THE HOUSING INITIATIVE at Penn

Ongoing Challenges for Rental Business Owners in the City of Los Angeles during the COVID-19 Pandemic

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Introduction

Much remains unknown about the difficulties that rental property owners face in operating their businesses, particularly since the onset of the COVID-19 pandemic. To better understand current owner needs, the Housing Initiative at Penn (HIP) surveyed landlords in the City of Los Angeles whose tenants applied to the City's 2020 Emergency Rental Assistance Subsidy (ERAS) program.[1]

Survey responses from almost 1,300 landlords confirm that the COVID-19 pandemic has greatly impacted rental businesses — exacerbating many financial challenges that rental business owners faced prior to the pandemic and creating new ones as well. Over 80 percent of landlords reported that their rental business was affected by the pandemic. The dramatic increases in tenant nonpayment of rent and difficulty filling vacancies translated into many owners expressing concern about the long-term viability of their properties.

Many municipalities, like the City of Los Angeles, used federal relief funds to launch emergency rental assistance programs to help households pay rent or rent arrears. These programs operated within a federal eviction moratorium instituted by the Center for Disease Control, as well as a statewide eviction moratorium in California under AB 3088. Further, in cities like Los Angeles, all owners were required to adhere to emergency tenant protections that limit eviction. None of these restrictions were directly tied to whether a landlord or household received rental assistance in Los Angeles, but they could affect the perceived and actual benefit of this subsidy for both owners and tenants.

[1] Landlords in this sample do not necessarily serve as a representative sample of all rental property owners in Los Angeles. However, the number of landlord responses in this survey exceeds those in many local and national landlord surveys. A large share of owners in this study had no more than one tenant in their entire portfolio apply for rent relief, which means that survey respondents are reporting on a much broader set of units and tenants than those who applied for or received such relief. Our data show that most landlords in this study have never engaged in public programs and many landlords are also not formally engaged in any trade organizations. As a result, this survey likely captures many landlords who do not normally engage in formal surveys conducted by member organizations, national trade organizations, or government surveys.

Research has shown that over 90 percent of the programs developed in the first round of federal relief funding were structured such that the tenant applied for assistance and the rental subsidy flowed directly to the property owner. In the current round of federal funding for rent relief (authorized in December 2020 and issued by the U.S. Treasury in early 2021), all payments are required to flow through the owner unless an owner chooses not to participate within 10 days of being contacted, at which point the subsidy may flow to the tenant. As such, this report serves as an important means to understand if and why owners in Los Angeles are engaging in rent relief programs. It also serves as a valuable point of comparison to our prior report on Philadelphia, where owner needs, rent relief structure, and the larger policy context were different.[2]

As cities and states design their next rental assistance programs, it is critical to recognize the issues owners are confronting and how these issues may impact owners' willingness to engage in emergency rent relief programs. More broadly, such information is crucial to all federal and local government efforts to develop and expand housing assistance programs that leverage private market actors.

Table 01. Portfolio Size of Survey Respondents

Number of Units	Percent
1-5 units (small)	35.4%
6-30 units (medium)	33.8%
30+ units (large)	30.8%

Owner Profile

In December 2020, 1,283 rental property owners whose tenants applied to the City of Los Angeles' 2020 ERAS program completed a survey administered by HIP that explored challenges these owners faced over the previous year. The owners who participated have a variety of properties in their portfolios, including apartment buildings, single family homes, and duplexes. About 35% of owners have between one and five units in their portfolio and another 30% have more than 30 units (Table 1).[3] Three-quarters of responding owners do not use management companies to operate their properties.

