4

Small Landlords Leasing During COVID-19

In a region with growing real estate tensions, where wages have remained stagnant, and job losses were significant last year, how did small landlords weather this unpredictable economic storm?

Context

In August 2020, we interviewed landlords of various scales: from property managers with properties around Texas to landlords with two properties; from landlords who relied on their properties as their primary source of income to those looking to build wealth. When reflecting on those interviews, we realized that "small landlords" had their own unique needs and issues. They were more likely to feel unsupported by general government programming for landlords while also more likely to work with their tenants to ensure they stayed housed. We wondered how this group of landlords were handling COVID-19 and the CDC eviction moratorium put in place on September 1, 2021.

Method

An Un-randomized Study of Small Landlords

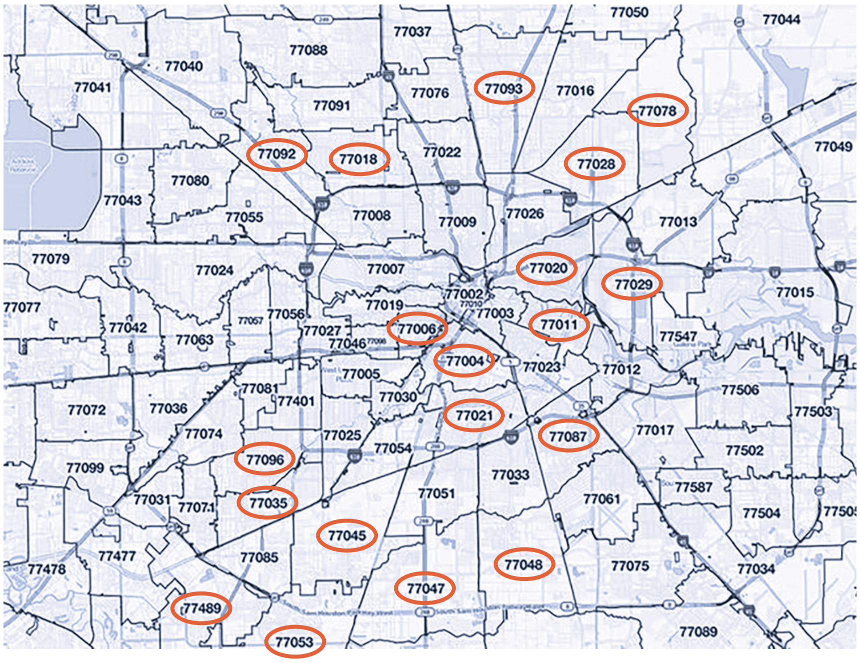
Gender & Race

4 females and 4 males
3 landlords identified as Black or African American
3 as Caucasian or White, and 2 as Asian or Asian American

Number of Properties, Occupied or Empty

2–74 per landlord, with a median of 14 units

Property Zip Codes



Types of Property

A mix. Some with only single-family; some with single-family and fourplexes; some with small (5–20) and others with large (20–75) multi-family properties

Rental Revenue Range

$36,000 to $400,000 with a median pre-COVID revenue of $80,000 and a median COVID revenue of $57,500

NOTE

As design researchers, we know that our sample size is small, and it is not representative of the entire population. We don't intend it to be. Instead, we aim to study unique experiences. This allows us to tap into insights that we otherwise may not have access to.

Before conducting interviews with landlords, we asked potential interviewees to share their information: their reason for becoming a landlord; rental revenue range; gender; race; types, number, and location of properties. We used this data to intentionally create a diverse pool of interviewees.

Why They Became Landlords

Being a landlord is their retirement plan and a way to build intergenerational wealth. Rather than looking at monthly profits, most people we talked to were interested in long-term return on investment. This is their safety net, their retirement fund.*

*Note: this may be so because of a bias in our data. Most landlords we spoke to didn't see this as a primary source of income.

> I am trying to maintain optimism. I have put so much into real estate; this is my retirement. This is my 401(k). But I am not the average landlord.

> I am continuing the legacy of my grandparents. They owned 9–15 properties around the Third Ward area.

They can provide affordable housing in their communities.

> I have been through a lot growing up as a Black man, raised by a single mother in Third Ward. I got into real estate to be able to give people options for quality affordable housing. Really, my goal is to give people long-term homes.

