

A TURNER CENTER REPORT - JULY 2021

The Uneven Impact of the Pandemic on the Tenants and Owners of Small Rental Properties

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Introduction

The COVID-19 pandemic has strained household budgets across the country, hitting renters especially hard. Millions of renters have lost their jobs and many, after exhausting other options to make rent, have fallen behind on their housing payments. Government actions, particularly in the form of stimulus payments, supplemental unemployment benefits and eviction moratoria, have largely prevented a housing crisis in the short term. However the underlying problem of a steep drop in renter incomes has caused significant disruptions in the rental market that are likely to continue well into the recovery. The small rental properties that house about half the nation's tenants have been particularly hard hit by the pandemic, but there has been very little data available to assess which tenants are most at risk of being evicted when moratoria expire and which landlords have faced severe financial losses.

In this study we present results of our nation-wide survey of landlords of small rental properties to better understand the patterns of missed rent payments among tenants and landlords due to the pandemic. We define small rental properties as 1- to 4-unit properties, including rented condominium units. According to the 2019 American Housing Survey, these properties comprise about 48 percent of rental units in metro areas. This part of the housing stock is home to most unsubsidized low-income families, particularly families with children. Yet the vast majority of small rental properties are held by individuals, not large companies, and many of these owners do not have the financial cushion to absorb many months of rent non-payment.

The brief first outlines what is known about the impact of the pandemic on the rental market and about the segment of the market made up of small rental properties, whose tenants and owners tend to differ from the tenants and owners of larger apartment buildings. After a brief overview of research methods, we then present the findings of our survey, which provide insights into the uneven impacts of the pandemic on the tenants and owners of single-family rentals and the steps impacted owners have been taking to respond to rent shortfalls. The vulnerabilities evident in this survey's findings—including the challenges facing tenants with deep rental arrears of six months or more, threats to the affordable rental stock as hard-hit landlords take steps to sell some or all of their properties, and the unevenness of awareness of and access to Emergency Rental Assistance (ERA)—have immediate and important implications for policymakers and service providers, especially as eviction moratoria are set to expire in the coming weeks.

Background

The restrictions put in place to curb the COVID-19 pandemic led to sharp job losses and declines in income that, for many households, have lingered into 2021. Starting in March 2020, many states and municipalities in the U.S. began to shut down large parts of their economies in order to stop the spread of COVID-19. The unemployment rate, which at the beginning of 2020 had been at historic lows, broke 14 percent in April, spiking higher in a few months than it had during the entire Great Recession.¹ Though the roll-out of vaccines has improved the overall economic outlook, many

households continue to report that they are unable to pay for housing, food, and other necessities.²

The pandemic's economic impact has hit renters especially hard. Renters were especially susceptible to economic shocks before the pandemic, having lower incomes and less savings relative to homeowners.³ Renters were also more likely to be employed in industries that were hardest hit by the restrictions put in place to stop the pandemic.⁴ Data from the Census Pulse Survey show that renters were substantially more likely to report having lost employment income.⁵ Faced with an inability to pay rent they reported using credit cards, savings, borrowing from family or friends, or selling their possessions to make rent.⁶

The pandemic's economic effect also appears to be exacerbating racial inequities in the housing market both among renters and landlords. Black, Hispanic/Latinx, and Asian households were disproportionately likely to experience COVID-19-related job loss and are more likely to report that they do not have the funds to pay their rent, and Black and Hispanic/Latinx households were more likely to report that they expected to be evicted soon.^{7,8,9} As the pandemic has worn on, tenants in lower-income households and communities of color reported falling further behind on rent, even as tenants in more advantaged communities reported declining levels of rent non-payment.¹⁰

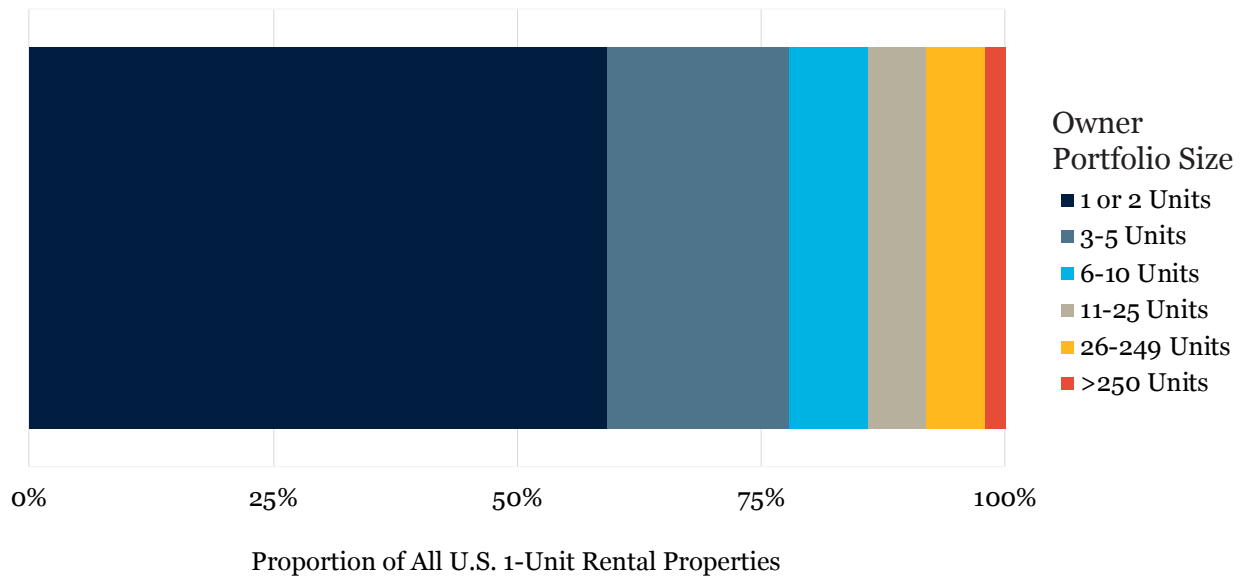
About half of U.S. renters live in small rental properties (SRPs) and these renters appear to be more deeply affected than those living in larger apartment buildings. SRP renters nationwide, particularly those in 2- to 4-unit properties, are among the most likely to work in the industries most disrupted by the measures taken to contain