There is a well-documented and ongoing housing affordability crisis in Los Angles, which formalizes in high rent burden levels that long predate the pandemic. Even though the majority of households in Los Angeles who applied for rental assistance had incomes below 30 or 50 percent of the Area Median Income prior to the pandemic, the average range of rents for their units are high relative to what low-income households pay in other cities. The survey shows that rent levels vary across property types and portfolio sizes. On average, owners with 1 to 5 units in their portfolio charge $1,439 as a minimum and $2,166 as a maximum monthly rent, whereas owners with more than 30 units charge on average $1,149 and $6,659 as a minimum and maximum monthly rent, respectively.[4]

[2] *Housing Initiative at Penn and Reinvestment Fund, December 2020, Residential Rental Property Owner Perspectives and Practices in Philadelphia: Evaluating Challenges during the COVID-19 Pandemic,* https://www.housinginitiative.org/uploads/1/3/2/9/132946414/hip_rf_brief_final.pdf

[3] *This survey sample has a slightly higher share of larger landlords than most assume for Los Angeles, which could skew the results However, it could reflect a more accurate estimate of an owners' portfolio across all of the properties since many owners establish their rental properties as single asset corporations. Even in cities like Los Angeles with robust owner registration databases, many of the seemingly small owners could be part of a larger ownership structure. As a result, the skew toward larger owners could be a more representative sample because owners in this survey are speaking across their portfolio.*

[4] *Throughout the remainder of this report, 'large' owners refers to landlords with more than 30 units in their portfolio; 'medium' or 'midsized' owners refers to those with 6 to 30 units in their portfolio; and 'small' owners refers to landlords that reported having between 1 and 5 units in their portfolio.*

Impact of the COVID-19 Pandemic on Rental Businesses

The survey captured the effect of the COVID-19 pandemic on rental property businesses by asking landlords to report on their level of overall impact, the future viability of their portfolio, and the areas of their business that are struggling. Table 2 shows that over three-quarters of owners said their rental businesses were at least somewhat impacted by COVID-19.

While most owners have been affected, the impact of the pandemic varies by portfolio size. A greater share of owners with larger portfolios responded that their business was very much impacted by the pandemic, with none saying their business was not impacted at all. However, larger owners were also slightly more likely than owners with smaller portfolios to say their business can operate for more than 12 months under existing conditions.

Table 02. Impact of COVID-19 on Rental Businesses

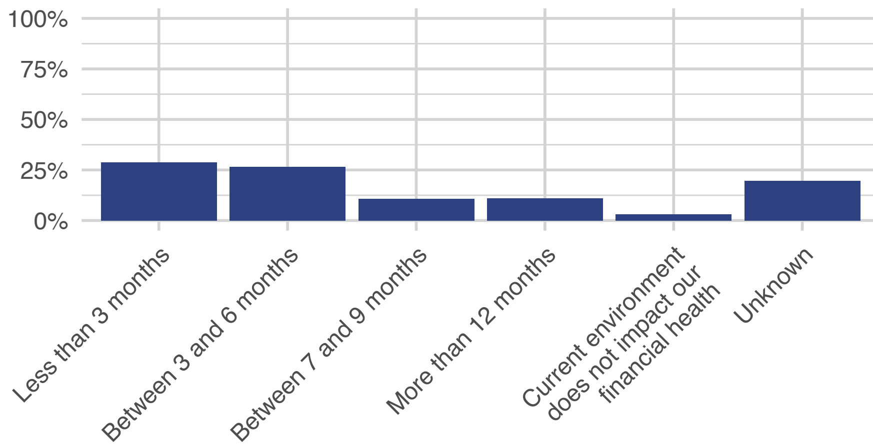
Impact	Percent
Very much	50.7%
Somewhat	31.6%
Little	7.5%
Very little	7.9%
Not at all	2.3%

One of the primary ways the impact of the COVID-19 pandemic has formalized in rental businesses is in an increase in units for which only a share of rent, or no rent at all, is collected. As Table 3 shows, rent payment challenges existed before the pandemic but not nearly at the scale they currently do. Prior to March 2020, 85 percent of owners said that fewer than 5 percent of their units were behind in rent, but this jumped to 33 percent from March 2020 onward. Further, over this time, the share of owners with 40 percent of their units or more behind on rent increased. For about 7 percent of owners, 80 percent of units or more were behind on rent by March 2020.

