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Residential Rental Property Owner Perspectives and Practices in Philadelphia: Evaluating Challenges during the COVID-19 Pandemic

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Introduction

This research brief examines the experiences and perspectives of residential rental property owners and managers in Philadelphia. Reinvestment Fund and the Housing Initiative at Penn (HIP) developed this research brief to examine challenges that landlords faced—including how they dealt with evictions—prior to the onset of the COVID-19 pandemic; new or increased difficulties stemming from the pandemic; and landlords' engagement with and attitudes towards programs aimed at stabilizing tenants in rental housing.[1] We also present considerations for policymakers as they contemplate both short-term and long-term strategies to reduce housing instability.

There are more than 280,000 renter households in Philadelphia, many of whom already had difficulty paying their rent before the pandemic. We estimate that, one month prior to the pandemic's onset, the aggregate gap between 1) what city renters with incomes under $100,000 per year owed in rent and 2) what these renters could afford if rent were to consume no more than 30% of their income was $74.4 million. With a 20% decrease in aggregate income attributable to COVID-19-related job losses and wage reductions, we projected that gap would grow by $15.5 million per month. According to the most recent data from the Census Bureau's Household Pulse Survey, covering November 25 through December 7, 2020, 10% of renters in the Philadelphia metro area had 'no confidence' in their ability to pay the next month's rent, and another 21.5% had 'little confidence.' These shares were higher for households earning less than $35,000, at 13% and 32% respectively. Many of these extremely low-income households reside in the city of Philadelphia.

Interest in the City of Philadelphia's COVID-19 Emergency Rental Assistance Program (CERA) reflected the massive impact of the pandemic on renters' ability to pay for housing. CERA made funds available to help tenants who had lost income due to COVID-19. Tenants had to submit an application and their landlords had to agree to a set of conditions, including restrictions on collecting additional unpaid rent and filing for eviction. In all, 8,900 tenants applied to the program and 4,076 received rental assistance, totaling about $9.64 million. Many eligible applicants were unable to benefit from the program because their landlords chose not to participate. There are many reasons a landlord may have declined CERA funds; past research on acceptance of Housing Choice Vouchers suggests that landlord decisions are informed by financial, procedural, and interpersonal factors.[2]

Figure 01.

Philadelphia landlords identified similar kinds of deterrents. They were concerned about the total amount of money they could collect, and about bureaucratic hurdles and uncertainty. They also expressed varying willingness to work with tenants based on the nature of their relationships with those tenants.

The City's full moratorium on eviction filings ran from mid-March until the end of June. More limited restrictions on evictions issued by the City and the Center for Disease Control are continuing into 2021. All have helped keep renters in their homes regardless of their access to emergency assistance. However, the moratoria have also raised tensions between the City and rental property owners, and between some rental property owners and their tenants. In a typical year, approximately 20,000 Philadelphia households face an eviction filing—more than 1,500 a month, on average. After filings ceased completely in April, May, and June, the number climbed to almost 800 in October (Figure 1). Some of these filings may be the result of rental arrears accrued before the pandemic, or breach of lease issues. Even if these eviction filings do not proceed to a lockout, they can negatively affect a tenant's ability to secure new housing.

For tenants who manage to stay housed even as their back rent accumulates, the debt may become too large to pay off, even if the economy were to fully recover. On the other hand, if landlords cannot collect rent, their ability to meet their own financial obligations is impaired. Considering that many of the owners affected by the moratoria own and manage lower-cost housing units, these financial strains have implications for short- and long-term housing availability, quality, and affordability.

Through a survey and structured interviews with Philadelphia rental property owners and managers, we identified a set of common practices and perspectives. We also discovered that some landlord behavior differed substantially based on characteristics like portfolio size, years in business, and the relative impact of the pandemic.

More than 60% of surveyed landlords reported they were 'somewhat' or 'very much' impacted by the COVID-19 pandemic. The smallest and largest operators had taken different approaches to working with tenants prior to the pandemic, and the contrast remained evident in landlords' responses to the pandemic in general and to the CERA program in particular. This brief offers insight into how landlords operated pre-pandemic, how they have adapted during the pandemic, and why some were less inclined to accept emergency assistance. These observations can constructively inform interventions moving forward.