COVID-19.¹¹ Even in New York City, where apartment buildings comprise a larger share of the housing stock, 31 percent of the renters working in occupations vulnerable to income disruptions live in SRPs.¹² During the pandemic higher-end rental properties have seen only slight decreases in collections compared to 2019, while smaller properties have seen delinquency rates multiple times higher.^{13,14,15}

The majority of SRPs are owned by non-professionals who typically only have one or two properties. Figure 1 shows the distribution of single-family properties (attached or detached) by the portfolio size of their owner. These owners are diverse and hold their properties for many reasons including for retirement, as future homes for themselves or family members, or as investments. According to the most recent Census Rental Housing Finance Survey about 75 percent of small rental property units are managed by the owners themselves, instead of property management firms.

The owners of SRPs have the most direct control over what happens to tenants who miss their rent, and many of these landlords appear to be in a financially precarious position themselves. When tenants miss a rent payment, landlords have many options of how to react, from initiating eviction proceedings to developing repayment plans. Recently, researchers have been conducting surveys to better understand the experiences of these landlords, leading to important findings.¹⁶ For instance, the owners of SRPs, particularly the small portfolio owners, often prefer to work with tenants directly to resolve unpaid rent and avoid a costly and time-consuming eviction process.¹⁷ However many of these owners may be feeling financial stress themselves due to the pandemic. Rent delinquencies

Figure 1. 1-Unit Rental Properties by Portfolio Size of Owner



Data: Investability, see: Stochak, S. (2017). "Five things that might surprise you about the fastest-growing segment of the housing market." Urban Institute. Retrieved from: <https://www.urban.org/urban-wire/five-things-might-surprise-you-about-fastest-growing-segment-housing-market>

were relatively high in the SRP stock even before the pandemic.¹⁸ A recent survey of small-scale rental property owners found that many owners relied on their rentals for a substantial portion of their retirement income and had recently borrowed funds to cover operational shortfalls.¹⁹ Another recent survey of SRP landlords found that almost a third of respondents reported increased pressure to sell their properties due to the pandemic.²⁰ Black and Hispanic/Latinx landlords were more likely to report providing rent payment plans to tenants who fell behind on their rent during the pandemic, despite those owners being in a more financially precarious position than White owners.²¹

The government has taken steps to slow the spread of COVID-19 and deal with the economic disruptions caused by the disease, though this support has not fully covered unpaid rent. The Coronavirus Aid, Relief, and Economic Security (CARES)

Act provided over \$2 trillion in relief including a one-time stimulus payment to households and supplemental unemployment benefits in the early months of the pandemic.²² The Act also imposed an eviction moratorium over a large portion of the rental market.²³ Numerous state and local governments imposed their own eviction moratoria and other tenant protection measures.²⁴ The CDC imposed a national moratorium on most evictions starting in September.²⁵ These moratoria did not forgive back rent, however, and a study from the Federal Reserve Bank of Philadelphia estimates that at the start of 2021 tenants who were behind on rent owed an average of \$1,800 each.²⁶ In addition, relief programs have faced implementation challenges, and state and local governments have struggled to quickly design and implement programs that meet their policy objectives.²⁷

Methods

Because so little data exist on small rental properties, we conducted a series of nationwide surveys to better understand this part of the nation's housing stock and assess the impact of the pandemic on it. We sent surveys to 93,000 owners of small rental properties in large and mid-sized U.S. metros.²⁸ We solicited landlords by mail and conducted the survey online. A total of 1,690 rental property owners and managers responded to the survey for a response rate of about 2 percent. Collectively, these owners held 29,889 rental units. In addition, respondents could opt into a follow-up interview and 40 owners were interviewed as part of this project. A few owners who were solicited for the survey but did not take the survey (usually because they lacked internet access) were among these interviewees.