Table 03. Percent of Owners by Share of Portfolio Behind on Rent

Share Behind	Prior to March 2020	March 2020 to July 2020	Since July 2020
Less than 5%	85.0%	33.0%	32.4%
5-9%	4.6%	8.6%	8.2%
10-19%	4.0%	18.6%	16.7%
20-39%	3.1%	19.1%	20.6%
40-59%	1.5%	11.1%	11.9%
60-79%	0.2%	2.5%	3.3%
80-100%	1.6%	7.2%	7.0%

Figure 01. Length of Time Rental Businesses Can Operate Before Exhibiting Financial Distress



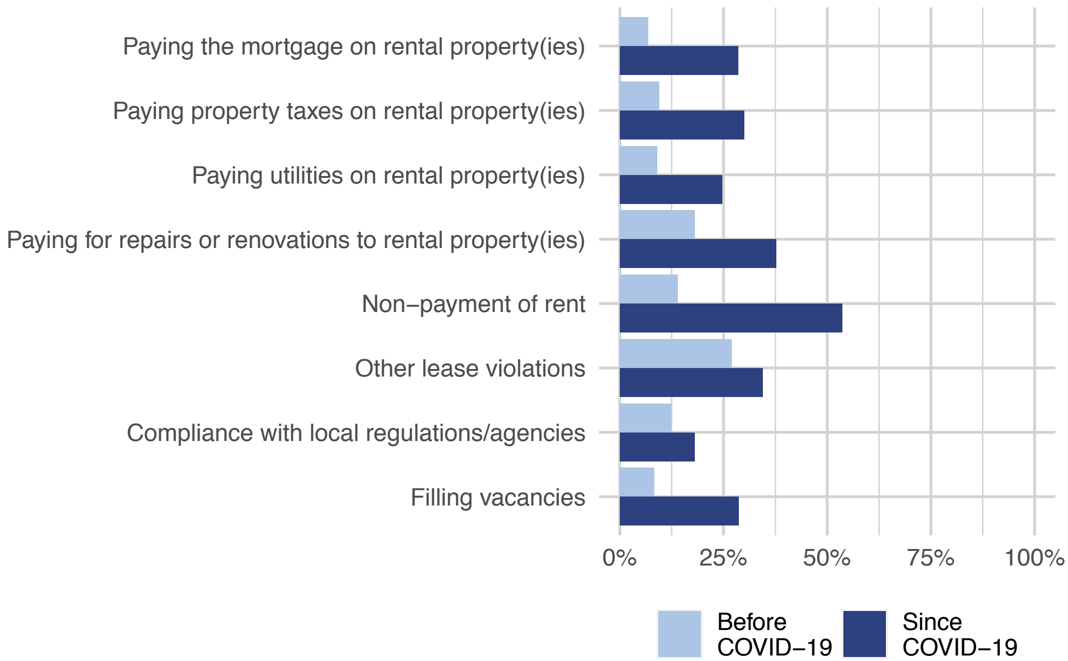
Similar to degree of business impact, nonpayment of rent varies by owner size. By July 2020, nearly 43 percent of small owners reported fewer than 5 percent of their portfolio was behind on rent. By comparison, 23.3 percent of large owners reported the same. In addition, 38.7 percent of small owners reported that 40 percent or more of their portfolio was behind, whereas those numbers were only 12.6 percent and 13.1 percent, respectively, for large and midsized owners. In fact, landlords with more than 6 units in their portfolio tended to report that between 5 and 40 percent of their portfolio was behind on rent. These results support the conclusion that small rental businesses are operating under more extreme conditions than are midsized or large rental businesses. This may not be surprising; for an owner with a smaller portfolio, any unit impacted by the pandemic represents a larger share of their portfolio affected, and it only takes one or two units with rent payment challenges to disrupt the viability of their property and portfolio. Despite these relative differences, however, all owners have experienced a dramatic shift in their portfolio since the COVID-19 pandemic began.

These shifts have implications for the viability of a rental business. When asked how much longer their business could operate before exhibiting financial distress, 28.8 percent of owners responded that their business could operate for fewer than 3 months (Figure 1). Only 10.9 percent of owners said they could operate for over 12 months, and 3.2 percent said the current environment does not impact their financial health.

Small owners reported that their business could continue to operate for less than 3 months under current conditions at a greater rate (36.7 percent) than midsized owners (28.6 percent) and large owners (20.3 percent). Large owners were most likely to say they could last more than 12 months, but only 15.5 percent of large owners reported that. Unsurprisingly, the owners who reported being most impacted by COVID-19 were most likely to say their businesses can survive for less than 3 months.

