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The Ownership and Management of Small Multifamily Rental Properties

New Insights on an Overlooked Part of the Rental Market

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Introduction

Small multifamily properties—which we define as properties with five to 49 units—make up about 17 percent of the nation's rental housing, totaling about 8.2 million units across nearly 500,000 properties.[1] These properties are a significant source of unsubsidized affordable housing. Rents tend to be lower in small multifamily properties compared to larger multifamily properties of similar age and building quality, and small multifamily properties are more likely to house low-income tenants.

However, research on this segment of the U.S. rental housing stock is scarce in comparison to single-family rentals and large multifamily properties. For policymakers and practitioners seeking to preserve the affordability and financial viability of this part of the rental market, it is important to understand landlord management practices, as well as who owns these properties and their financial motivations. For example, it is unclear why landlords who own 5- to 49-unit properties charge lower rents than those who own and manage larger properties. More information is also needed to inform strategies for meeting the capital needs of small multifamily properties, given their distinct ownership and management structures.

To better understand this part of the housing market, the Terner Center fielded a survey of the owners and managers of small multifamily properties across the country. This report provides a brief overview of our research methods, followed by key findings from the survey in the following areas: 1) who owns small multifamily rental properties and why they own them; 2) how landlords of small multifamily properties screen and select tenants; 3) owners' rent-setting practices; 4) how landlords responded to late or missed rent payments during the pandemic; and 5) small multifamily property maintenance practices.

We find that small multifamily properties operate in a middle space between the largely non-professionally-owned single-family rental property market and the largely professionally-managed large multifamily sector. Our analysis also underscores the role that these properties play in providing lower-cost rental housing options in the U.S. and the importance of targeting preservation efforts to this part of the market. We conclude with implications and recommendations for policymakers and practitioners seeking to support housing stability for renters and to ensure both housing quality and financial viability for small multifamily rental properties.

Methodology

To better understand the characteristics of the small multifamily rental stock, the Terner Center surveyed the owners and managers of 5- to 49-unit properties nationwide. We sent surveys to a random sample of 75,000 owners of small multifamily properties across the country, soliciting landlords by mail and conducting the survey online. Our sample of owners was generated from a national dataset of land parcels provided by ReGrid, sourced from each county, and standardized using the United States Postal Service database of addresses. The survey was open for a period of two months, with responses recorded between July 1, 2022 and September 1, 2022.

A total of 1,481 property owners and managers responded, for a response rate of about 2 percent. Approximately 42 percent of respondents did not fit the criteria for inclusion in our analysis. Some no longer owned the property in question, some sampled properties had fewer than 5 or more than 49 units, and some were property types that were not multifamily rentals, such as owner-occupied manufactured housing communities. The findings reflected in this paper come from analysis of 764 respondents who fit the survey criteria and completed at least 50 percent of the survey. All statistics in this brief were weighted by property size to reflect the national distribution of small multifamily rental properties, using the U.S. Census' 2021 Rental Housing Finance Survey (RHFS) data as the benchmark. However, survey responses were not geographically representative; small multifamily rental properties in California were overrepresented, while properties in New York were underrepresented.[2]

The survey asked respondents to answer questions about one specific property they owned or managed. The survey asked about a range of topics, including owner and property characteristics, financing and financial performance of the property, property management practices, and perceptions of public policies regulating rental units. The survey sometimes asked owners to reflect on the prior two years (roughly mid-2020 to mid-2022); as a result, responses capture owner practices and experiences during the COVID-19 pandemic. Where relevant, we break down responses according to the portfolio size (9 units or less, 10–24 units, 25–49 units, and 50 units or more), or the number of units in the property (5–9, 10–14, 15–24, 25–49) to help distinguish between owners of different scales and properties of different sizes. Unless otherwise indicated, comparisons between subgroups are statistically significant at a p-value of 0.05 or 5%. Tests of statistical significance are weighted and usually take the form linear WLS regressions or χ^2 tests.

Findings

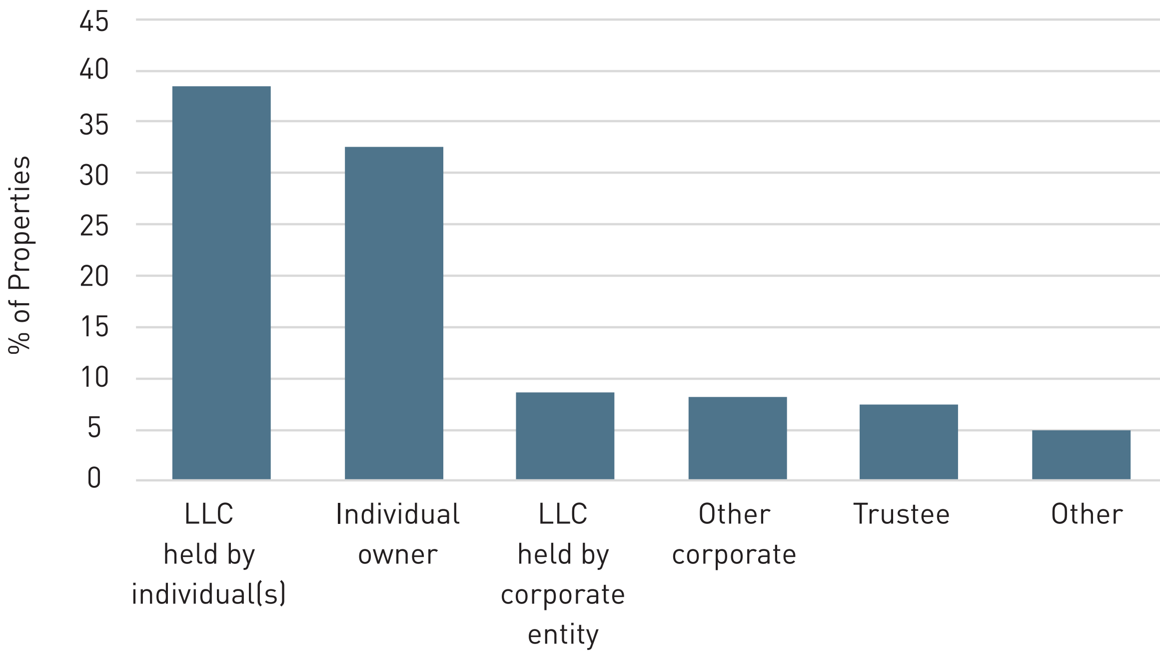
Owner Characteristics of Small Multifamily Rental Properties

Properties' ownership structures—such as sole-proprietorships, limited liability companies (LLCs), and real estate investment trusts (REITs)—affect how properties are taxed and managed. Large-scale corporate apartment investors have typically shied away from small multifamily properties, in part because small properties tend to have lower-income tenants who move more frequently, and because these properties are bought and sold less often, and thus are less liquid, compared to larger properties.[3] Even so, national data suggests that the share of small multifamily properties that are held by individuals has been steadily diminishing over time.[4] For example, the 2021 RHFS reports that approximately a third of 5- to 24-unit properties were held by individuals, compared to 65 percent of properties in 2001. However, it is unclear whether rising levels of corporate ownership are driven by corporate consolidation within the market or by small-scale owners establishing LLCs to shield themselves from personal liability. To better understand the ownership characteristics of small multifamily rentals, our survey asked a series of questions about property acquisition, legal structure, and owner demographics.

Most small multifamily properties were owned by individuals, although they often established an LLC to hold the property.

Like the RHFS, we found that 32 percent of small multifamily properties were directly held by one or more individuals—usually one person or a married couple (Figure 1). However, an additional 38 percent were held by an LLC where the majority owner

Figure 1. Share of Small Multifamily Properties by Ownership Structure



Notes: "Other corporate" includes Limited Partnerships, General Partnerships, Real Estate Investment Trusts, and non-LLC Real Estate Corporations. "Other" includes non-profits, church-related institutions, labor unions, and a text write-in response option. N = 697.