The survey focused on three topics: the characteristics of the owner and their rental property portfolio, the impact of the pandemic on a specific property of theirs, and the impact of the pandemic on their whole portfolio and their management and acquisition plans and activities. The survey contained about 90 questions.²⁹

All statistics in this brief are weighted by portfolio size to reflect the national distribution of SRP units. We bin owners by portfolio size usually using five bins, to distinguish between owners of different scales. In instances where owners are the unit of analysis we perform cross-tabulations by portfolio size. Tests of statistical significance are weighted and stratified usually take the form of logit or linear OLS and models or χ^2 tests.

Findings

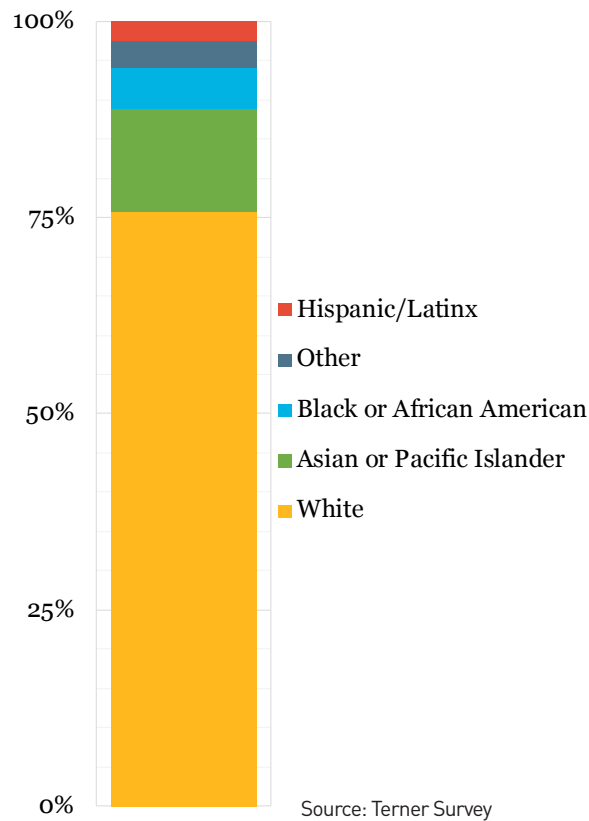
Owners of small rental properties are a diverse group—racially and in terms of income—and many of their properties were not very profitable even before COVID-19.

Small rental properties are almost uniformly held by non-professional landlords. Only 3.8 percent of small rental properties are owned by owners who drew a salary for their work on their rentals, as opposed to simply collecting rent as personal income. While many owners establish LLCs or other legal entities to hold their properties, these entities typically have no employees and exist primarily to shield the owners from liability.

The people who own small rentals are diverse. Figures 2 and 3 show the breakdown of owners of SRPs by race and income, respectively. Slightly over a quarter of owners were people of color and about a third made less than \$85,000.

Small rental property owners are often referred to as investors, but many properties are held by owners who think about their properties in ways that go beyond the usual financial metrics used by professional investors. The typical owners of small rental properties, the holders of only one or two units, often acquire their properties without any regard to financial performance as a rental. Sixteen (16) percent of small owners did not intentionally acquire their property, but instead received it through inheritance. Forty-three (43) percent of small owners had rental properties that were once their own home—after moving they chose to rent their property instead of selling it.

Figure 2. Race and Ethnicity of SRP Owners



And 26 percent of small owners report that they plan to either move into their rental eventually, or have a family member move there.

Many mid-sized owners (particularly those with 6 to 10 units) do think about their properties as investments, but specifically as part of their retirement plan. About 46 percent of small rental properties are held to be part of the owner’s retirement plans and about 30 percent of units are currently held by retirees. In 2019, 38 percent of retired respondents reported that rents comprised at least a quarter of their total annual income. Owners also often reported holding properties to pass on as an inheritance (heirs often receive substantial tax benefits in such transfers).

Many small rental properties made very little or no profit even before the pandemic. While the nationwide rental market was strong prior to the pandemic, the owners of small rentals often made little or no money from their properties. In 2019, 35 percent of rental properties did not report a profit and 19 percent reported a rent delinquency. A lack of profit is not necessarily a sign of financial distress. Many owners had long-term plans that included an extended period of marginal cash-flow. For example, owners who have rentals as part of their retirement plan often use any rental profits to pay down their mortgage debt. This strategy, however, can leave the owner vulnerable to unexpected declines in rent collection.