[1] Throughout the report, the terms 'landlord' and 'owner' are used interchangeably to describe owners or managers of residential rental properties.
[2] Garboden et al. Urban landlords and the housing choice voucher program: A research report. US Department of Housing and Urban Development, Office of Policy Development and Research, 2018.

Table 01.

Variation in portfolio size and experience being a landlord

	Fewer than 10 yrs	10 - 14 yrs	15 - 19 yrs	20 - 24 yrs	25 - 30 yrs	More than 30 yrs
1-5 Units	62.1%	14.6%	7.5%	10.8%	1.2%	3.8%
6-30 Units	32.8%	14.7%	16.4%	11.2%	11.2%	13.8%
More than 30 Units	26.9%	20.5%	10.3%	17.9%	5.1%	19.2%

II. Rental Business Challenges Before and During the COVID-19 Pandemic

Philadelphia landlords are a diverse group, ranging from owners of a single property to large management companies. Some are based locally and others are scattered across the country. There are owners that view themselves strictly as housing providers. Others attach a social mission to housing provision, and some offer supportive services, such as case management, to their tenants. This brief draws from two data sources to examine the operational challenges facing rental operators before and during the pandemic, and their attitudes toward city programs and policy: (a) HIP's survey of more than 600 Philadelphia landlords from September 2020 whose tenants had applied to the City of Philadelphia's CERA program; and (b) in-depth structured interviews that Reinvestment Fund conducted between March and October 2020 with 11 owners and 3 managers of Philadelphia rental properties. Reinvestment Fund also interviewed 5 attorneys who together represented landlords in more than half of the Philadelphia eviction cases filed in 2019 in which the plaintiff had a lawyer.

Most of the owners who responded to the HIP survey have smaller portfolios, with 42.8% of landlords owning 5 units or fewer and 15.2% owning more than 30 units. The larger landlords in the survey were more likely to be veterans of the rental property business; 42.2% of those with 30-plus units had owned rental properties for more than 20 years, compared to 15.8% of small landlords (Table 1).

Over half of small landlords (62.1%) had been in business for ten years or fewer. About 41% of owners who responded to the survey had a minimum rent in their portfolio of less than $900, and 22.5% had a maximum rent greater than $1,500. Interview respondents' rents ranged from $725 for some Low-Income Housing Tax Credit (LIHTC) units to over $2,000 for some market rate units. Notably, 70% of HIP survey respondents did not have tenants with Housing Choice Vouchers (HCVs), while 13 of 14 interview respondents did.

Difficulties Prior to COVID

In HIP's survey, landlords were asked to identify problems that their rental business faced prior to the COVID-19 pandemic. Some of the top difficulties reported were tenant nonpayment (cited by 26% of those surveyed), difficulty paying for repairs/renovations (23%), and paying for property taxes on rental properties (14.4%). In interviews conducted with landlords, the most frequently cited ongoing challenge was tenants' low incomes and lack of emergency funds, which landlords saw as connected to most instances of nonpayment of rent. Landlords relayed that lower-income tenants often do not have the financial resources to cover disruptive events such as job loss, medical expenses, the departure of a household member who had contributed to the rent, or funeral expenses. As one landlord noted, "There's a lot of people that live on the razor's edge of finances, and one little hiccup they're upside down and can't catch up." Landlords' attorneys observed that keeping tenants in their units comes down to money; if tenants had resources to weather temporary financial hardship, both parties would benefit. However, property owners and their attorneys emphasized that landlords should not be solely responsible for filling the resource gap.

Other pre-COVID issues identified by rental property owners in interviews also included interactions with public agencies (e.g., resolving issues with the Department of Licenses of Inspections and getting approval and payments for HCV holders from the Philadelphia Housing Authority).