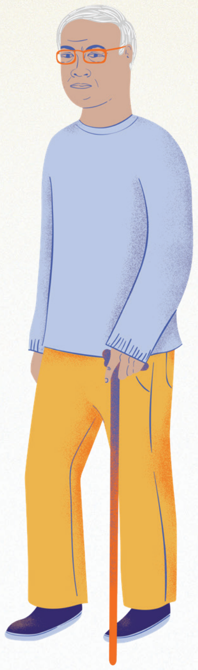
> My family has been here in Houston for over 100 years. My grandparents started with a boarding house in what is now EaDo. They rented it to immigrants. And I'm continuing that by providing affordable housing for low-income communities, primarily immigrants. It's basic housing, but I try to provide the best services I can.

INSIGHT 11

We saw that small landlords play a crucial role in keeping people housed and in preventing homelessness. There is an opportunity to leverage these people to continue to preserve affordable housing. How do we make their lives easier?

Persons

Let's Meet the Small Landlords



The Novice

“I became a landlord when I moved into a new place. It was serendipity. I bought another property right before COVID. Bad timing. I'm not looking at this as a source of income right now — more like a future return on investment. Let's see how this goes!

The Drained

“We've been investing in properties for a long time now. We used to have six properties with 33 units. We got to a point where all our job income and weekend time were going in sustaining our properties. We were exhausted and financially drained. We sold them off and only kept two houses. Now I think it was a bad decision.

The Strategist

I've been doing this for the past 15 years. I started doing this with a friend to strategically build wealth, and then, one property after another, here I am. This isn't my primary source of income but more like my retirement plan.”

Get to Know Them Better

The Novice

Still a Lot to Learn

“My properties already have a lot of repair needs. And I was hoping we could cover such expenses and even property taxes with the rent we receive. But my tenants are behind on rent. And I have to make the repairs soon to give my tenants a livable space. I don’t know what I’m going to do.

“I’m doing a lot to learn about being a landlord and changing how I am with my tenants on the fly. I’m relatively new to this, not a seasoned landlord. I have amended my tenants’ lease: If you can make this payment by such and such a date, we will forgo late fees. I signed up for mentor sessions with SCORE, a nonprofit real estate group. I asked them for advice.

Already Experiencing Low Morale

“I have thought about selling my property already, but I don’t know. I don’t want to deal with the hassle of keeping up with tenants. It is more hassle than it is worth. It doesn’t feel like there is a lot of support. I will probably lose my investment.

The Drained

Extremely Stressed

“I’m 66 years old. The inspection officer told me to do $50k in upgrades. Doing the upgrades means talking to construction people, getting stuff fixed during COVID-19. It’s stressful — emotionally, physically, mentally. And I fear for my safety because of COVID-19 and interacting with people.

Needs Guidance and Creativity

“This was our primary source of income, along with social security. But we were running through money too fast, so my husband returned to his job. And we are still running through money. We are now going through our IRA savings. Our hope was that the rent from the properties would cover operating costs and property taxes so we would not have to use our savings, but that hasn’t been the case.

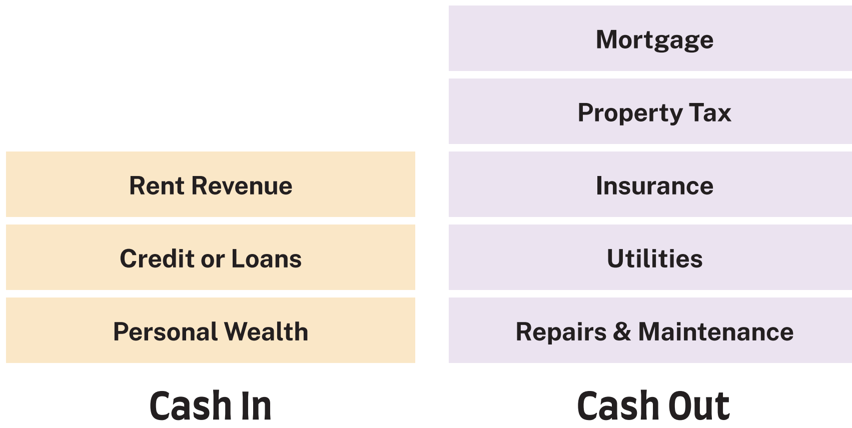
The Strategist

Creative and Well-planned

“Before COVID, I was running a 30 percent margin. Now, I’m somewhere in the teens. Right away, I asked my lender for lower interest rates. But that will only save me a couple of thousands. Insurance, water, taxes, maintenance still come in. And given that my margins are shrinking, I’m focusing on increasing my revenue. I installed vending machines and washing machines in my apartment complexes as new sources of revenue.