Figure 3. Income Distribution of SRP Owners

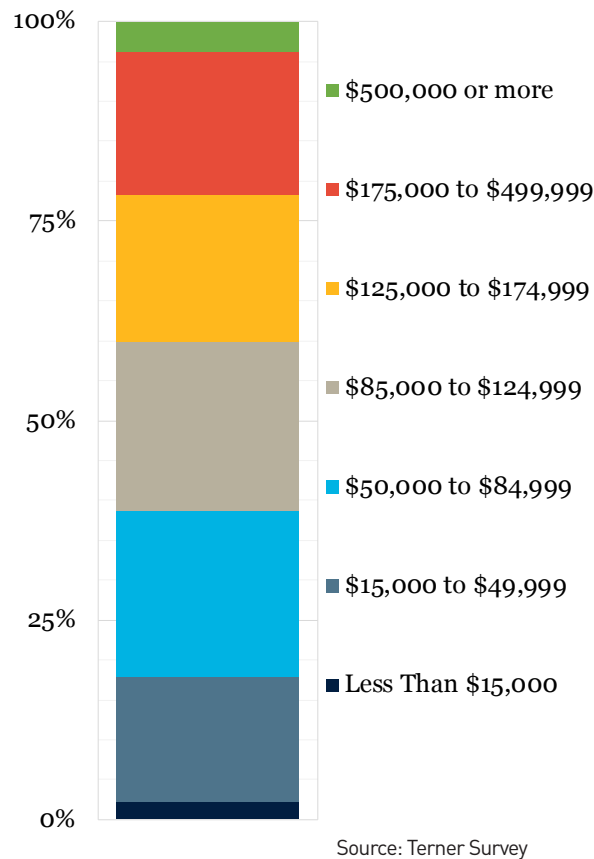
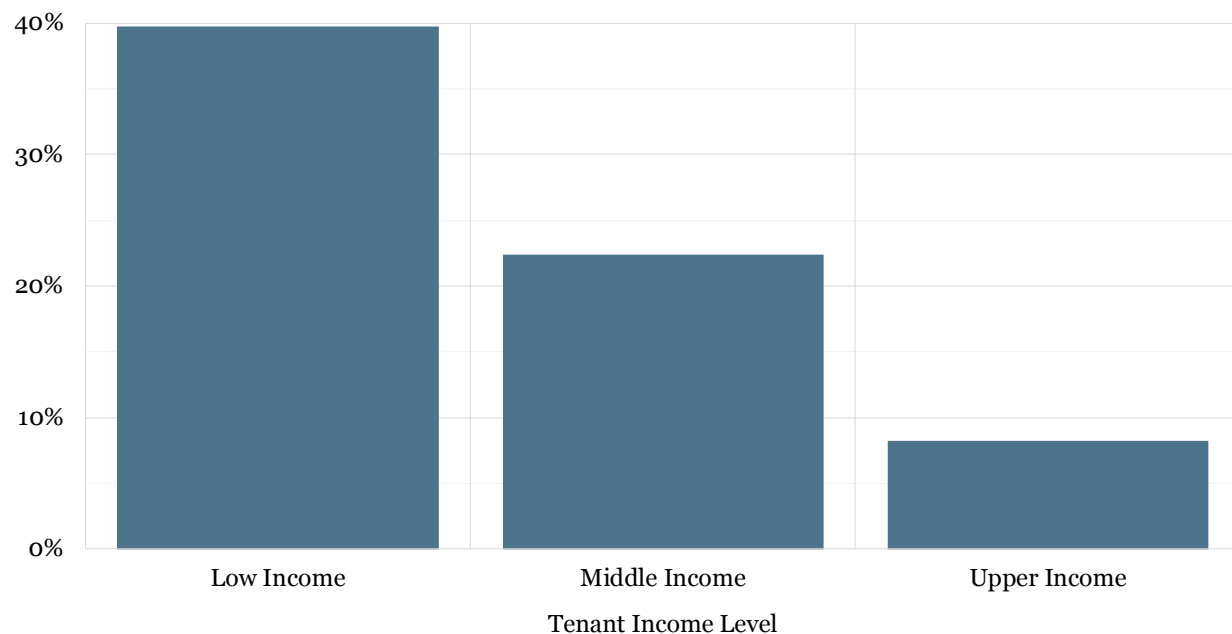


Figure 4. Proportion of Tenants Who Missed a Rent Payment Due to the Pandemic, By Income Level



Source: Turner Survey

Note: Low-income tenants were significantly more likely to have missed a rent payment in the pandemic ($p < 0.001$).

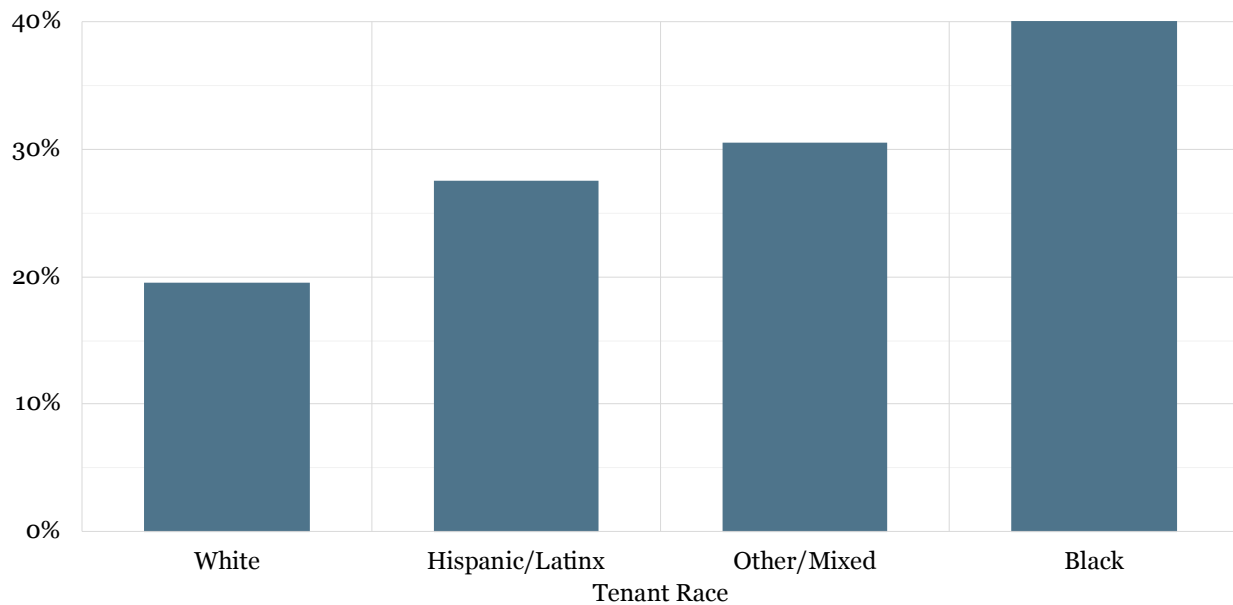
Respondents reported that more than 1 in 5 tenants fell behind on rent during the pandemic, with lower-income and Black residents hardest hit by shortfalls.