Most landlords interviewed reported that if their tenants were behind on rent before the eviction moratorium was established, they typically tried to work out an informal agreement before resorting to eviction. Landlord attorneys added that, in their experience, property owners try to avoid court because of the time and expense, and that they prefer to enter into an agreement with the tenant to collect rent rather than force turnover. Agreements may take the form of either a verbal or written repayment plan. Many property owners found the latter much more effective. Some said that they tried to base agreements on what tenants were able to afford, taking into account the timing of paychecks and benefits like Social Security. Interview respondents viewed communication as key to working out such agreements, with one landlord stating, "Someone who's two months behind but in constant communication and making an effort—I'll have a lot more patience than with someone who hasn't paid me in a few weeks and hasn't called."

Several landlords noted that filing an eviction sometimes provided the "teeth" needed to get tenants to respond to requests for payment. One estimated that one in three of their tenants who were filed against paid at the last minute. Another said that if the tenant didn't prioritize rent, filing was an effective way to either move forward towards a payment plan or take concrete steps toward eviction. Landlords' attorneys were skeptical about pre-filing mediation that had been proposed before the pandemic, believing that their clients would prefer to work out agreements on their own or, alternatively, start the court process, rather than having "someone other than the court telling them what to do."

Among survey respondents, larger landlords (owners of 30-plus units) were twice as likely as smaller landlords (owners of 1 to 5 units) to have a formal, written eviction policy—70.4% compared to 35.7%. In interviews, owners and attorneys agreed that smaller landlords were more likely to develop informal payment agreements on a case-by-case basis with tenants in an effort to avoid eviction, in large part because of the perceived disincentives of the eviction process; they had less capacity to spend time on legal action and to absorb attorney and court costs. In contrast, managers for larger rental companies sometimes felt constrained by written policies and employer expectations. Nonprofit landlords reported that housing stability for their tenants was a priority and that they tried to work with tenants. At the same time, they had to meet their financial responsibilities and ensure units remained affordable, meaning that tenants did ultimately have to meet their rent obligations.

Regardless of size and pre-filing resolution efforts, rental property owners typically reported moving forward with eviction for nonpayment within about a month of the first missed payment. Interview respondents generally agreed that, after a month, tenants become increasingly unable to catch up on past-due rent and are unlikely to pay their full balance. In the context of the pandemic, some tenants are now falling so far behind that, according to their landlords, catching up will likely be impossible.

The Impacts of COVID-19 on Rental Businesses

Most landlords reported that their rental business was "somewhat" or "very much" impacted by the COVID-19 pandemic (62.2%). Since the pandemic began, the share of owners experiencing issues with tenant nonpayment has doubled from 25.9% to 51.5% (Figure 2). This has led to difficulty making payments for a sizable share of survey respondents; 28.4% indicated now having difficulty paying their mortgage, compared to 9.2% prior, and 24.3% were struggling with property taxes on their rental properties, up from 14.4%. Repairs and renovations were also affected, as 34.3% of owners indicated having difficulty paying for one or both in their rental properties since the pandemic began, up from 23.0% beforehand. Other challenges that emerged during the pandemic were paying employees' salaries and filling property vacancies.

Many of the repair issues reported by landlords were also significant. Of the 210 owners whose portfolios had repair or renovation needs, almost half (48.6%) indicated the need to do a partial renovation; 46.2% needed to perform roof repairs; and 39% described needing to perform weatherization at their properties.

Landlords reported a variety of responses to the pandemic. Many interviewees said that they had waived late fees even before the City made this mandatory; 18.8% of survey respondents reported waiving late fees. Many also extended rent due dates or instituted flexible payment plans. Most emphasized the importance of communication—reaching out to tenants and conveying willingness to work with them. As one landlord related, "We sent out an email to tenants that we were aware things were going to get difficult, but we were with them, they had a roof over their head, and it would stay there."

Landlords reported in interviews that there were a small minority of tenants who seemed to be exploiting the moratorium by not paying rent, even if they were employed or not experiencing COVID-related hardship. This was a common theme among the landlords interviewed, but all acknowledged that it was not the case for the majority of tenants.

Figure 02.