Some of the challenges landlords face are new, but many are the amplification of existing challenges. Repairs, renovations, and issues of nonpayment were the primary challenges faced by owners prior to the pandemic (Figure 2 on following page). However, since the pandemic began, almost all financial pressures have increased dramatically, with nonpayment of rent becoming the greatest challenge.

Figure 02. Constraints on Rental Business Longevity



Income challenges faced by many owners have compounded into payment issues across the board, threatening the long-term viability of many businesses. Larger owners saw the most substantial percentage point increase in tenant nonpayment and the ability to fill vacant units (Table 4 on following page). This translated to an increase in large owners reporting challenges paying their mortgage after the pandemic. However, larger landlords are not the only ones to feel this impact. In fact, small owners reported having difficulty paying their mortgage at the greatest rates of all landlords both prior to (10 percent) and after March 2020 (33.8 percent).

Participation in Programs

The City of Los Angeles launched its 2020 emergency rental assistance program in July of that year. As in most programs, the tenant applied for assistance and was required to have lost income due to the COVID-19 pandemic to access the benefit.

If the tenant was determined eligible and ultimately selected, a one-time subsidy of $2,000 was provided directly to the tenant's landlord for rent. All landlords had to agree to follow local emergency renter protections, which were legally required regardless of receiving the subsidy. Further, owners who agreed to receive rent relief funds could not raise rent for at least 12 months after the City's COVID-19 Declaration of Emergency Order expired. Such limits on rent increases were already in place for the City's rent-stabilized units, which make up the majority of its rental stock. As a result, the two main restrictions on landlords participating in the 2020 ERAS program were restrictions that also affected many owners outside of, and prior to, the assistance program.

Table 04. Percent of Owners Facing Challenges Before and After March 2020 by Portfolio Size

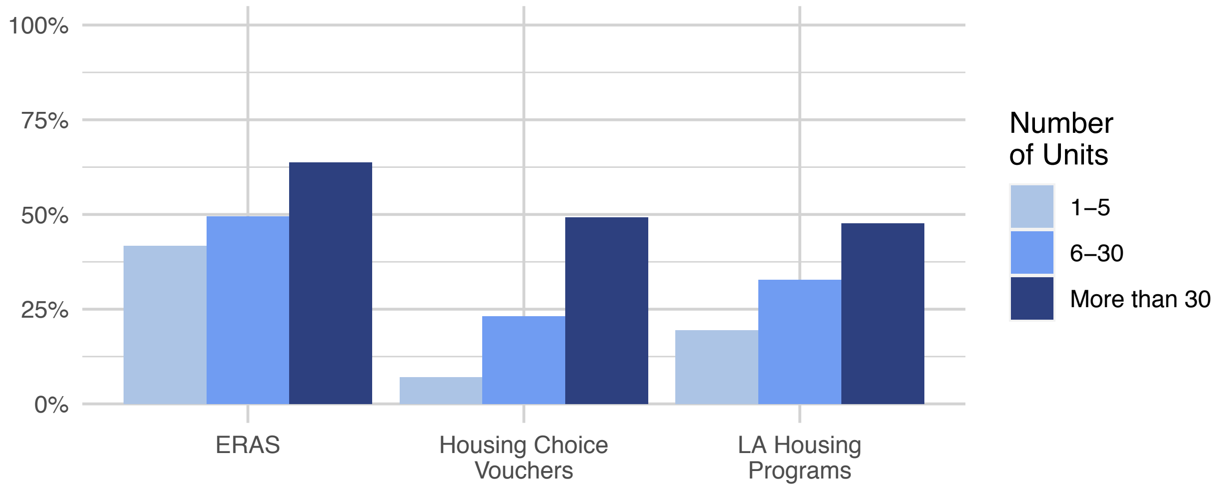
	1-5 Units		6-30 Units		30+ Units	
Challenge	**Before**	**After**	**Before**	**After**	**Before**	**After**
Compliance with local regulations/agencies	8.8%	11.3%	16.7%	21.6%	13.6%	25.0%
Filling vacancies	5.3%	11.3%	8.5%	31.8%	12.8%	49.7%
Paying for repairs or renovations to rental property(ies)	23.8%	39.6%	20.9%	39.3%	11.4%	39.6%
Paying property taxes on rental property(ies)	12.0%	32.2%	11.2%	34.2%	6.1%	27.4%
Paying the mortgage on rental property(ies)	10.0%	33.8%	7.3%	29.4%	4.0%	26.3%
Paying utilities on rental property(ies)	12.0%	26.6%	10.2%	27.9%	5.9%	22.9%
Other lease violations	22.0%	25.2%	28.2%	36.7%	35.6%	48.1%
Nonpayment of rent	13.0%	45.8%	14.3%	59.2%	17.0%	64.9%