The rent shortfalls reported by respondents—21 percent of units in small rental properties fell behind on rent during the pandemic—is somewhat higher than the rates reported in the Census Pulse Survey and a recent study from the Federal Reserve Bank of Philadelphia, but in line with other studies that show that tenants in small rentals have been hit harder than tenants in large apartment buildings.^{30,31} Lower-income tenants were most likely to have fallen behind on their rent, relative to middle- and upper-income tenants, as shown in Figure 4. Black tenants were about twice as likely to have a delinquency than White tenants, shown in Figure 5.

For some tenants, income declines due to the pandemic were temporary and government assistance and the re-starting economy have allowed them to catch up on rent. Figure 6 shows that about a quarter of tenants who missed a rent payment due to the pandemic have since become current. An additional 20 percent were only one month or less behind on rent. About 40 percent had moderate delinquencies of more than a month, but no more than 6 months. About 15 percent had severe delinquencies of more than 6 months.

Moderate and severe delinquencies have added up to large arrears for tenants and owners. Median arrears for tenants who were behind was about \$2,200, but the range is very wide.³² About a third (33.9 percent) of tenants who were behind on rent owed \$4,000 or more.

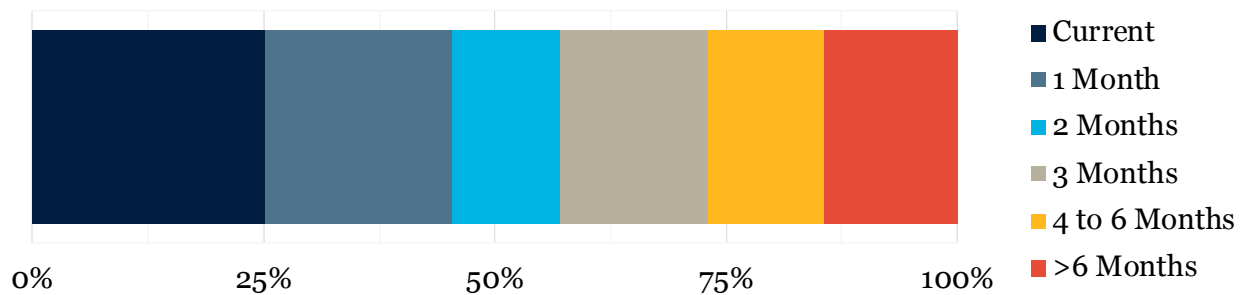
Figure 5. Proportion of Tenants Who Missed a Rent Payment Due to the Pandemic, By Race and Ethnicity



Source: Turner Survey

Note: Black tenants were significantly more likely to have missed a rent payment due to the pandemic than white tenants ($p < 0.001$)

Figure 6. Current Depth of Arrears of Tenants Who Ever Missed a Rent Payment Due to COVID



Source: Turner Survey

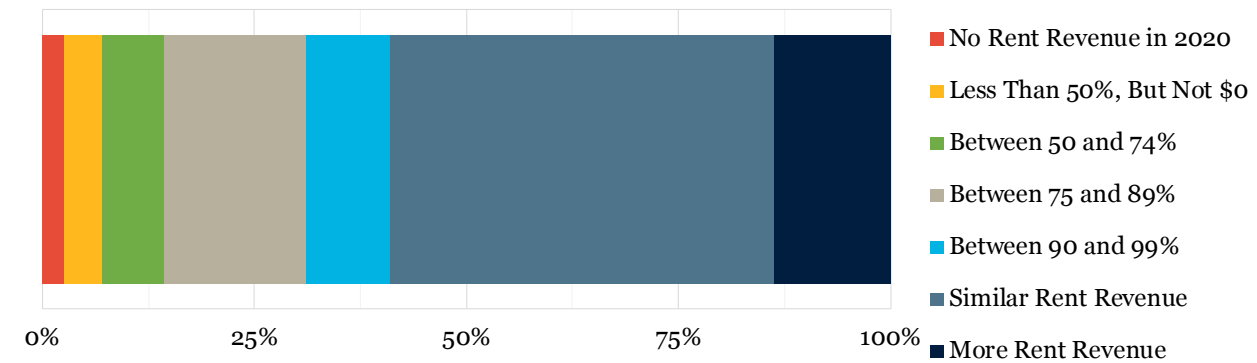
Overall, about 35 percent of SRP owners reported revenue declines in 2020, but shares climbed even higher for owners of 6 to 10 units or more and for landlords of color.