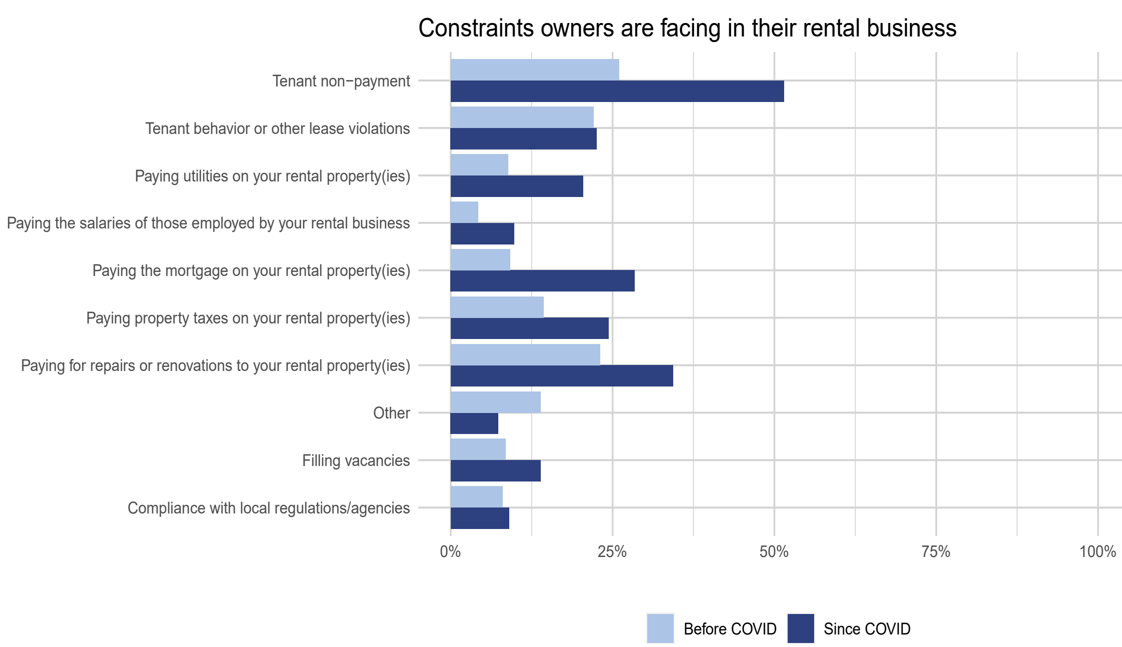


Table 02.

Impact of COVID-19 on different portfolio sizes

	Not at all	Very little	Little	Somewhat	Very much
1-5 Units	2.1%	7.4%	9.9%	30.0%	50.6%
6-30 Units	4.5%	9.6%	12.1%	35.0%	38.9%
More than 30 Units	1.1%	17.0%	4.5%	36.4%	40.9%

Table 03.

Units behind since the start of the COVID-19 pandemic

	10 or Fewer	10 - 19	20 - 29	30 or More
1-5 Units	99.2%	--	--	--
6-30 Units	95.0%	3.7%	1.2%	--
More than 30 Units	54.1%	17.6%	10.6%	17.6%

Impact on rental businesses varied by the owner's portfolio size. Small landlords (1-5 units) were notably less likely to report no or very little impact from COVID-19 (9.5%) compared to landlords with 6-30 units (14.1%) or 30-plus units (18.1%). Similarly, a greater share of small landlords reported that they were "very much" impacted, at 50.6% compared to 40.9% of owners of 30-plus units (Table 2). The majority of owners (72.1%) reported fewer than 10 units behind in rent. This was of course the case for all small landlords given that they are defined in the survey as owning a maximum of 5 units.[3] By contrast, 45.8% of large landlords (owners of 30-plus units) reported 10 or more of their units behind and 17.6% of large landlords said they had more than 30 units behind on rent (Table 3).

