Facing The Growing Costs Associated With Rent

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There was a time in the not so distant past, before millions of people were unemployed, that juggling the challenges of living paycheck to paycheck was as common as Zoom calls are today. All too often, those with the least to give were charged more to compensate for lower credit scores or late payment practices, both of which made getting by more expensive. For the vast majority, rent topped the list of bills that had to be paid and consumed 35%–40% of household income. Yet almost overnight, the ability of much of America's workforce to fulfill their largest monthly financial obligation fell off a cliff.

Government intervention in the first half of 2020 that included financial stimulus and eviction moratoriums has essentially kicked the can down the road for the huge and looming issue of past-due rent.

The challenges to the rental housing industry are many:

First, although people paid what they could for the months of April through June, with estimates of first-to-last week's collections of 78%-89.2%, 80.2%–90.8% and 80.8%–92.2%, respectively, according to the National Multifamily Housing Council (NMHC) Rent Tracker monthly analysis of approximately 11.5 million renters, industry expectations for full rent payments in the second half of the year have been drying up. Reflecting the greater impact of current conditions on lower-income earners, drop-off in rent payments in class C rental assets sunk to below 75% in early June, according to one source. All the while, as local legislators across the country push for changes in landlord-tenant laws that may dramatically alter regulations, rent is still past due.

Second, knowing that they couldn't be evicted hasn't stopped many renters from working diligently to pay rent, albeit not necessarily when due on the first of the month. Never before has the rental housing industry been so willing to carry a balance — without penalties — for renters, and never before has the industry been so vulnerable to renter discretion on use of funds. With all the best of intentions, even the most sophisticated operators are banking on their residents' future willingness to pay as slim comfort that payments will be made. Look no further for storm clouds on the horizon than a recent TransUnion report that shows that rent isn't the only category hurt by recent events. Americans have skipped payments on more than 100 million student loans, auto loans and other forms of debt since March, providing little comfort to landlords.

Third, with eviction moratoriums ending at about the same time as enhanced unemployment benefits, many property companies are grappling with the conflict of wanting to help their residents through hard times while needing to take action to free up apartment units from people who simply cannot pay. Predictions of a tsunami of requests to eviction courts come August aren't helping the situation. Faced with no recourse until eviction cases can be heard and the risk that sympathetic judges will push for renter assistance, landlord eviction expense is compounded by social distancing rules that will restrict the courts to only processing a fraction of the normal volume, and cases from as far back as March, when courts closed, will probably be heard first. Property operators are now realizing the total cost of moving out nonpayers will rise from the industry average of $4,000 per incident to as much as $12,000 (my estimate based on the time potentially spent in a unit by a nonpaying occupant).

Attempting to cut losses sooner versus later, some operators are offering to let people out of their leases without reporting negatively to a credit bureau, and others are paying people to leave without damage to a unit. A growing trend in acceptance of extended payment plans is starting to pick up steam as good corporate citizens recognize that helping people retain housing through extended leases that provide added time to get caught is the right thing to do and is better for their bottom line.

Fourth, and the subject of dedicated lobbying efforts, the rental housing industry is feeling much the same pain as its customers due to limited mortgage forbearance and unrelenting needs for property companies to cover costs for maintenance, salaries and taxes. The $3 trillion rental housing industry that serves nearly 40 million renters, according to NMHC reporting, is being pushed to its liquidity limits, including the largest and best-financed of companies. Even in San Francisco and New York, two of the highest-rent cities in the country, real occupancy figures have started to come down while new lease concessions continue to climb, yet it's hard to predict how long this trend can last.

As industry groups continue to push for more relief from Congress at a price tag in the tens of billions, property operators know all too well that rent loss creates cascading ripples throughout the economy — and we haven't come close to seeing the worst of it yet.

Without doubt, the industry will continue to see change. Property owners and managers who scrambled to make their communities safer at the onset of Covid-19 now have the opportunity to flex their collective muscles to find solutions to achieve continuous cash flow while their residents grapple with less. In the highly decentralized environment of multifamily operations, corporate decision-makers have to step forward with clear C-suite directives to help keep apartments full and rent dollars flowing in, albeit at a potentially slower pace. Gone are the days of ad hoc execution at the community level when so much is at stake.

Instead of waiting to go to eviction, operators should consider applying marketing and concession dollars to help existing residents weather the storm in much the same manner they would to convert new applicants. In exchange, payment assurances should be backed up by first-in-line deposits from payroll, or even from unemployment checks. Where allowed, security deposits should be applied to outstanding balances and leases extended to give people looking to go back to work more time to get caught up.

The win for both rental operators and existing residents will be when rent is no longer a four-letter word among those who are not able to fully pay their financial obligations and renting remains a viable and affordable option to support America's workforce.

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