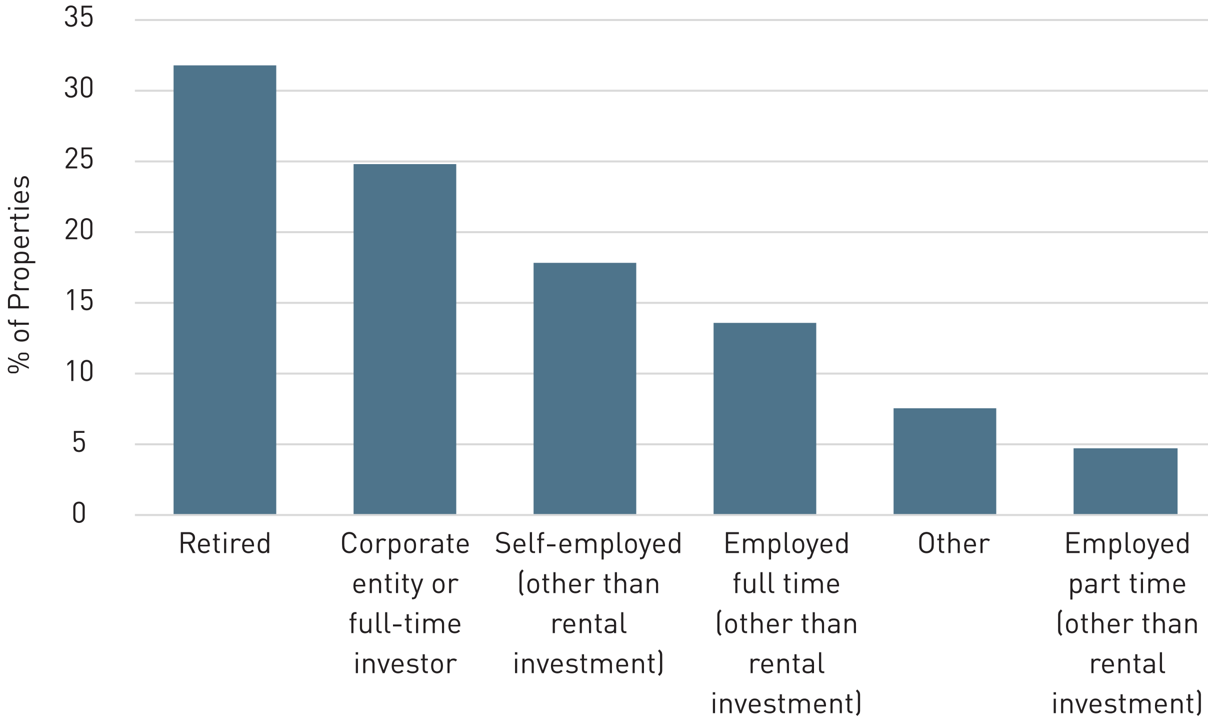
was one or more individuals. Only about 9 percent of properties were held by an LLC where the majority owner was a corporate entity, and another 8 percent were held by a corporate owner directly without use of an LLC. This pattern suggests that the rising share of small multifamily properties owned by non-individuals has been primarily driven by individual owners establishing LLCs to hold their property, instead of corporate consolidation.

Establishing an LLC offers property owners a combination of tax flexibility and protection from personal liability for problems at the rental property, such as tenant injury from poor housing conditions.[5] The increase in LLC formation for property ownership has implications for housing quality and tenant safety. For example, research on rental housing in Milwaukee has found LLC ownership to be associated with a higher likelihood of both formal code violations and lasting disrepair, particularly in lower-income neighborhoods.[6] Additional research and reporting has highlighted the challenges of holding LLC owners of severely distressed properties accountable for property neglect.[7]

Owners of small multifamily properties were a mix of professional, full-time property owners and part-time, non-professional property owners.

We found that about a quarter of properties were either owned by corporate entities or by self-described full-time investors or managers (Figure 2). About a third of properties were owned by retirees. Most of the remainder were owned by self-employed people or people employed either full-time or part-time in professions other than the investment and management of rental properties.

Figure 2. Share of Small Multifamily Properties by Owner Employment Type



Notes: N = 596. "Other" includes owners who described themselves as homemakers, full-time students, unable to work due to illness or disability, and those who are not full-time property managers but are also not currently employed in another job.

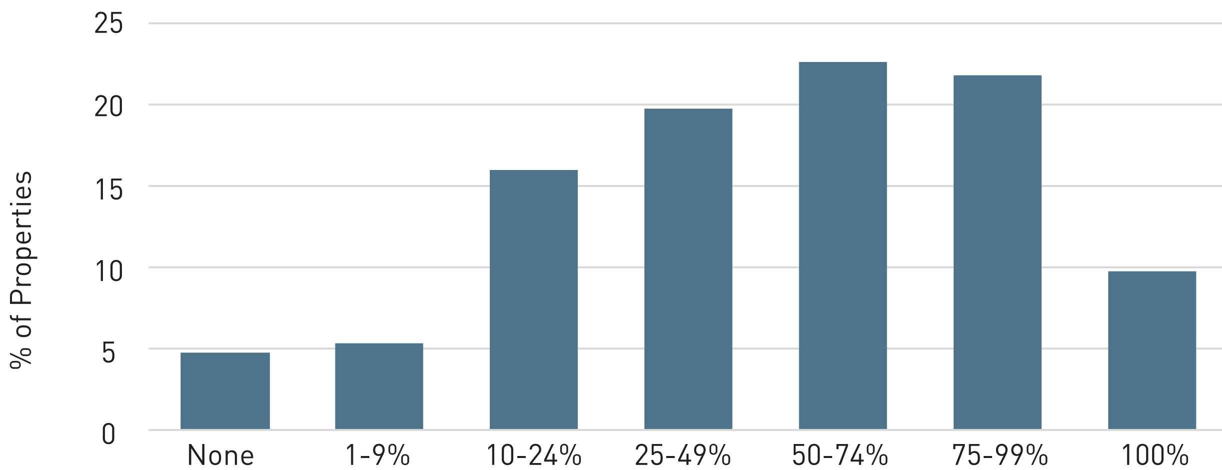
Small multifamily rental property ownership is largely a local activity. Around half of properties (55 percent) were held by owners who live less than eight miles away from their rental, and owners of smaller properties tended to live closer than owners of larger properties. However, some properties were owned by distant owners: about 16 percent of small multifamily properties were held by owners who lived 100 miles or more from their rental.

Many owners rely on rents for their personal income. Among properties where the majority owner was an individual and not a corporate entity, about ten percent were held by owners who rely fully on rents from the property to support their income. Another 44 percent were held by owners for whom rents comprised at least half of their gross income (Figure 3).

Owners of small multifamily properties were also often directly involved in the day-to-day management of their rental properties. We found that almost half of properties (45 percent) were managed entirely by the property owner. The remainder were managed either by a hired property management company or a directly employed agent (e.g., a building superintendent).

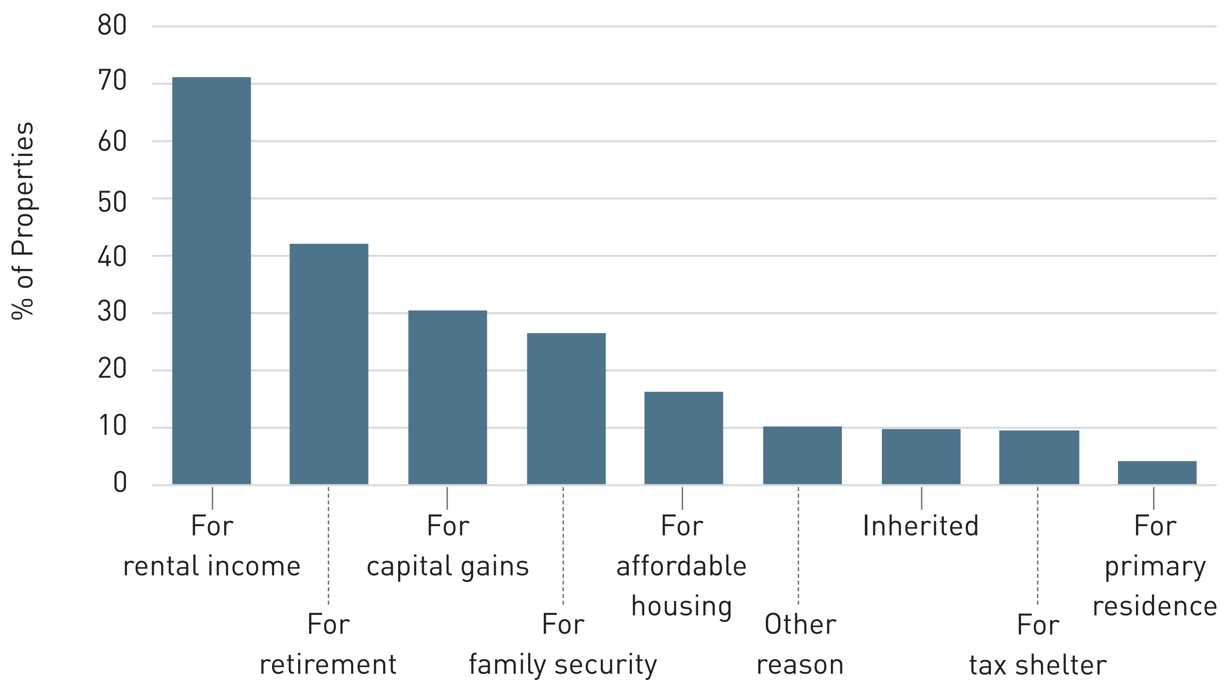
Owners' descriptions of their reasons for acquiring their rental property also show the range of professionalism among this part of the rental housing stock (Figure 4). Owners of about 75 percent of properties purchased their property primarily for the rental income, and about 25 percent were purchased for potential capital gains. Many property owners reported that the income from ownership of small multifamily prop-