In interviews, some landlords reported seeking mortgage forbearance or other agreements with their lenders in anticipation of tenants not paying rent, but some banks have stopped allowing deferrals of mortgage payments. And one respondent noted that, like the eviction moratorium, "deferrals are just pushing back the timeline for debts that continue to accrue and must be repaid."

Many landlords perceived that they have been unfairly burdened with the economic fallout of the pandemic; while the eviction moratorium remains in place, they have limited or no relief from ongoing expenses including property maintenance, taxes, and finance payments. Landlords also reported being frustrated that there is no recourse against tenants whose incomes, to their knowledge, had not been impacted and appeared to be taking advantage of the moratorium—and who may be unlikely to pay back money owed. The survey reflects the fact that, since the pandemic began, inability to pay for aspects of the rental business (e.g., mortgage or property taxes) has increased. As one interview respondent put it, "At some point, we're a business too, and we need to survive somehow."

Despite units behind on rent and other challenges that owners are facing in their rental businesses, 39.9% of those surveyed were not planning on filing any evictions and 23.7% of landlords were only planning on filing one or two evictions once Landlord-Tenant Court reopened. Similarly, most of the landlords interviewed reported that only a small number of their tenants would be in danger of eviction for nonpayment once the moratorium lifted. However, they attributed this to supplemental funds received: "The $1,200 stimulus check and unemployment payments were a huge help...everyone caught up on rent." Without additional assistance forthcoming, they anticipated that delinquencies would rise.

[3] *A small portion of respondents with 1 - 5 Units in their portfolio reported more units behind in rent than in their portfolio.*

Table 04.

Percent of landlords contacting the Eviction Diversion Program

	1-5 Units	6-30 Units	30+ Units
Landlords that have contacted the eviction diversion program	2.9%	2.5%	11.9%
Landlords that have not contacted the eviction diversion program	96.6%	97.1%	87.6%

Table 05.

Awareness of the Eviction Diversion Program amongst landlords

	1-5 Units	6-30 Units	30+ Units
Landlords that are aware of the eviction diversion program	40.3%	46.1%	64.7%
Landlords that are not aware of the eviction diversion progran	53.9%	54.3%	35.3%

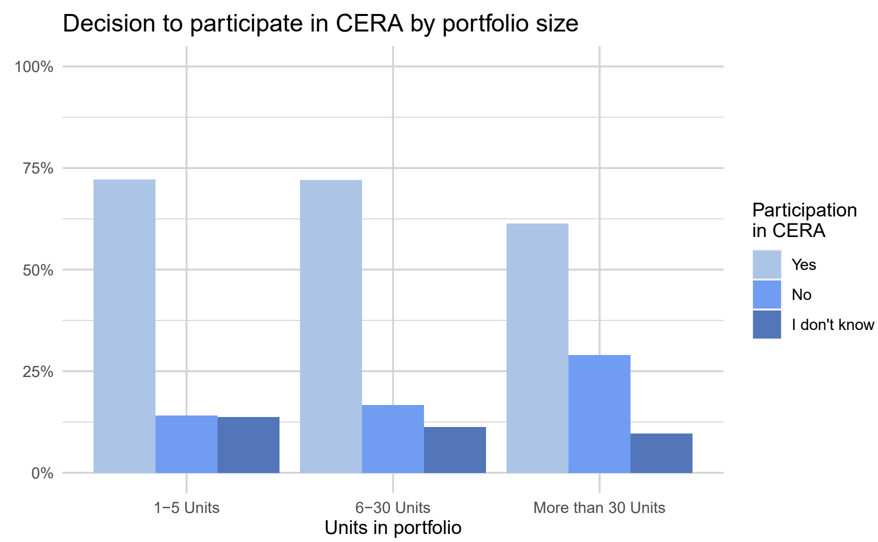
At the time the survey launched, the City's eviction diversion program was just beginning. An overwhelming majority of landlords of all sizes had not had contact with the program, though small landlords were less likely to have connected than owners of more than 30 units (3% compared to 12%; Table 4).[4] There are a number of explanations for this lack of engagement. Over half of owners (53.4%) reported that they did not know about the eviction diversion program. Small landlords were least likely to know about the program (40% compared to 65% of the largest landlords; Table 5). The survey and interviews suggested that some landlords have worked out payment plans with tenants outside of the program.

