



## The AI Impact: Increasing Fraud Threats in Commercial Real Estate

Vicki Etherton • published in the July 2024 issue

**T**he rising threat of real estate fraud is a significant concern. While the focus and warnings largely center on residential real estate transactions, fraud trends in commercial real estate are evolving with the onset of artificial intelligence (AI) tools. As a result, real estate professionals and consumers need to be more vigilant than ever. The first step to protecting transactions is awareness, recognizing potential threats, and understanding what to do if or when something suspicious arises.

### What the Stats Say

According to the American Land Title Association (ALTA), more than 50% of real estate professionals encountered a seller impersonation attempt in 2023. CertifID, a leading company in real estate fraud prevention, found one in 10 Americans are being targeted for real estate fraud. CertifID's 2024 State of Wire Fraud report examines the latest threats to real estate transactions and notes the rise of fraud resulted in an annual financial loss of \$446 million. The stats are alarming, but some precautions help ensure safe and secure transactions.

### Recognizing Fraud

Commercial real estate transactions are susceptible to the same types of fraud attempts as residential. The most common threats include seller impersonation and wire fraud. These attempts primarily occur through Business Email Compromise (BEC) events and phishing attacks. Scammers will use fake or stolen IDs or documents that can appear credible; they search public records to identify vacant land and properties without a mortgage or with high equity, then pose as landowners and forge documents and deeds to present fake titles.

Sellers need to be on alert for "entity hijacking." The Members and Managers of an LLC and officers of a corporation are public information in most states, making it relatively easy for someone to change the names of these parties. If you sell a property and the title is vested in an LLC or a corporation, contact the Secretary of State to verify that the parties shown on the records have not been changed. The title company will ask for corporate paperwork to verify the authority to sell the property. If you recently had a valid change of officers, be prepared to provide evidence to title. This is done to protect the seller and the buyer from possible hijacking.

Refinancing free and clear or slightly encumbered properties is another fraud strategy to be alert to. Fraudsters are taking out the equity of property owners and it could be months before an owner is notified of the payment delinquencies or foreclosure.

### How AI is Changing Fraud Threats

Before AI exploded, most fraud attempts were conducted via emails and phone calls. Thanks to common red flags in language, we are all told to watch for, these scams can be identified. AI ups the game, making it easier for fraudsters to impersonate a legitimate buyer or seller.

One well-publicized AI scam warns that scammers are now using new technology to masquerade as trusted parties in a transaction. A deep fake video conference with the CFO and senior leaders of a financial company instructed

an employee to wire \$25,000,000. After the money was sent, it was discovered that everyone on the call with the employee was fake.

### Protecting the Closing Process

The closing process remains relatively unchanged, but your title company may ask more questions and take extra steps to verify identity and bank information. This can include the use of third-party apps to review and validate driver's licenses, passports and banking information.

It used to be common for a broker or an assistant to "handle everything" on behalf of a client. Now, when signing documents or handling bank account information, the title company may want to deal directly with the buyer. Using a known, vetted notary is another protection. Advanced technology also allows remote online notarization (RON), which adds security and convenience to the transaction.

Brokers and agents are the first line of communication with buyers and sellers. By educating all parties involved we can raise awareness of how fraudsters will try to take advantage, especially during the "closing rush." The most important preventative steps include:

- Know the names and numbers of your escrow/title person, broker, and lender
- Be on high alert for suspicious emails, phone calls, video conferences
- Verbally verify banking information before wiring funds
- Beware of properties listed under market value; verify seller/title holders
- Ask individuals on video to show ID and/or prompt them to move around to reveal potential fakes
- Set up title alerts on properties to notify owners of changes in records and entities
- Learn what additional precautions escrow and title officers are taking

**The bottom line:** Once a scam is carried out successfully, it is extremely difficult to recover the financial loss. Recognizing the tools and tricks scammers are using and working together to protect the process can mitigate the losses.

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