Figure 3. Percent of Owner Gross Income That Came from Rents in 2020



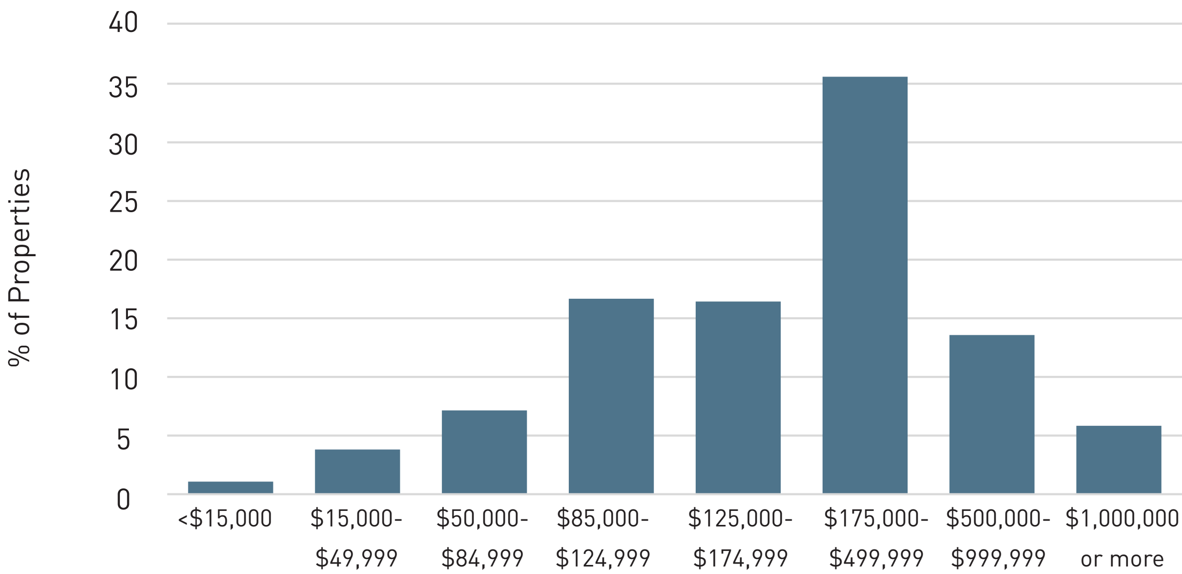
Notes: N = 599. Data represents owner income from the year 2020 and rental income from total residential property portfolio. Data excludes properties where the owner is a corporation rather than one or more individual investors.

Figure 4. Owner Reason for Rental Property Acquisition



Notes: N = 709. Data does not total to 100 percent because survey respondents could select more than one reason for acquisition.

Figure 5. Owner Gross Income in 2020



Notes: N = 578. Data excludes properties where the owner is a corporation rather than one or more individual investors.

erties was part of their long-term financial plans for their life and family. Forty-two percent of properties were purchased as part of the owner's retirement plans, and about a quarter were purchased for "family security," which included plans for their family to eventually inherit the property. About 10 percent of small multifamily properties were inherited.

Owners of small multifamily properties were less demographically diverse and had higher incomes than the general population.

Among properties where the majority owner was an individual and not a corporate entity, owners tended to be older and were more likely to be male than the general population. Two thirds of properties were held by owners 60 years or older, and nearly 40 percent were held by owners 70 years or older. Seventy-one percent of properties were owned by men. Owners were also less racially and ethnically diverse than the U.S. population. While 59 percent of the U.S. population in 2022 identified as non-Hispanic White, 82 percent of small multifamily rental properties were held by non-Hispanic White owners. The remaining 18 percent were owned by individuals who identified as Hispanic (6.8 percent), Asian or Pacific Islander (5.9 percent), Black (3.7 percent), or some other race (1.7 percent).

Owners also had on average higher incomes than that of the typical U.S. household (Figure 5). The majority (55 percent) of small rental properties were held by owners with annual gross incomes at or above $175,000 for the year 2020. Nearly 20 percent were held by owners with an annual gross income of $500,000 or above. Only 12 percent were held by those with an income under $85,000.

The older profile of small multifamily property owners has implications for future intergenerational wealth transfers. Heirs can receive substantial tax benefits from inheriting real estate, and many of the owners who reported acquiring property for family security intend to pass their property to their heirs.

Tenant Screening and Selection

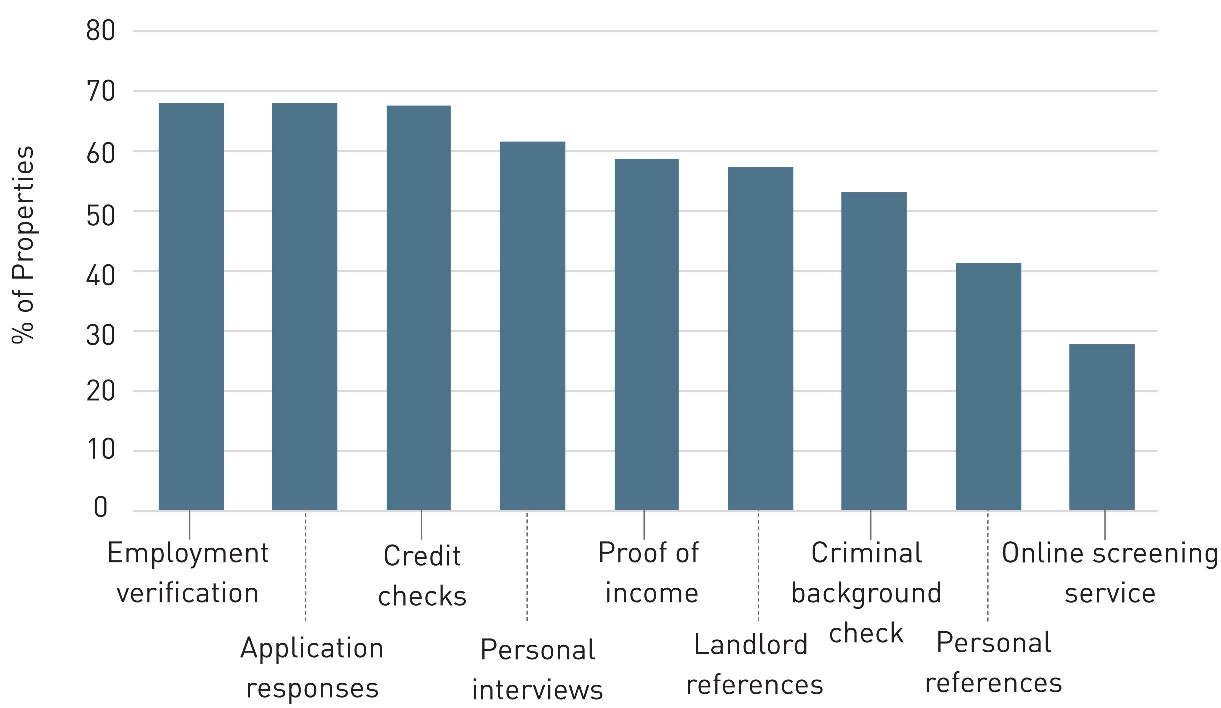
Rental property owners used a variety of methods to screen and select potential tenants when looking to fill a vacant unit. Existing research shows that these methods differ by property size and landlord type. For example, smaller scale landlords are more likely to make decisions based on subjective and less formal screening mechanisms, such as personal interviews with the applicant and home visits. Institutional owners, however, are more likely to use a routine selection process that prioritizes a potential renter's income, credit history, and criminal or eviction court records.[8] We asked owners and managers a series of questions about how they screen applicants and ultimately select a tenant.

Most owners used multiple methods to screen rental applicants, with variations based on portfolio size.