Owners perceived some program requirements to be more reasonable than others. Across the HIP sample, 36.4% of owners thought it was reasonable to require them to not evict a tenant when receiving rental assistance and for a period thereafter.

III. Rental Assistance Supports during the COVID-19 Pandemic

Participation in the City of Philadelphia's rental assistance program, which predated the eviction diversion program, was likely a function of several factors, not the least of which are the restrictions associated with the program. It had several requirements for owners: landlords needed to be current on taxes owed to the City; landlords had to hold a valid rental license for the property; owners could not pursue eviction or increase rent during the period of assistance; owners were required to waive one-third of rent arrearages; and the physical condition of the unit needed to meet standards assessed via a Unit Habitability Survey (a survey completed by the tenant and used in lieu of inspection to indicate any issues with the unit).

Figure 03.



[4] The percentages in Table 4 are calculated based on the number of owners who reported being aware of the Eviction Diversion Program. There was a small percentage of owners aware of the program that did not contact it.

An additional 28.4% considered this requirement to be somewhat reasonable. A minority (17.5%) of owners found such a requirement to be unreasonable, and an additional 15.5% found it somewhat unreasonable.

Owners' responses to the reasonableness of waiving the right to evict varied by type of landlord. According to the HIP survey, owners less impacted by COVID-19 tended to find the eviction restriction unreasonable. Over 33% of owners who were impacted "very little" by COVID-19 found waiving evictions to be unreasonable. Conversely, owners who were "very much" affected by COVID-19 were over 18 percentage points more likely to find this requirement reasonable than those affected "very little"—in fact, over 70% of owners "very much" affected by COVID-19 found this requirement to be reasonable or somewhat reasonable.

Owners' willingness to waive evictions also varied by owner size, with larger owners being less likely to see this as a reasonable requirement. Over 33% of owners with more than 30 units in their portfolio said that they would not be willing to waive the right to evict, whereas only 13.4% of smaller owners said they would not agree to postpone evictions.

The combination of these findings tell the aggregate story that owners of fewer units are more likely to be affected by COVID-19, more likely to participate in rent relief programs, and more likely to find eviction restrictions reasonable than owners of more units.

Next, we asked owners whether it was reasonable to require them to forgive a portion of back rent, and whether it was reasonable to require a payment agreement for any back rent due. In general, 42.5% of owners found it unreasonable to forgive back rent. In line with that finding, 39.1% of owners found it reasonable to enter into a repayment agreement.

It is clear from Table 6, below, that owners of more units are less likely either to be willing to forgive any back rent or to enter a repayment agreement. Most striking is that the share of owners who found unreasonable a restriction requiring them to forgive back rent was nearly double for larger owners compared with owners of five or fewer units. Although larger owners were also less likely to be willing to enter into a payment agreement than smaller owners, the differences between the two groups were less stark. The theme of greater flexibility among smaller owners is again evident, but the preference for minimizing losses remains consistent across all owners.

Table 06.

Reasonableness of porgram requirements by portfolio size

	Reasonable	Somewhat Reasonable	Somewhat Unreasonable	Unreasonable
Back Rent				
1-5 Units	18.6%	25.6%	22.1%	33.7%
6-30 Units	13.9%	13.3%	19.9%	53.0%
More than 30 Units	9.7%	11.8%	16.1%	62.4%
Repayment Agreement				
1-5 Units	40.2%	36.7%	12.4%	10.8%
6-30 Units	36.7%	35.5%	13.3%	14.5%
More than 30 Units	32.3%	37.6%	12.9%	17.2%

Landlord interviews added nuance to these findings. In particular, interviews suggested that there is group of landlords who express interest in rent relief and view program requirements as reasonable, but still choose not to participate in the program. Why? One possibility is that landlords are concerned about the combination of requirements. Each requirement is viewed as reasonable on its own but, combined with others, represents a less desirable compromise. Also worth noting is that some tenants applied for the program without realizing their landlord lacked a rental license, which was another requirement for participation (incidentally, unlicensed landlords are also prohibited from filing for eviction). Further, owners may have been confused by the application process, seeing it as burdensome. Finally, uncertainty about the timeline for receiving funds, or for receiving assistance at all (given projections that applications would exceed available funds), may have acted as an additional deterrent.