“We take a human approach and build a very strong relationship with our tenants. That’s our strategy. During COVID, we dropped off pizzas to them and backpacks for the kids. We are investing more to have food delivered to them. This ensures that they take that extra shift, pay their bills, keep up the properties, and even pay their rent on time.

Let’s Get Down to Business



When we spoke to the small landlords in August 2020, we learned that most small landlords were getting by.

To continue getting by, they need access to cash. For many landlords, rent collections usually cover operating expenses, from mortgage to utilities to property taxes to repairs.

However, during COVID-19, landlords are finding themselves with limited access to cash flow: collecting less rent because tenants are behind or unable to pay; unable to access a line of credit; unable to evict tenants who aren't paying to get tenants who can; and unable to get better rates from banks and lenders. While cash flow in is restricted, cash flow out hasn’t changed much: Mortgage still needs to be paid; property taxes are due by January 29; and repairs and maintenance need to be taken care of — quicker than before, given tenants are quarantining and working from home.

INSIGHT 12

If 60 percent or more of their tenants were paying rent, the small landlords we spoke to were able to cover expenses as they arose. However, they were worried about large bills, such as property taxes and high-ticket item repairs.

Cash In

Limited cash flow in. Cash flow helps landlords cover operating costs and property taxes. Landlords accessed cash flow through multiple sources: rent revenue, financial institutions, and personal wealth and savings. All landlords we spoke with were facing a decrease in their revenue during COVID-19. Before COVID-19, rent was the main source of cash flow. During COVID-19, landlords have to find other sources of cash to stay afloat, such as new forms of revenue, loans, and/or dipping into their savings.

> "The objective for the rent was to cover operating costs and property taxes so we did not have to use our savings.

Decreasing Rent Revenue	Tenants are behind or unable to pay Unable to evict tenants who can't pay Unable to get tenants who can pay rent
Limits from Financial Institutions	Unable to access a line of credit Unable to get better rates from banks
Limits of Personal Wealth	Dwindling savings

Cash Out

Property Taxes

There is uncertainty with property taxes. Landlords expressed that they can't accurately forecast property taxes even a year in advance, as one gets the tax bill in March and it's due on January 29.

Property values may be going up due to development and gentrification, resulting in high property taxes. This is extremely hard for those trying to provide affordable housing options and not increase rent.

> “One of my properties in the East End. I know developers are coming in and driving up prices, and they provide upgrades and all. I can't keep up.

Insurance

Landlords talked about homeowners, personal liability, and flood insurance as other major, ongoing expenses.

> “Insurance payments are getting higher and higher every year.

Mortgage and Interest Rate

The refinance market isn't looking too good. Plus there are costs associated with refinancing that require access to cash.

> “We have mortgages that have to be paid, and I am not getting any rent. There is no eviction or prospects of new tenants, but we still have a mortgage to pay. Plus there are other expenses. At the end of the day, there is wear and tear on the property. And property taxes have to be paid. There is no relief as a landlord.

Inspection and Permit Costs

A landlord expressed that the City was mandating a large habitability upgrade, while his bank denied his request for a home equity loan on the guidance of the County's COVID-19 lending policies. This leads to financial and emotional stress.

Maintenance and Repairs

Most landlords are more cost-conscious during COVID but are doing their best to keep up maintenance on the property. Landlords know that it makes moral AND business sense to do repairs. It's in their best interest to maintain the property during the eviction moratorium, because they want to be able to collect as much rent as they can.

> “Legally, I don't have to do repairs if someone is not paying rent. But morally, that isn't right. Plus, it makes business sense to do repairs: Am I going to get people to stay if I don't do repairs? Are people going to try to pay off their rent if I don't do repairs? No!

> “My maintenance and repairs across my 74 units cost me over $150K a year. It's a lot, and I cover it with rent. During COVID, I am only performing the necessities. And I try to not do things on the weekend, as repairs cost more on weekends. I only do repairs on weekends if it's an emergency.

INSIGHT 13

Small landlords are experiencing a mental and emotional health crisis as well. Short-term cash flow restrictions are not just financial issues but also health issues as well. Their tenants are behind on rent. Property expenses are piling up. Many have had to dip into savings or contemplate selling off their property—a.k.a., “retirement funds”—during these uncertain times. This causes high levels of ongoing stress on them and their families.