Owners and managers relied on multiple screening methods—on average, five distinct methods—when evaluating potential tenants. Employment verification, responses to rental applications, and credit checks were the most common methods, and were each used during screening in more than two thirds of properties (Figure 6). Personal interviews, proof of meeting minimum income requirements, references from a prior landlord or rental agent, and criminal background checks were common—used in more than half of properties.

Consistent with existing literature, we found that personal interviews and personal references were used more often by owners of smaller properties (those containing 5 to 9 units), and that crim-

Figure 6. Screening Methods Used by Owners and Managers



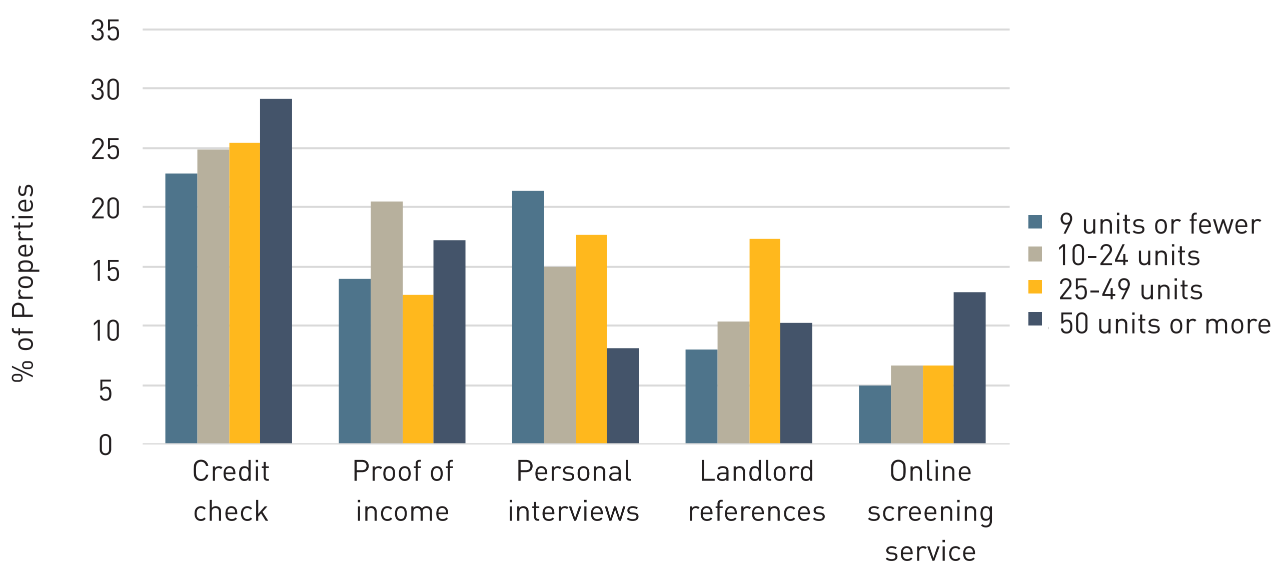
Notes: N = 751. Data does not total to 100 percent because survey respondents could select more than one screening method.

inal background checks were used more often by owners of larger properties (those containing 25 to 49 units).[9] Owners with larger rental property portfolios (50 or more units across multiple buildings) were more likely to use third party online screening services (such as RentPrep or RentSpree) that bring together data on a renter's income, credit, evictions and criminal records, and then produce a report or score that describes how "risky" the applicant would be to rent to.

When asked which screening method was most important, property owners were split. Owners of about a quarter of properties said that credit checks were the most important tool they use, followed by proof of income (17 percent), personal interviews (15 percent), and references from prior landlords or rental agents (11 percent). While credit checks were the most important screening method among properties of all sizes, owners of smaller properties were more likely to prioritize what they learned from personal interviews with applicants than owners of larger properties. Among the 5- to 9-unit properties surveyed, 20 percent of owners said personal interviews were the most important screening method used, compared to 7 percent among 25- to 49-unit properties surveyed.

Descriptively, we also found that the importance of credit checks grew with the size of the owner's portfolio, though this was not statistically significant (Figure 7). Third-party online screening services were more important as portfolio sizes increased. Among properties held by owners with fewer than ten units in their entire rental portfolio, a similar share of owners (23 percent and 21 percent) reported that credit checks and personal interviews were the most important method employed. Among larger portfolio owners (those with 50 units or more across multiple buildings), 13 percent said that online screening services were the most important method used, compared to only 5 percent among owners with fewer than ten units.

Figure 7. Most Important Screening Method Used, by Portfolio Size



Notes: N = 613. Only the top five most important methods across all properties are included in the chart above. Employment references, personal references, application responses, and criminal background checks are excluded.

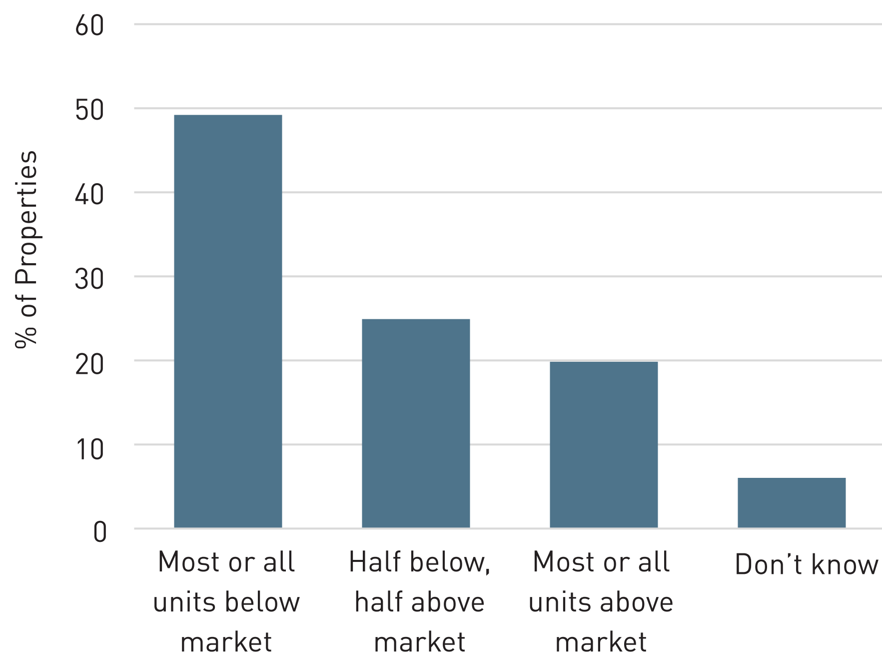
Rent Setting Practices

Small multifamily properties are an important source of unsubsidized affordable housing. Rents in 5- to 49-unit properties are, on average, lower than comparable units in larger properties, often in part because small multifamily properties are older or because the units tend to be lower quality.[10] However, these physical characteristics explain only part of the differences in rent between small and large multifamily properties. To better understand what is driving the difference in rents, we asked owners about their rent setting practices, including questions about how their rents compare to their local housing market and what factors they consider when deciding how much to charge tenants for rent.

Below market rents are common among small multifamily properties. Owners reported keeping rents low, primarily to prevent or reduce tenant turnover.

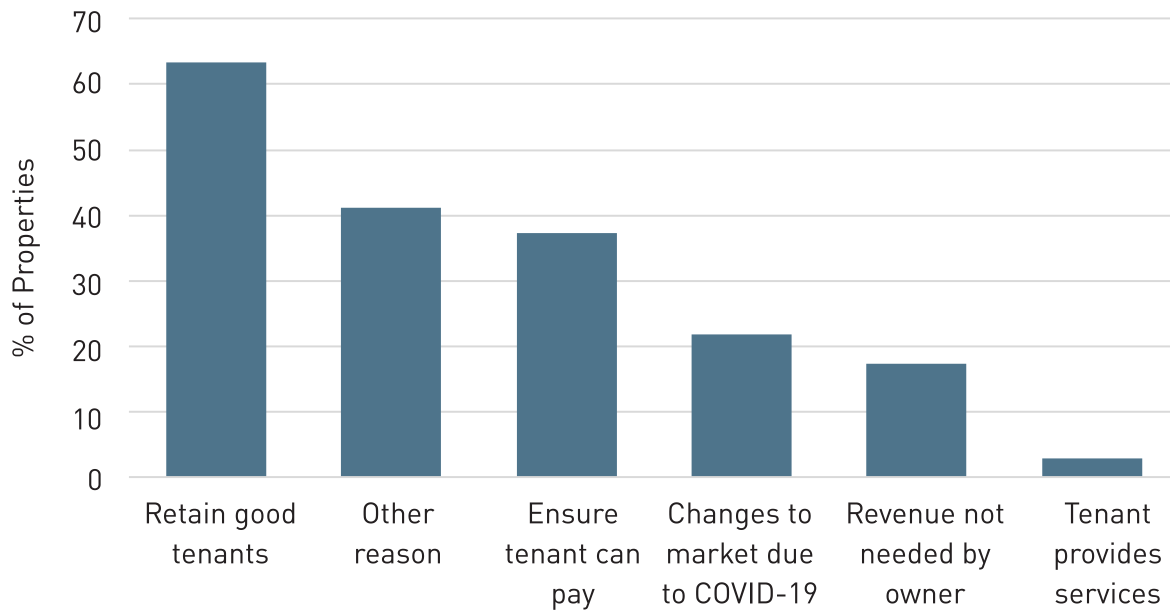
We found that small multifamily properties often rent units at below market-rate (BMR). Owners of nearly half (49 percent) of properties reported that they believe most or all of their units are rented below market rate, and about a third of properties were reported as having an even split of above and below market-rate units. Owners of about 20 percent of properties reported that most or all their units rented at approximately market-rate (Figure 8). In comparing reported property rents with the U.S. Department of Housing and Urban Development (HUD)'s Fair Market

Figure 8. Owner-Reported Rent Levels



Notes: N = 724. "About market rate" was described to respondents as within $50/month of the market rate for similar units.