Declines in owners’ rent revenue have been uneven, with many owners seeing no negative impact, while others have been hard hit. Figure 7 shows the changes in rental income from 2019 to 2020 for small rental property owners. About half of owners of small rentals did not see rent revenue declines due to the pandemic,

and about 13 percent reported rising rent revenue in 2020. About 30 percent of owners, however, saw declines in rent revenue of over 10 percent in 2020.

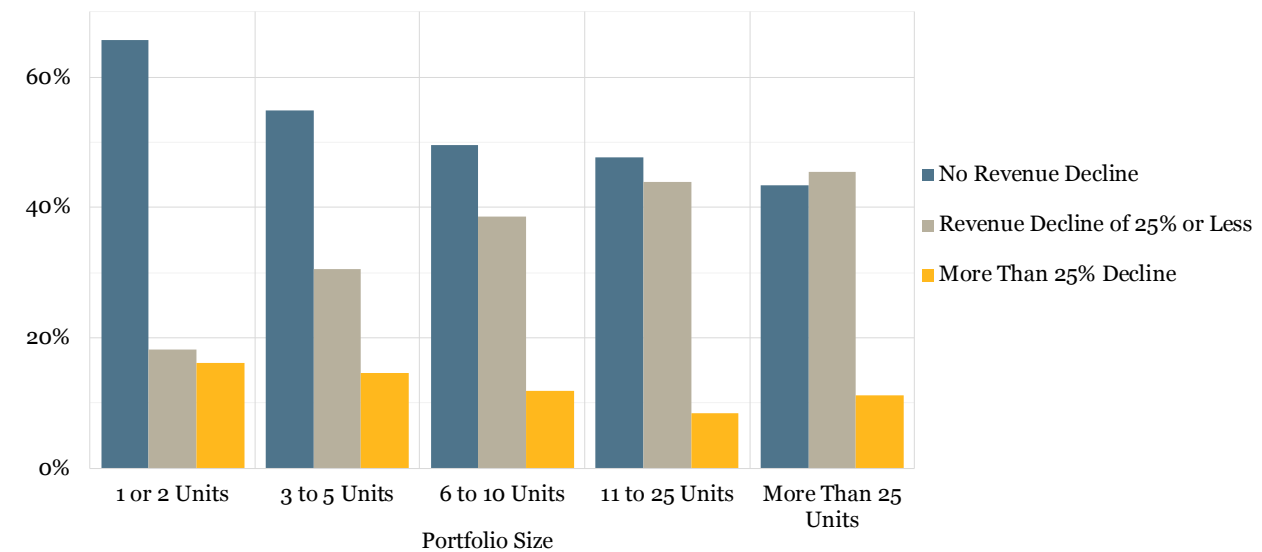
Larger- and smaller-scale owners were impacted differently. Figure 8 shows two general trends. Larger portfolio owners were more likely to report rent declines than smaller-scale owners. However, among owners who reported rent revenue declines, smaller-scale owners were more likely to report steep declines, sometimes collecting only half of what they collected

Figure 7. Rent Revenue Collected in 2020 Relative to 2019



Source: Turner Survey

Figure 8. Rent Revenue Collected in 2020 Relative to 2019



Source: Turner Survey

Note: Larger portfolio sizes were more likely to see rent declines ($p < 0.001$).

in 2019, and some reporting no rent collected at all in 2020. It is likely that this second trend is due to how the question was asked. A single unit comprises either 100 percent or 50 percent of rent revenue for the smallest owners and, between tenants missing rent payments and units being vacant, some units generated no revenue in 2020. Larger portfolios make such steep declines unlikely.

Declines in rent revenues mean different things to large and small owners. Owners with larger portfolios are more reliant on

rent revenue than smaller-scale owners. The typical small rental property owner, with only one or two units, rarely reported that more than half of their income came from rents. Owners with portfolios over 10 units, however, usually received at least half their total income from rents. Thus losses among larger owners are more likely to be a large financial hit to these owners, making them feel a greater pressure to cut expenses, sell their units, or take steps to ensure rent payments begin flowing again. However losses among the smaller-scale owners are also concerning.

Some smaller-scale owners, particularly retirees, rely on their rental income, even if it is not their primary source of income. These owners hold a much larger portion of the total stock of small rental properties, so the actions of these owners, particularly changes in property management and changes in plans to sell properties, can have a large impact on the market.

The association between larger portfolios and rent losses is likely due to differences in investment patterns. Larger-scale owners are significantly more likely to have lower-cost properties in neighborhoods with lower rents overall and are more likely to rent to low-income tenants. As lower-income tenants were more likely to miss rent payments during the pandemic, this difference in tenantry is likely the reason that larger-scale owners were more likely to report losses in 2020 as compared to 2019. Owners who feel financial pressure may sell properties in these low-end markets, which could have destabilizing consequences for these already-vulnerable neighborhoods.