From the Courtroom to My Courtyard

The CDC Moratorium Didn't Cause Behavior Changes

All but one landlord we spoke with were aware of the eviction moratorium. Some had heard it as order not to evict under any circumstances. While no one mentioned the Texas nuances of the moratorium, it didn't seem like awareness of the moratorium was an issue. Most understood the moratorium and chose to abide by it. Landlords want to keep their tenants housed.

> Come the end of the moratorium, if they are six months behind, give me $1K and don't worry about it anymore. You do your best.

Frustration with the Messaging of the Moratorium

The moratorium seemed to signal to tenants that they didn't have to pay rent. Furthermore, the moratorium appeared to lead to erosion of trust with tenants who weren't communicative or that were on the defense.

> It is a risk, but if we were able to evict for non-payment, there wouldn't be that additional wear and tear because they cannot be evicted. There is no incentive for payment.

INSIGHT 14

Strengthening the landlord and tenant relationship is crucial during an economic crisis. Tenants who don't communicate with landlords and don't have an open relationship with their landlords are at risk of eviction or stricter consequences. If the landlord believes that the tenants aren't trying their best to get a stable source of income to be able to pay rent, landlords are more likely to think about evicting them.

Foreclosure Crisis

This Is Urgent!

Undercollection of rent isn't forcing this group of landlords to evict anyone they can as soon as they can. However, it has short-term consequences, such as underinvestment in property, foreclosure, and distress selling. If tenants continue to lag behind and landlords aren't able to access other immediate cash flow, big-ticket expenses, such as property taxes and mortgages, could put stress on landlords. And overall this can further leave the landlords vulnerable, as they are letting go of their source of wealth generation or stream of retirement funds.

> One building in Mason Park, Magnolia, post-Harvey appraised at $135K; it went up to $270k in one year. That was the first time I had to raise the rents. I protested, and they lowered it by 24 percent. On Montrose, it is outrageous. Those property taxes tripled over the last 10 years. How can I keep rent low or keep people housed who are behind on rent when I have such a big debt to the City?

> My property taxes are $70k this year. Usually, I take out a line of credit [for this] and then pay off my line of credit through the rent. If my tenants are behind, how will I pay my debt? Do I need to sell a property to get that amount of money to pay off my debt?

> I can financially float some things for now with my savings or by taking out credit cards, but, look, if this is going on until February or March, we are going to be in some real trouble.

NOTE

As a reminder, this research was conducted in fall of 2020, when we were in the thick of the pandemic, unsure of signs of relief. At that point, we thought it was important to raise an alarm around potential distress selling and a possible foreclosure crisis.

Undercollection of rent...

... and high financial obligations...

... result in a potential foreclosure and distress selling crisis!

INSIGHT 15

Small landlords are feeling squeezed. And if it pushes them to the point of selling their properties, this can lead to a collective public crisis. For the tenants, foreclosures or distress selling (and even soft exits) can lead to disruptive dislocation. For the neighborhood, this can result in reduced property values.

Questions to Solve For:

- How might we help landlords find creative ways to improve cash flow so that they can be more flexible with their tenants?
- How might we support landlords making City-mandated habitability upgrades during this time when they are cash-flow strapped?
- How might we encourage lending institutions and collectives of landlords (a collective of strategists and novices) to assume and distribute risk by pooling funds?
- How might we lower, delay, or spread out property tax burden for the novice and the drained to prevent foreclosure and distress selling?
- How might we encourage banks and lending institutions to work closely with the novice to help them stay afloat right now?
- How might we foster dialogue and enable stronger relationships between tenants and landlords to prevent future (post-moratorium) evictions?
- How might we rebrand any national moratoriums locally to build trust and confidence between tenants and landlords?
- How might we share or lower the emotional burden on landlords of actively keeping tabs on and collecting rent from tenants?
- How might we collaborate with the drained and the strategist to prevent homelessness and provide affordable housing in our city and county?
- How might we co-learn with and co-teach landlords on what it means to be a small landlord in deeply uncertain times?
- How might we provide financial and business advisory services to the novice who is facing a pandemic at the same time as learning about what it means to be a landlord?

Program Highlight

As a direct result of this work, the City of Houston's Housing Stability Taskforce established a Small Landlord Working Group to tackle and raise issues.

- How might we connect the novice, the strategist, and the drained so they can learn from and mentor each other?

Idea

"Speed dating" format programs for the strategists and the novices to share knowledge