Figure 9. Owner Reason for Renting Units Below Market-Rate



Notes: N = 584. Data does not total to 100 percent because survey respondents could select more than one reason for renting units below market-rate.

Rent (FMR) levels, we found that owners who believed their rents were below market were generally correct: average rents for these units ranged between 63 percent and 81 percent of the local HUD FMR levels, which are themselves set below average market rents.[11]

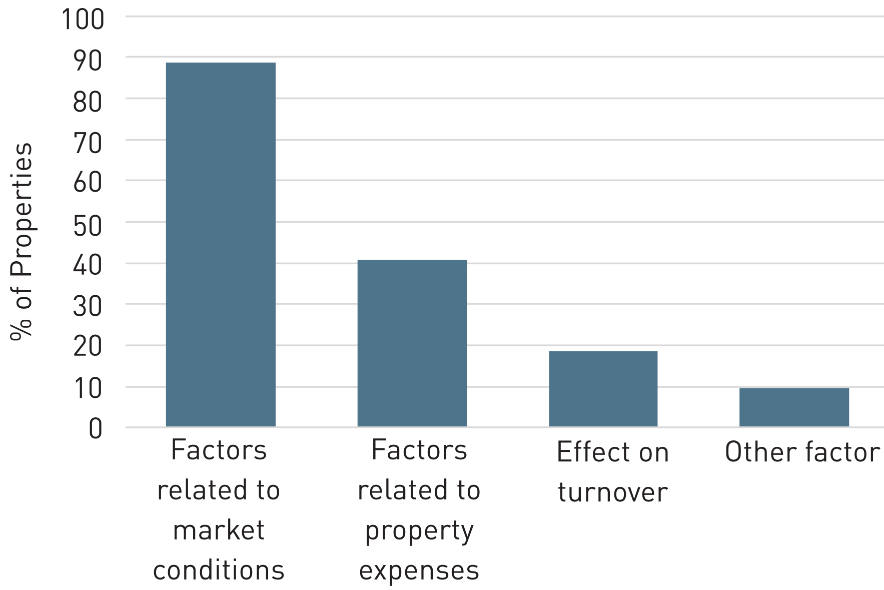
Among properties reported as having any below market-rate units, most (63 percent) rented below market so that the owner could retain good tenants and prevent turnover (Figure 9). Owners of 37 percent of properties with BMR units reported that they take into consideration what they believe their tenants are able to pay consistently.

Owners of 41 percent of properties with BMR units cited some "other" reason for renting below market. The write-in responses to this question largely reflected policy restrictions on rent increases designed to protect tenants, such as rent control and stabilization laws and/or rent freezes during the COVID-19 pandemic that were in effect at the time the survey was administered.[12] Some respondents indicated that the lower rents charged reflected the specific condition of the property—for example, small size, old age, or the need for significant improvements—or Department of Housing and Urban Development (HUD) and the United States Department of Agriculture (USDA) subsidy program regulations.[13]

Owners of most properties consider market rents when deciding how much to charge; however, in about one third of properties, owners reported rarely changing rents for continuing tenants.

We asked owners and managers about the factors they consider when setting rents for vacant and occupied units. At tenant turnover, owners of nearly 90 percent of properties looked to some indicator of the market rate—such as locating

Figure 10. Most Important Factors Considered by Owner When Setting Rents for Vacant Units

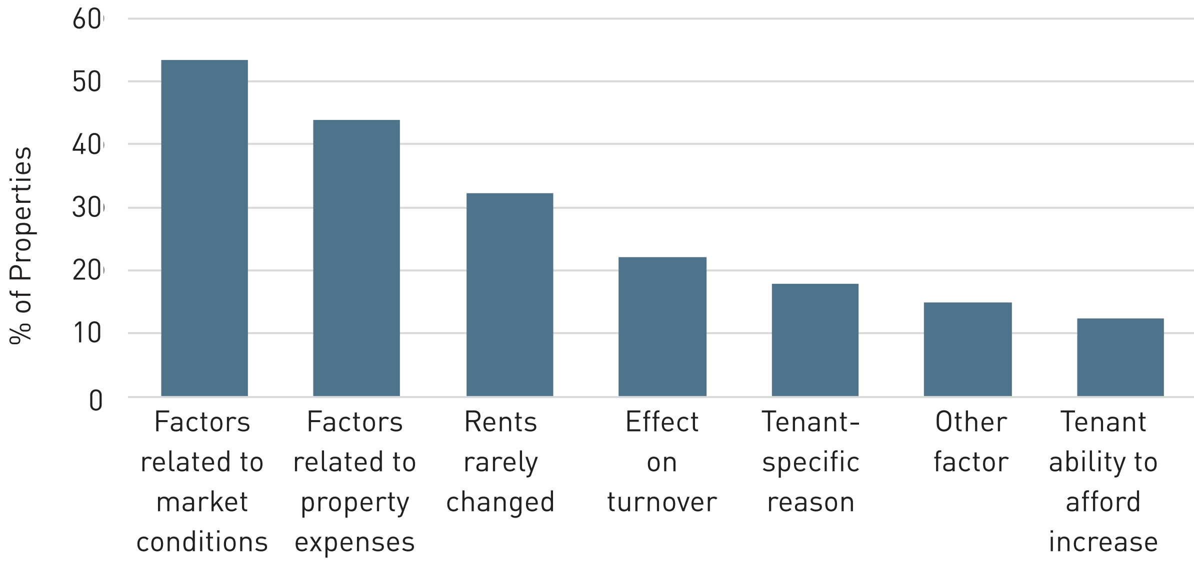


N = 716. "Factors related to market conditions" include rents for similar units, demand for rental units in the area, and the use of a third-party service that calculates the market rent. "Factors related to property expenses" include adjusting the previous year's rent for inflation, and factoring in operating costs from the previous year. "Other" write-in responses to this question largely reflect policy restrictions on rent increases designed to protect tenants, for example rent control and stabilization laws. Data does not total to 100 percent because survey respondents could select more than one reason for acquisition.

print or online listings for similar units in their area, or considering neighborhood demand for housing—when deciding where to set rents (Figure 10). However, when setting rents for continuing tenants, owners were much less likely to look to the market. When setting rents on occupied units, owners of about half of properties (53 percent) reported taking the market rate into consideration (Figure 11). For both vacant and occupied units, about 40 percent (41 and 44 percent, respectively) reported taking expenses into consideration when setting rents, for example by adjusting the previous year's rent for inflation, or by looking at the previous year's operating costs.