Despite this context, owner non-participation became one of the biggest challenges of the 2020 ERAS program. The City of Los Angeles decided to convert the subsidy to direct-to-tenant assistance in the event that an eligible tenant's landlord would not participate. HIP's survey provides insight into which landlords chose to participate and offers some suggestions, but no conclusive proof, as to what motivated their decisions.

Overall, almost 51 percent of landlords who responded to the survey said they participated in the 2020 ERAS program, which aligns with the City of Los Angeles' overall landlord response rate for the program. Large owners were more likely to participate in the program, with 63.3 percent participating, whereas only 41.7 percent of smaller owners participated.

Surprisingly, over one third of owners who did not participate in the 2020 ERAS program said their rental businesses could survive for less than 3 months in the current environment. This raises the question of why owners who were so adversely impacted by the pandemic did not participate in a program that offered rental subsidy.

Figure 03. Participation in Housing Programs by Portfolio Size



One potential reason for the low participation rate is that the program engaged owners who did not previously participate in local or federal housing programs (Figure 3). Two thirds of owners who responded to the survey had not participated in other Los Angeles City housing programs and nearly 75 percent do not participate in the federal housing voucher program. Only 20.3 percent of owners with 1 to 5 units had previously participated in a City housing program, compared to nearly half of large owners having done so. Similarly, almost half of large landlords had participated in the federal housing voucher program, whereas only 7 percent of small landlords had. Landlords who have not previously participated in local or federal housing programs may be less familiar with or willing to engage in a rent relief program.

Another potential reason for the low take-up rate is that owners were unhappy with the actual, or perceived, restrictions tied to the program. The only formal restriction tied to receiving rental relief was a requirement not to increase rents for up to a year, which was not a new requirement for rent-stabilized properties. Nearly 40 percent of owners we surveyed found this to be an unreasonable requirement, and an additional 18.3 percent found it to be somewhat unreasonable. Interestingly, large owners were most likely to find this requirement unreasonable.

The survey shows that some owners were not aware of existing eviction regulations or did not know they were separate from the emergency rent relief program. Only 62.3 percent of owners knew about the State's eviction moratorium, known as AB 3088, despite the impact it has on their business. Larger owners were almost twice as likely to know about the statewide eviction moratorium, as shown in Table 5.

Table 05. Awareness of AB 3088 by Portfolio Size

Portfolio Size	Aware	Not Aware
1-5 units (small)	43.3%	56.7%
6-30 units (medium)	65.2%	34.8%
30+ units (large)	82.0%	18.0%

Rental business owners in Los Angeles are also required to adhere to local emergency tenant protections, which included a moratorium on evictions, and were reminded of this when contacted about participating in the 2020 ERAS program.[5] Only 10.6 percent of landlords found these protections unreasonable and only 12.7 percent found them somewhat unreasonable. Yet these perceptions are in contrast with landlords' responses to another question in the survey. This question asked owners if they would find a restriction on evictions to be a reasonable requirement in exchange for receiving rental assistance payments (even though, in the case of Los Angeles, suspending evictions was a universal requirement for landlords and was not tied to the 2020 ERAS program). 44.1 percent of owners found an eviction restriction unreasonable, and an additional 23.3 percent found it somewhat unreasonable, with larger owners being more likely to find this requirement unreasonable. The inconsistency among these responses suggest that many owners may be confused about what regulations were in place, and from what source.

