application processes too frequently. AI Screening is more robust by removing the volatility associated with the rental amount and the income provided by the renter. This consideration will be re-located to an application-level criteria outside of scoring itself, meaning it will have zero impact on the score result and diminished impact on results and recommendations to owners and managers.

Finally, the score result is transferrable. This inherently has huge advantages including:

- Ability to conduct pre-screening of applicants
- Tracking the lifetime value score of residents currently living in a property
- Upsell opportunities for different units and/or to sister properties in a given portfolio

RISK THRESHOLD SETTINGS

AI Screening appreciates that a few critical factors will be important to operators, regardless of AI Screening. To accommodate this need, RealPage will simplify the screening settings to provide a concise guide toward making the best leasing decisions and removing ambiguity. Settings

provide operators the opportunity to auto-score applications without harming the efficacy of the AI-based model. For example: a property can choose Pass/Conditional/Fail for any of the settings, regardless of the score.

Important: All existing Criminal and Landlord-Tenant settings will remain the same.

SUMMARY

AI Screening transforms screening results into a new dimension. No longer will we consider credit worthiness the benchmark in lease decisions.

The new benchmark is **“Renter Worthiness”** by assessing both the ability and willingness to pay. By zeroing in on low-risk renters, operators not only maintain occupancy and revenue but dramatically reduce the risk of financial loss and restore much needed net operating income back to the bottom line.