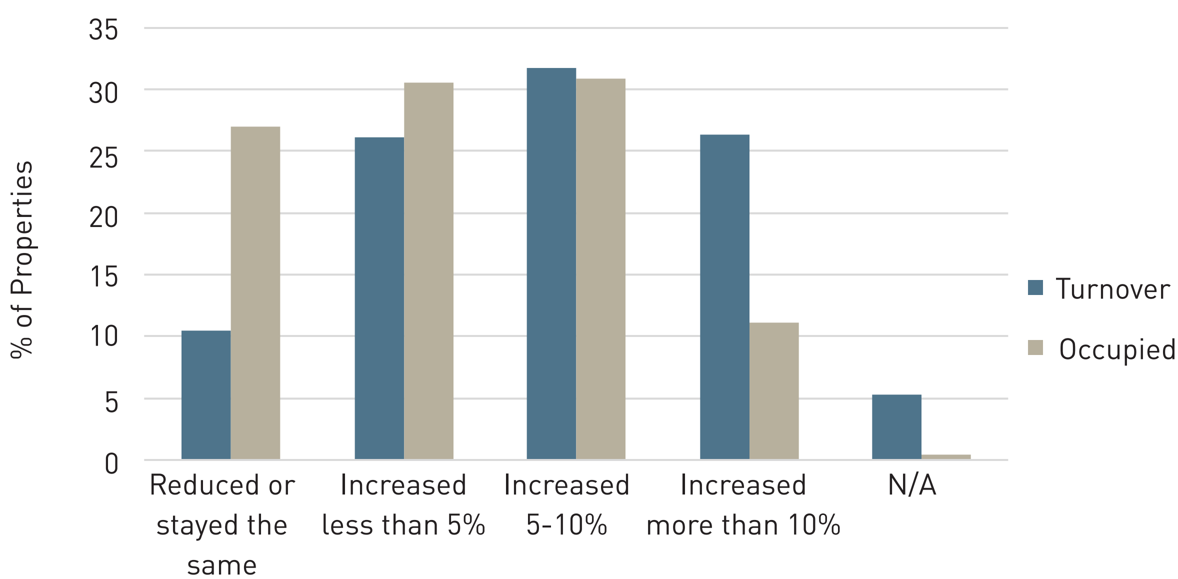
For nearly a third of all properties, owners reported rarely changing the rents for occupied units. Both COVID-19-related restrictions on rent increases—for example, local ordinances in California (like those passed by the City of Los Angeles and Contra Costa County) that prohibited rent increases for certain residential properties—and increases in rent delinquencies incurred throughout the pandemic likely factored into rent-setting decisions during this time period.[14] For 27 percent of properties, owners reported that continuing tenants were paying the same amount in rent, or in some cases less, in 2022 than they were paying in March 2020 (Figure 12). Rents for occupied units were increased up to five percent in 31 percent of properties. At turnover and for occupied units, owners of about 30 percent (32 and 31 percent, respectively) of properties reported raising the rents 5–10 percent.

Figure 11. Most Important Factors Considered By Owner When Setting Rents for Occupied Units



Notes: N = 716. "Factors related to market conditions" include rents for similar units, demand for rental units in the area, and the use of a third-party service that calculates the market rent. "Factors related to property expenses" include adjusting the previous year's rent for inflation, and factoring in operating costs from the previous year. "Other" write-in responses to this question largely reflect policy restrictions on rent increases designed to protect tenants, for example rent control and stabilization laws. Data does not total to 100 percent because survey respondents could select more than one reason for acquisition.

Figure 12. Owner-Reported Rent Changes, 2020–2022



Notes: N = 724. Respondents were instructed to select "Not applicable" for occupied units if there were no current tenants at the property surveyed in March 2020, and at turnover if there had been no turnovers in the past two years.

Missed Rent Policies

Given the role that small multifamily properties play in providing unsubsidized below market-rate housing options, it is critical to understand how owners respond to missed rent payments, particularly during financial crises like the COVID-19 pandemic. Research has found mixed patterns of owner responses to missed rent payments and use of evictions based on owner portfolio and property size. Studies of landlord behaviors have found that larger-scale owners are more likely to file for eviction than smaller-scale landlords, who may prefer to pursue alternative options to avoid the cost and inconvenience of tenant turnover. Larger-scale landlords are more likely to use the threat of eviction through serial filing as a way to collect unpaid rent.[15] However, a recent study of landlord responses during the pandemic—drawing on surveys of renters in Los Angeles County—found that smaller landlords were more likely to threaten or initiate evictions, and that the threat of eviction increased as tenants fell further behind on payments.[16] Another survey of small rental property owners fielded during the pandemic also found that landlords expected to pursue evictions as tenant arrears increased.[17]

Most properties saw an increase in late or delinquent rent payments during the pandemic; owners of about a quarter of properties faced moderate to severe cash flow problems as a result.

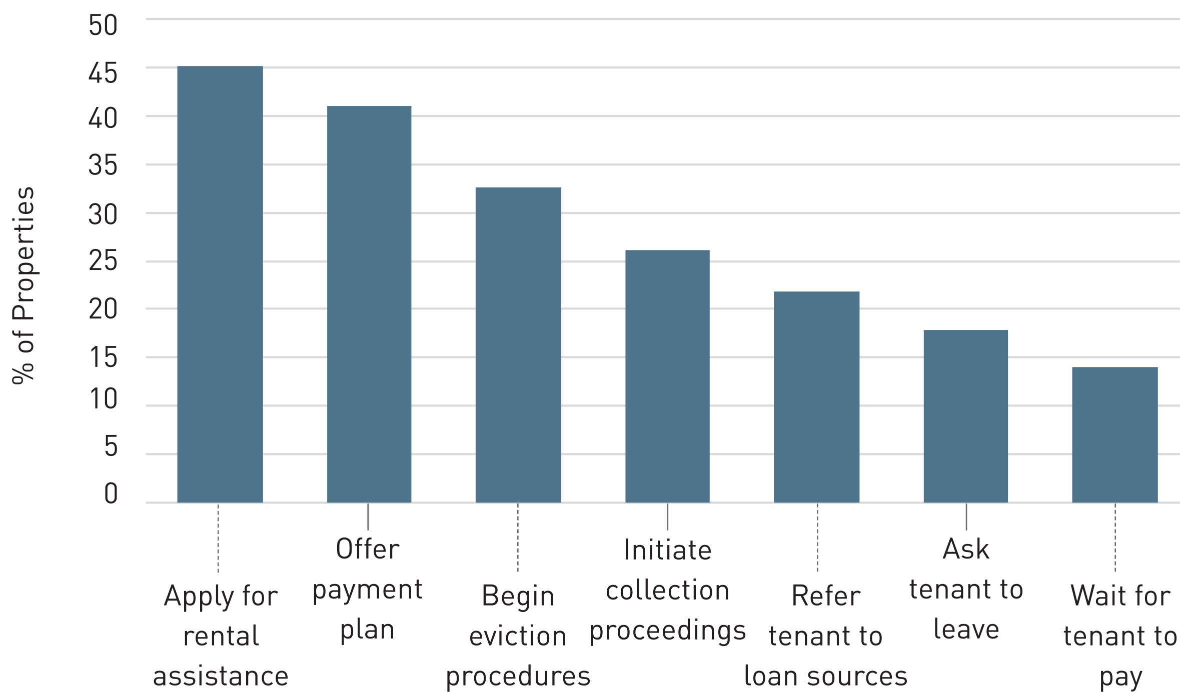
The economic impacts of the COVID-19 pandemic were particularly acute for renters, who were more likely to hold jobs in the industries most impacted by the restrictions put in place to help curb the spread of COVID-19.[18] As a result, low-income and non-White—particularly Black and Hispanic—renter households were far more likely to have lost employment income and to have experienced challenges keeping up with rent payments.[19]

We found that owners of 58 percent of small multifamily properties experienced an increase in rent delinquency during the pandemic. When asked about the degree to which they experienced financial challenges resulting from nonpayment of rent, owners of most properties (73 percent) reported that they faced only minor cash flow problems. Nevertheless, over a quarter faced moderate or serious cash flow issues (19 and 9 percent, respectively). This aligns with other research that has shown that loss of rental income because of the pandemic contributed to financial stress for rental property owners, particularly among smaller-scale landlords.[20]

Forty-five percent of owners reported applying or helping tenants apply for rental assistance as a means of addressing late rent.