Rent declines during the pandemic were significantly more likely to occur for Hispanic/Latinx and Black owners than for White owners, largely due to racial segregation. Black and Hispanic/Latinx owners were more likely to own properties in predominantly Black and Hispanic/Latinx neighborhoods, and also more likely to have Black and Hispanic/Latinx tenants. The racial disparities of the pandemic's impacts on tenants have also led to racial disparities among owners.

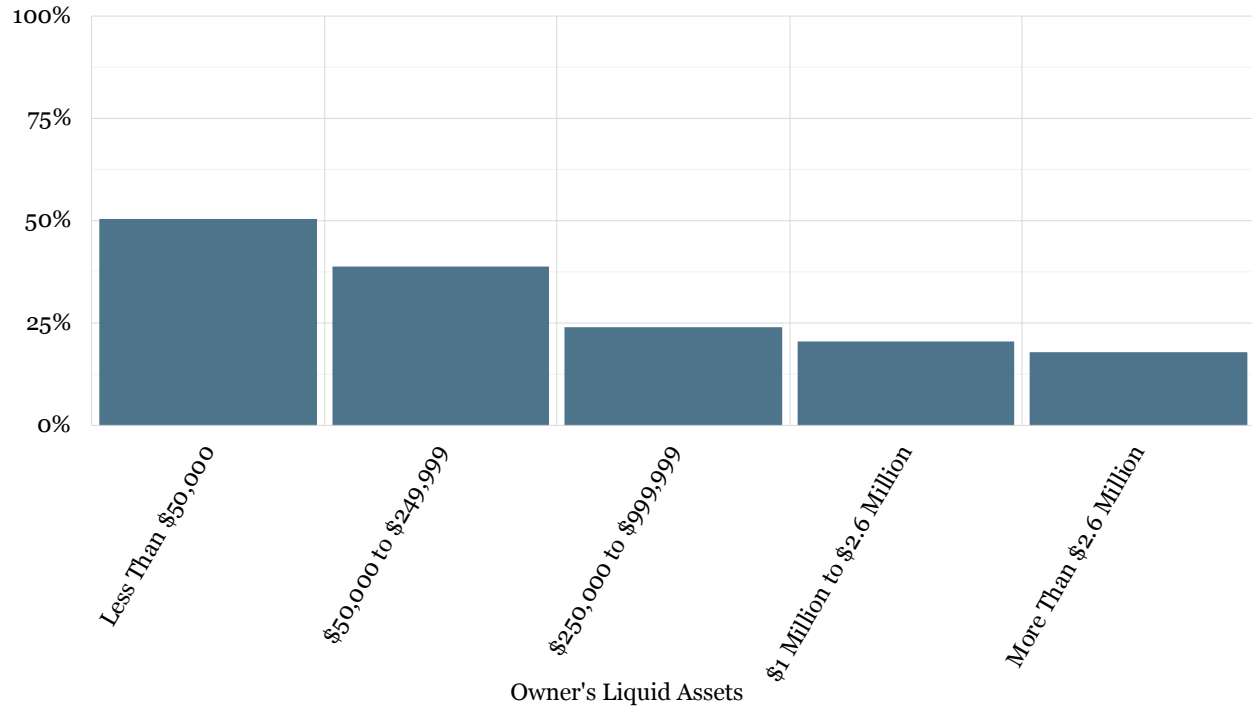
The pandemic also appears to have hit portfolios that already had collection problems harder than more stable properties. Properties that reported a loss in 2019 and properties that had a delinquency in 2019 were about twice as likely to have a delinquency in 2020 due to the pandemic.

In addition, lower-asset owners were significantly more likely to report rent delinquencies due to COVID-19 and reported steeper losses over their portfolios. Figure 9 shows that owners with the least cushion to absorb losses were the hardest hit, with about half of owners with \$50,000 or less in liquid assets reporting losses of 10 percent or more in rental income due to the pandemic.

In response to lost rent revenue, many owners have changed their collection policies, but many have also cut back on expenses or considered selling.

Owners responded to the financial consequences of the pandemic in many ways. About 40 percent of owners reported adjusting their rent policies in some way in response to the pandemic (Figure 10). One of the most common responses was to make the due-date for rent more flexible, either by eliminating late fees or by explicitly allowing tenants to defer rent payment to the middle or end of the month. About 9 percent of owners lowered rent for a month or more, and 6 percent had forgiven some amount of past-due rent.

