Do Private Real Estate Investors Have A Social Responsibility To Help Renters?

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Social scientists will look back on the year 2020 as a time when minorities were disproportionately impacted by financial insecurity, and, I hope, as a time when their largest creditor, major landlords — forced by government moratoriums on evictions — helped them. Yet with $7.2 billion in outstanding rent balances and a lifting of eviction restrictions, questions linger about how long that help can last.

According to my analysis of 2018 U.S. Census data on the rental housing marketplace, of the 44 million rental units in the U.S., approximately 60% are owned by corporate investment entities, while some 40% of units are owned by individual investors (often small landlords) and the balance by housing cooperatives and nonprofits. A second Census survey in September of this year found that Black, Asian and Hispanic households represent nearly 60% of households with outstanding rent balances, and renters of color were more likely to report that their household was not caught up on rent. For minorities who often shape the frontline of essential U.S. workers and the backbone of many industries, the effects of past-due rent will push them deeper and deeper into debt. Compounding these issues, it follows that rental debt will result in damage to rental history and personal credit, making digging out, and upward mobility, all that more difficult.

Recognizing the potential for hardship, examples of corporate compassion can be found among large rental housing investment entities that partially subsidized rent in the first and second quarters of this year. In addition, some companies have relaxed business practices to enable residents to pay rent with more flexible timing and without penalty. (Unfortunately, smaller landlords with far fewer resources who often serve minority renter populations were not able to support their residents in the same manner as larger, better-financed property firms.)

Today, as renter nation adjusts to new norms, larger property companies — generally those that operate as REITs and/or as part of private equity firms — stand at the crossroads of compassion and financial sustainability as they share in the need to pay mounting bills. The National Multifamily Housing Council (NMHC) estimates that only nine cents of every rent dollar go to profit with the rest going to operating expenses: 39 cents to monthly mortgage charges, 27 cents to payroll, 14 cents to property taxes and 11 cents to other expenses. Like other businesses, rental housing firms turned to cash reserves when rent wasn't paid. But after months of payment strain, those reserves are dwindling and the continued downward drag on profits is challenging even the most stalwart of social advocates.

So what's a good corporate citizen to do?

Knowing that helping a large segment of the renter population is both morally just and smart business, many firms have been looking for a bridge that enables them to help the millions of renters with outstanding balances avoid eviction and possible homelessness. To date, their efforts have focused on carrying outstanding rent balances that are impacting rental housing operations on many levels. Good faith efforts are paying off in some markets, while millions of residents still struggle to pay down balances. Universally, however, renters with past-due rent are acutely aware that outstanding balances are still due if they want to avoid eviction.

As many segments of the workforce return to more consistent employment, companies like ours that focus on delivering rent from payroll are working with operators to create solid pathways to repayment. We as an industry can prioritize resident retention by providing safeguards for complete and timely delivery of rent, in addition to a monthly pay-down of past-due balances that the renter can manage going forward. Lease extensions would bring down the repayment pressure so people getting back to work can still have some cash left over each month for food and other essentials.

Real estate companies know that the eviction courts will be slow to get back up to speed and are facing large backlogs. They also know the risk of further government regulations looms overhead. In the past, these operators would have looked to collections and write-offs as a solution to non-payment of rent. Today, no one really wants to go that route either for business or social reasons.

As Covid-19 continues to spread across the country, the road ahead is uncertain for all renters who have seen their job security and income challenged. We know for certain that offering a helping hand to these individuals and families should be a cornerstone of business operations for rental housing despite the inevitable strain on investor performance. In the process, we know also that the need to safeguard the eventual repayment of outstanding balances should become the norm, so that rental housing providers can afford to maintain the professional standards that renters have come to expect. Good corporate citizens can agree that a symbiotic relationship between renter and landlord should be preserved, and that a whole lot more smart business practices that address financial obligations should combine with continued compassion for renters who need more time to get caught up on debts by those companies looking to stay afloat.

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