Rental property owners have a range of options to choose from when deciding what to do when a tenant misses a rent payment, such as offering rent repayment plans, beginning collection proceedings, asking the tenant to leave, and/or filing for eviction. During the pandemic, federal and local eviction moratoria limited owners' ability to evict tenants unable to pay their rent, and tenants and landlords could apply for rent relief options through the federal Emergency Rental Assistance program (ERA).[21] Though millions of tenants and landlords have benefited from these funds, rollout and disbursement was slow and uneven across the country, with many renters not receiving the assistance they needed.[22]

Figure 13. Owner Responses to Rent Delinquency During the COVID-19 Pandemic



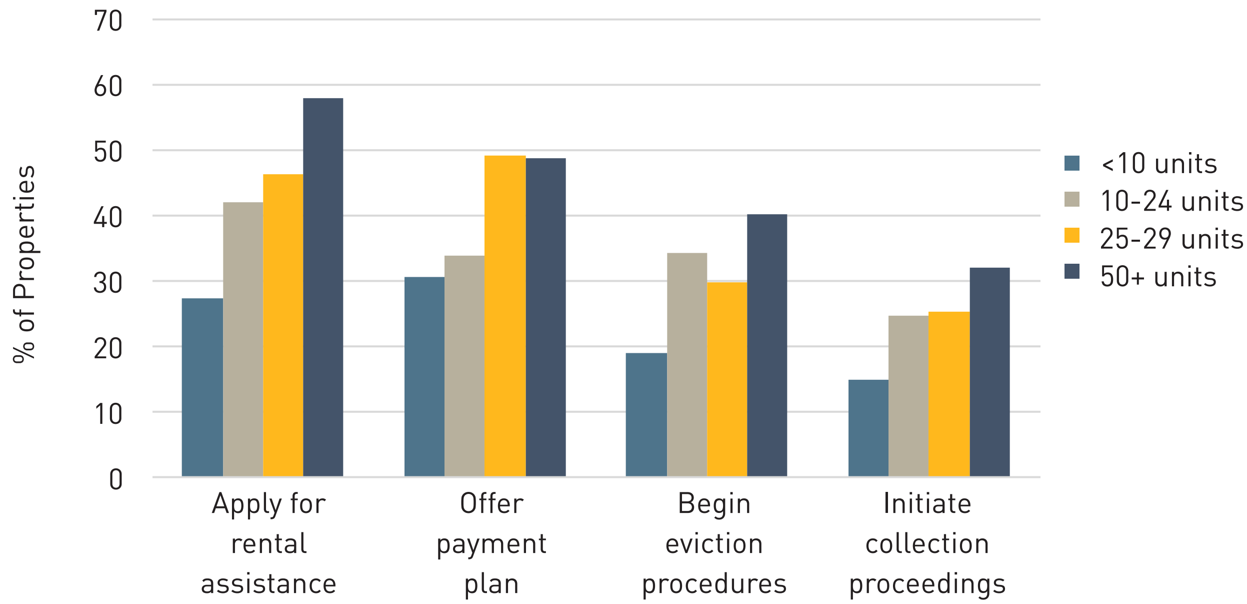
Notes: N = 543. Data does not total to 100 percent because survey respondents could select more than one response to rent delinquency.

Owners of small multifamily properties responded to missed rent payments in a variety of ways. Seeking rental assistance was the most common action taken (Figure 13). Owners of 45 percent of properties reported applying for rental assistance directly or helping their tenants to apply for rental assistance in response to late rent. About 50 percent further specified that at least one of their tenants used ERA to help pay rent owed. We found that owners with larger portfolios—who were more likely to use property management software and other forms of technology—were more likely to direct tenants to rental assistance (Figure 14). These findings are consistent with previous Terner Center research on the practices of owners of small rental properties (those with 1- to 4-units), which similarly found that larger scale and more professional owners accessed rental assistance at higher rates than those with smaller portfolios.[23]

Evictions were pursued in a third of small multifamily properties in response to unpaid rent during the pandemic.

The U.S. Supreme Court brought an end to the Biden administration's eviction moratorium in August of 2021, and while many states and local governments imposed their own eviction and tenant protection policies to help renters stay housed, the rollback of federal protections coupled with lack of awareness of rent relief programs left many tenants with large accumulations of back rent owed and vulnerable to eviction.[24] We found that owners of one third of properties began eviction procedures for missed rent payments in the two years prior to the survey (Figure 13). Owners with larger portfolios were more likely to pursue evictions. These larger-scale owners were

Figure 14. Owner Responses to Rent Delinquency by Portfolio Size



Notes: N = 518. Data does not total to 100 percent because survey respondents could select more than one response to rent delinquency.

more likely to take any kind of action to address unpaid rent, ranging from seeking rental assistance and offering their tenants payment plans to filing for eviction and initiating collection proceedings (Figure 14).

Landlords may also pursue evictions for reasons unrelated to rent delinquency, such as for violations of lease terms or property damage. We found that tenant eviction procedures were initiated—for any reason—at 41 percent of small multifamily properties at some point during the pandemic. Among properties where the owner pursued eviction, 22 percent reported filing for eviction more than once on the same tenant. Although not statistically significant, the practice of filing multiple times against a single tenant was slightly more likely among properties where the owner reported serious cash flow problems. Evictions were also not uncommon among properties only experienced minor cash flow issues.[25]

Maintenance Practices

According to the U.S. Census' 2021 American Housing Survey, over 3.8 million rental homes are of severely or moderately inadequate quality. These units are disproportionately home to lower-income households, and about a third of them are located in 5- to 49-unit structures.[26] Small multifamily properties are, on average, older than large multifamily properties. Many need capital for maintenance and renovations, but given documented gaps in financing for small multifamily rentals that capital may be difficult to obtain.[27] The confluence of these factors raises questions about the preservation of units and maintenance of affordability among this part of the stock, and concerns around habitability for tenants. To better understand maintenance needs among small multifamily properties, we asked a series of questions about owner approaches to maintenance.

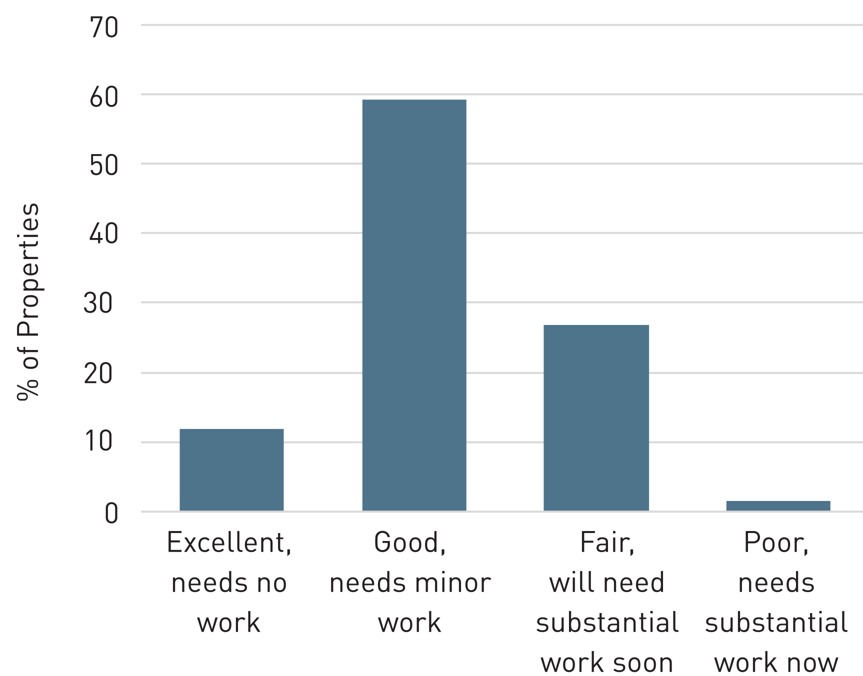
Most properties were in good or excellent condition according to their owners; however, more than a quarter of properties needed substantial improvements.

We found that owners believed the majority (71 percent) of properties were in either good or excellent condition, with only minor work or improvements needed. Twenty-eight percent of small multifamily properties were reported as being in either fair or poor condition, with substantial work needed either soon (within the next three years) or immediately (Figure 15). Owners of one in five properties reported that they did not conduct regular unit inspections to check for health and safety issues or other problems. Older properties were more likely to be in worse condition and need substantial work than newer stock, and better property conditions were also associated with higher rent levels.

Owners of 25 percent of properties admitted to postponing maintenance of some kind; properties with owners facing serious cash flow problems were more likely to report deferring most maintenance.