IV. Conclusion

The COVID-19 pandemic has only exacerbated challenges that existed in the rental market before March 2020. Even when the pandemic is over, the issue of tenant nonpayment will not go away. Under normal circumstances, the average low-income, cost-burdened renter household (with an annual income under $20,000) needs an additional $91 per month to make rent. These shortfalls in the housing market will continue to exist if no new policy efforts are made to increase housing affordability. Thus, while emergency programs like rent relief are certainly necessary, they are not sufficient. And while property owners share many similarities, their needs and challenges vary across multiple dimensions, affecting their policies towards tenants and their willingness to engage in external programs that mediate the landlord-tenant relationship. Understanding these realities is essential to any pandemic relief measures or long-term policies and programs.

As noted previously, many smaller owners were already facing significant financial constraints prior to COVID-19. For these owners, the pandemic has made circumstances still more challenging. The long-term viability, availability, and affordability of many housing units, and particularly lower-cost units, in the City of Philadelphia is in question. Smaller owners expressed a greater willingness to make concessions around evictions, forgive a portion of back rent, and enter repayment agreements, and were also more likely to engage in the City of Philadelphia's rent relief program than owners of more units. As such, they play a crucial role in the city's housing market. If the government uses a direct-to-landlord approach for future rental assistance, it must acknowledge that a 'one-size-fits-all' program will not reach all tenants and owners in need.

The apparent association between portfolio size and program participation does not mean that all small owners behave one way and owners of more units another. Even a well-crafted program that accounts for these differences should acknowledge that some owners will not engage in public programs like rental relief, just as many choose not to make units available to tenants with federal Housing Choice Vouchers. As a result, it is unfair and inefficient to develop programs in which owners have the ultimate say in determining whether a tenant accesses the support they need. This suggests that future rental assistance programs should include a direct-to-tenant option. The City of Philadelphia is now including a direct-to-tenant cash option with the goal to serve tenants whose landlords chose not to participate, adjusting their rent relief program even during a pandemic.

Many owners, even those unwilling to participate in the CERA program, attested to working with tenants in various ways to avoid eviction. Our data show that an owner's participation in a rent relief program cannot be the only metric for whether they are acting in good faith. There are other factors that affect an owner's willingness to engage in rent relief programs, not least the process of applying for these programs. Awareness and subsequent uptake vary greatly depending on the size of the landlord, with small landlords less likely to hear about programs that can help support them and their tenants. We should not assume that challenges around owner engagement in the current program serve as a proxy for unwillingness to work with tenants experiencing financial hardship due to the COVID-19 pandemic, or to engage in public programs more generally.

Lessons from the current context are important for future emergency response programs, but they do not replace the need for broader structural solutions. Many owners were already facing challenges operating and maintaining their properties and accessing credit or other resources pre-COVID-19. Many owners face ongoing challenges around expenses including maintenance, taxes, and finance payments; the pandemic has only made circumstances worse. While rent relief programs can ensure that all or a portion of rent is paid, they do not necessarily resolve underlying issues, especially since rent relief only flows for a fixed period of time. It is important to develop a broad set of programs that both stabilizes the supply of housing and ensures outreach to landlords of all kinds. Such programs and efforts are essential for the long-term availability, viability, and affordability of housing in Philadelphia.

Finally, many tenants were already cost-burdened prior to the pandemic. A vaccine for COVID-19 is therefore not a remedy for the rent payment crisis. We should acknowledge the need for more tailored emergency rental assistance programs and a direct-to-tenant option during a pandemic—but we should also provide more long-term support to both tenants and owners to address longstanding challenges around housing affordability.

WITH QUESTIONS, PLEASE CONTACT:

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