Indeed, only 9.9 percent of landlords surveyed said that the rules and regulations governing eviction at the federal and local level were clear, whereas 37.7 percent said they were very unclear and 29.2 percent said they were somewhat unclear. The City of Los Angeles conducted outreach for the 2020 ERAS program through local trade organizations. However, 31.1 percent of landlords who responded to the survey do not participate in formal owner associations and were probably less likely to benefit from such outreach efforts.

However, the perceived reasonableness of potential program requirements and lack of participation in formal networks does not fully explain the lack of engagement in the City's rental assistance program. Landlords who found limits on rent increases and evictions unreasonable, as well as those not engaged in owner organizations, appear to be only slightly less likely to have participated in the 2020 ERAS program. Thus, concerns that participating in the first iteration of the ERAS program would further restrict aspects of their rental businesses likely motivated some decisions not to participate, but they do not fully account for the difficulty of engaging owners.

Participating in the 2020 ERAS program is not the only way owners engage with tenants, and it could be that some owners had already made agreements with their tenants that affected their desire to engage in the program. Many owners reported that, at the time of the survey, they were already in the process of adjusting rental agreements with existing tenants to account for late rent. In fact, almost half of owners reported entering into a repayment agreement with at least one tenant regardless of portfolio size (Table 6).

Further, 55 percent of landlords reported changing their rent collection, including reducing or waiving late fees, reducing rent levels, and allowing for payment installments, amongst other changes.

Table 06. Repayment Agreements Entered into with Tenants for Rent Owed after March 2020

Number of Agreements	Percent
0	50.3%
1-2	32.8%
3-5	10.4%
6-10	2.5%
Over 10	4.0%

[5] *For more details, visit* http://clkrep.lacity.org/onlinedocs/2020/20-0147-S19_ORD_186585_03-31-2020.pdf

Conclusion

HIP's survey of rental property owners in Los Angeles highlights several important realities. First, owners in Los Angeles, particularly smaller ones, faced some challenges prior to the pandemic but the scale and scope of these challenges has expanded. Larger owners, who showed few signs of distress prior to March 2020, saw the largest increases in distress due to the pandemic. However, because smaller owners already faced many operating challenges prior to March 2020, the increase has left their business model most affected. This raises important concerns about the ongoing quality, viability, and affordability of many lower cost housing units in Los Angeles.

Second, many landlords did not participate in the City of Los Angeles' 2020 ERAS program, but it remains unclear why. Landlords showed mixed levels of awareness of eviction restrictions and reported an overall lack of clarity on the state and local laws governing eviction practices. This is most apparent in the fact that most landlords showed a high level of objection to eviction restrictions generally, but few found local emergency tenant protections, which restrict evictions, unreasonable. Many owners openly expressed their confusion. Interestingly, the overarching objection to eviction restrictions does not appear to be the sole deterrent to program participation, since many landlords who found those restrictions unreasonable still chose to participate in the 2020 ERAS program.

Even though the City of Los Angeles attempted to engage owner organizations through outreach and information efforts, many owners do not participate in such formal networks. Further, the majority of landlords surveyed had never engaged in any federal or local housing programs, indicating emergency rent relief programs are engaging landlords that require expanded outreach and education on local, state, and federal regulations and programs. While not impossible, such outreach efforts are difficult to do during a pandemic, particularly with limited funding for the overhead associated with administering these programs and the timeline for expending funds.

Finally, it is clear that many, but far from all, owners have made concessions for tenants and/or adjusted their rent collection practices. Those owners who made concessions must gauge these arrangements, which are sometimes informal, and the loses associated with them with their desire to engage in formal rental assistance programs.

There is much more that needs to be known about the experiences and decisions of rental property owners. However, it is clear that many rental businesses are under increasing financial distress which has short- and long-term implications for tenants in these properties as well as the financial viability of these portfolios. With such complexity in mind, flexible emergency rental assistance programs that account for both tenant and owner needs, including ones with owner and tenant-based assistance options, are increasingly important as the financial fallout from the pandemic continues.

WITH QUESTIONS, PLEASE CONTACT:

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