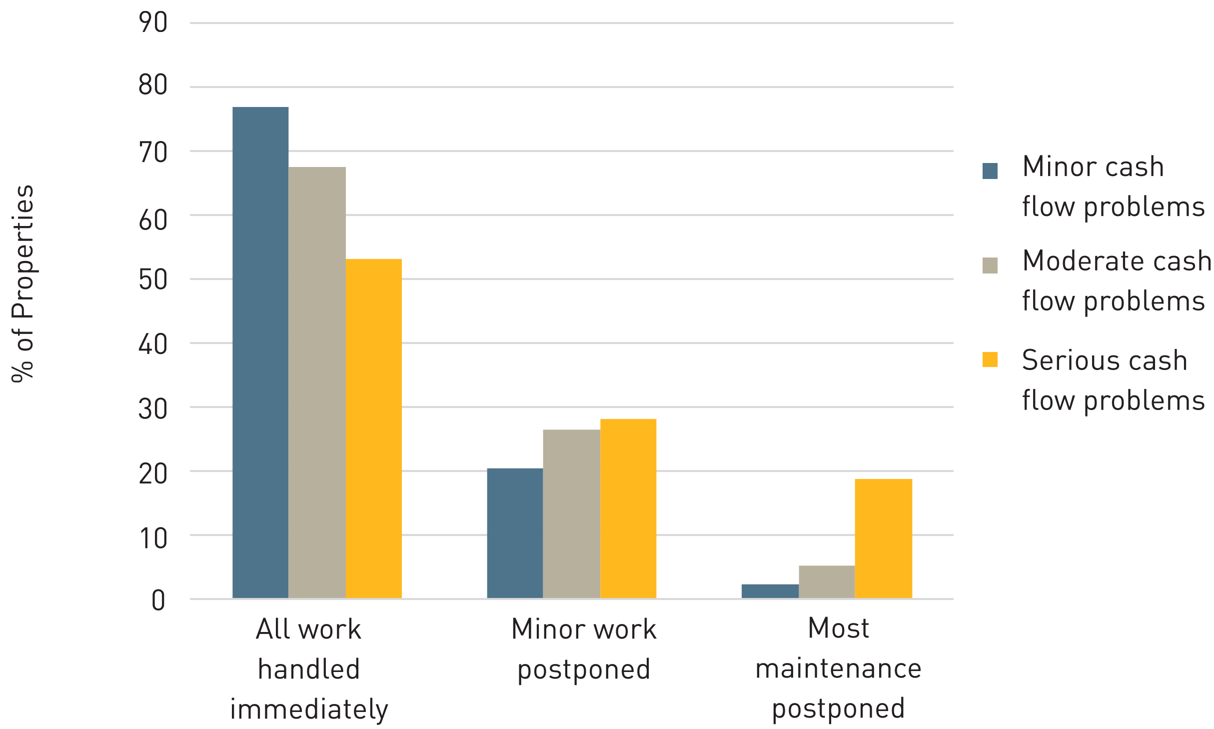
While most owners reported handling maintenance issues immediately, owners of one in four properties admitted to postponing maintenance of some kind. Minor maintenance issues were deferred in 21 percent of properties, and most maintenance work was postponed in another 4 percent of properties. This could reflect changes in landlord behavior resulting from the COVID-19 pandemic—prior surveys of landlords have found that rental property owners cut expenses and deferred maintenance during the pandemic, particularly in low-income areas.[28] Properties that faced serious cash flow problems as a result of late or nonpayment of rent were more likely to report deferring most maintenance, potentially exacerbating inadequate housing quality (Figure 16).

Figure 15. Current Physical Condition of Small Multifamily Properties



Notes: N = 753. Owners of about 0.5 percent of properties report not knowing the physical condition of the property, not included in the chart above.

Figure 16. Description of Property Maintenance Practices by Severity of Cash Flow Problems



Notes: N = 551. Owners of about 1 percent of properties report not knowing the current property maintenance practiced at the property, not included in the chart above.

Conclusion

Our survey was designed to provide insight into the small multifamily (5–49 unit) rental property stock, including ownership structures and owner characteristics, and the practices owners use to select tenants, set rents, and maintain their properties. Because this survey was fielded in 2022 and in some cases asked owners to reflect on management practices over the prior two years, data from this survey also represents the experiences of and actions taken by property owners throughout the COVID-19 pandemic, which had profound impacts on the economic and housing stability of renters across the U.S.

Our analysis shows that small multifamily properties operate in a middle space between the professionally-maintained large multifamily sector and the largely non-professionally-owned 1- to 4-unit rental property market. Most small multifamily properties are owned and controlled by individuals, even when these individuals establish an LLC to hold the property. Rental property owners in this subset of the housing stock have a range of incomes, employment statuses, and levels of involvement in property management. Some appear to be real estate professionals, relying on rents for their personal income and spending most of their working time on property investment and management. Many others have very small portfolios and are only part-time landlords.

While property management practices are similarly varied, we found that 5- to 49-unit properties contribute to the much-needed supply of unsubsidized lower-cost housing. Most properties provide below-market rate units—due to some combination of management choices and rent stabilization laws—and continuing tenants in about a third of properties often see no change in their rent upon lease renewal. However, the combination of maintenance needs, financing gaps for capital improvements, and increases in rent delinquency during the pandemic raises concerns about habitability and long-term affordability, particularly in older buildings and those held by small portfolio owners who may be more inclined to sell their properties when faced with steep arrears.[29]

This report is meant to be a first step in illuminating an essential, but understudied part of the rental housing market. Our findings point to several topics that further research and more robust reporting requirements could confirm, complicate, and/or expand upon, including research that looks at tenant experiences in this part of the housing market. Data on small multifamily (5- to 49-unit) rental properties are scarce, in part because ownership is relatively fragmented and often only semi-professional. Many owners of small multifamily properties are not members of national or local associations of property owners, and as a result are not well-represented in research and policy conversations. While our survey was fielded nationally, and the results are weighted to reflect the national distribution of small multifamily properties by property size, our responses are not geographically representative, nor do we have sufficient sample sizes to examine regional or geographic differences.

Landlord behaviors and property management practices are also regulated by a patchwork of local, state, and federal laws that seek to protect tenants. Given the fragmented nature of these laws and regulations—and the lack of comprehensive data on rental properties and their characteristics—we are unable to examine the extent to which the conditions, finances, and management practices reported here are influenced by the local and state regulatory environment. We are also unable to assess whether landlords reported practices, for example on rent increases and eviction practices, that are compliant with existing law.

Our findings also point to policy opportunities for supporting the tenants and owners of small multifamily rental properties. The prevalence and importance of credit checks across property and portfolio sizes reinforces the idea that alternatives to credit scoring and/or efforts to help build and improve renter credit—such as positive reporting of on-time rent payments—could have a meaningful effect for renters looking for housing and build pathways to homeownership. On-time rent payments are rarely reflected in a consumer's credit score, even though research suggests that renters want and could benefit from positive rent payment reporting.[30] Existing programs by Fannie Mae and Freddie Mac are piloting this type of reporting as part of their efforts to boost equitable access to credit.[31]

The survey findings also underscore the importance of targeting preservation efforts at this part of the market, where the practice of keeping rents relatively low may help increase housing stability for existing tenants while limiting the inconveniences associated with turnover for landlords. Capital improvement or property repair funding in exchange for a commitment to rent at affordable levels may help address housing quality and habitability while preserving unit affordability. Our findings also provide additional evidence of the need for more robust efforts to educate smaller-scale owners about the range of supports available to them to help maintain the physical quality and financial health of their properties.[32]

ENDNOTES

1. Authors' analysis of 2021 Rental Housing Finance Survey data.

2. Properties in California made up 18 percent of our 75,000 sample of properties, but 29 percent of our responses. Properties in New York made up 16 percent of our sample, but 5 percent of our responses.

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9. Personal interviews are used by owners of 67 percent of 5–9 unit properties, compared to 53 percent of 25–49 unit properties. Personal references are used by owners of 48 percent of 5–9 unit properties, compared to 31 percent of 25–49 unit properties. Criminal background checks are used by owners of 67 percent of 25–49 unit properties, compared to 43 percent of 5–9 unit properties.

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11. Fair Market Rents (FMRs) are generally calculated as the 40th percentile of gross rents for regular, standard-quality units in a local housing market. HUD developed FMRs to determine payments for housing assistance programs like the Housing Choice Voucher program.

12. Owners of about 40 percent of properties further reported that limits on rent changes are set through local rent stabilization or rent control laws.

13. Results from this survey indicate that 20 percent of small multifamily properties benefit from some kind of government subsidy—whether federal, state, or local—including but not limited to a project- or tenant-based rental subsidy, a government-sponsored below market-rate loan, a government grant for capital costs, or property tax relief or income tax credit. At the time that the survey was fielded, 14 percent of properties housed a renter with a tenant-based subsidy, for example a Housing Choice Voucher.

14. In the City of Los Angeles, under Ordinance No. 186607, annual rent increases for rental units subject to the City of Los Angeles Rent Stabilization Ordinance (RSO) are prohibited through January 31, 2024 (see: https://clkrep.lacity.org/onlinedocs/2020/20-0407_ORD_186607_05-12-2020.pdf and https://housing2.lacity.org/highlights/renter-protections); Contra Costa County also passed and extended an Urgency Ordinance that placed a moratorium on certain residential rent increases in response to the COVID-19 pandemic (see: https://www.contracosta.ca.gov/DocumentCenter/View/71209/Supervisors-Extend-Eviction-Protection-and-Rent-Freeze-PDF).

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