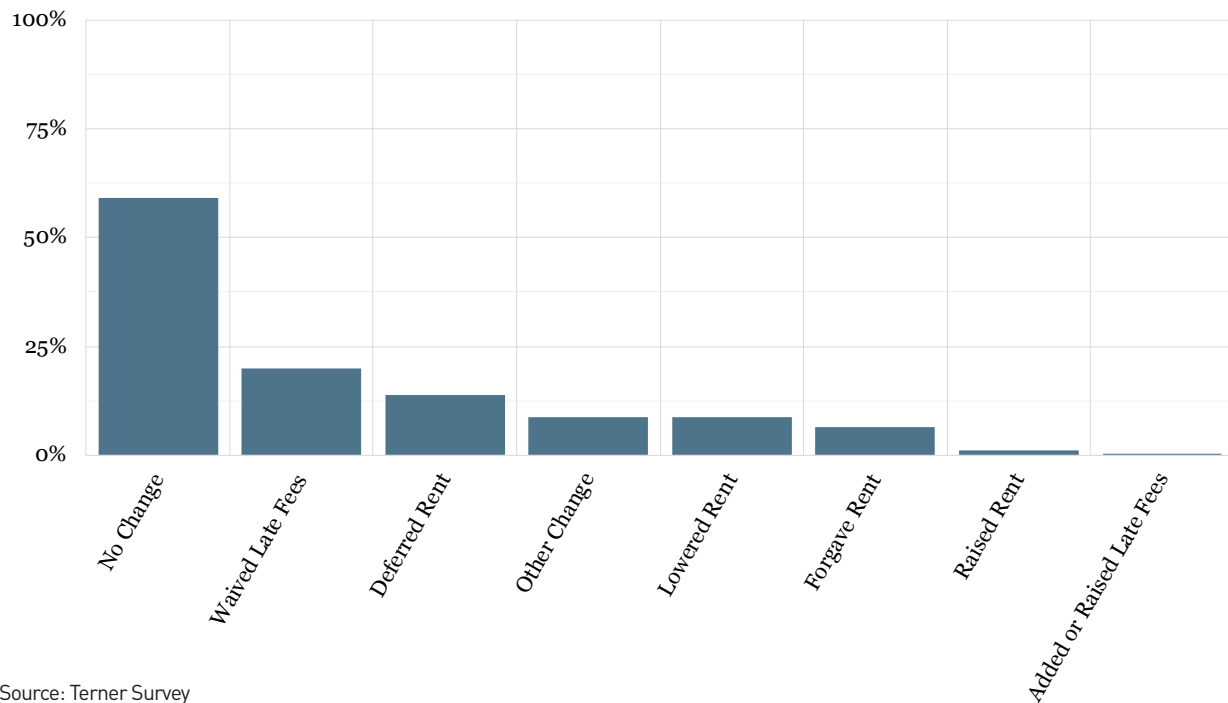
Figure 9. Respondents Who Reported Losses of Rental Income of 10% or More, by Total Liquid Assets



Source: Turner Survey

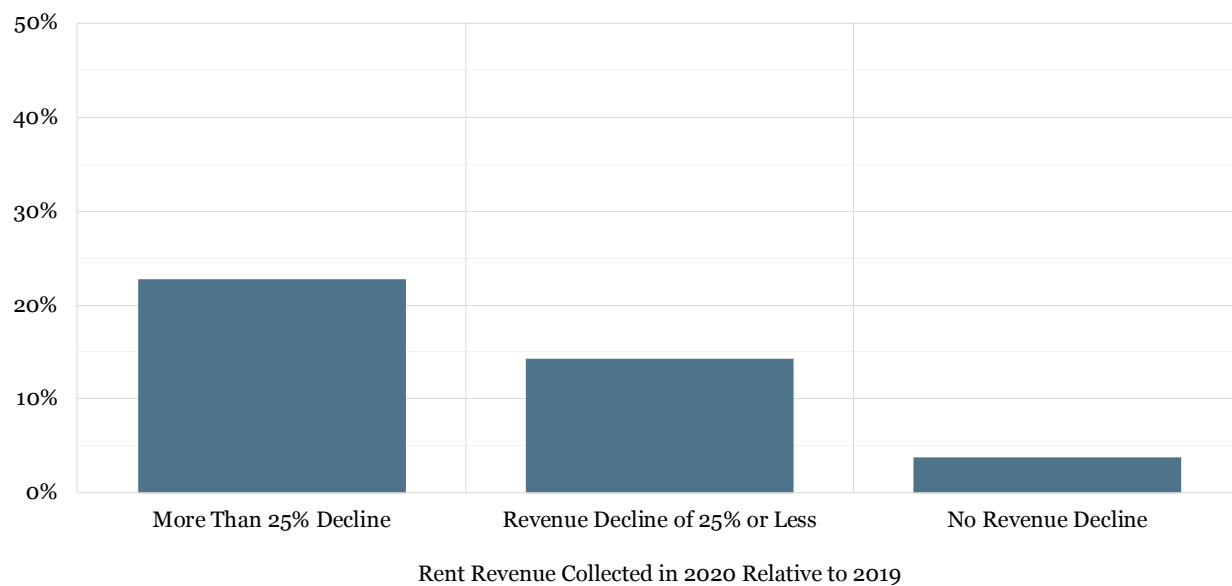
Note: Lower assets were associated with deeper revenue losses ($p < 0.05$).

Figure 10. Reported Changes to Rent Payment Policies in Response to the Pandemic



Source: Turner Survey

Figure 11. Respondents Who Reported Cutting Rental Expenses in Response to the Pandemic



Source: Turner Survey

Note: Deeper revenue losses were associated with expense cuts ($p < 0.05$).

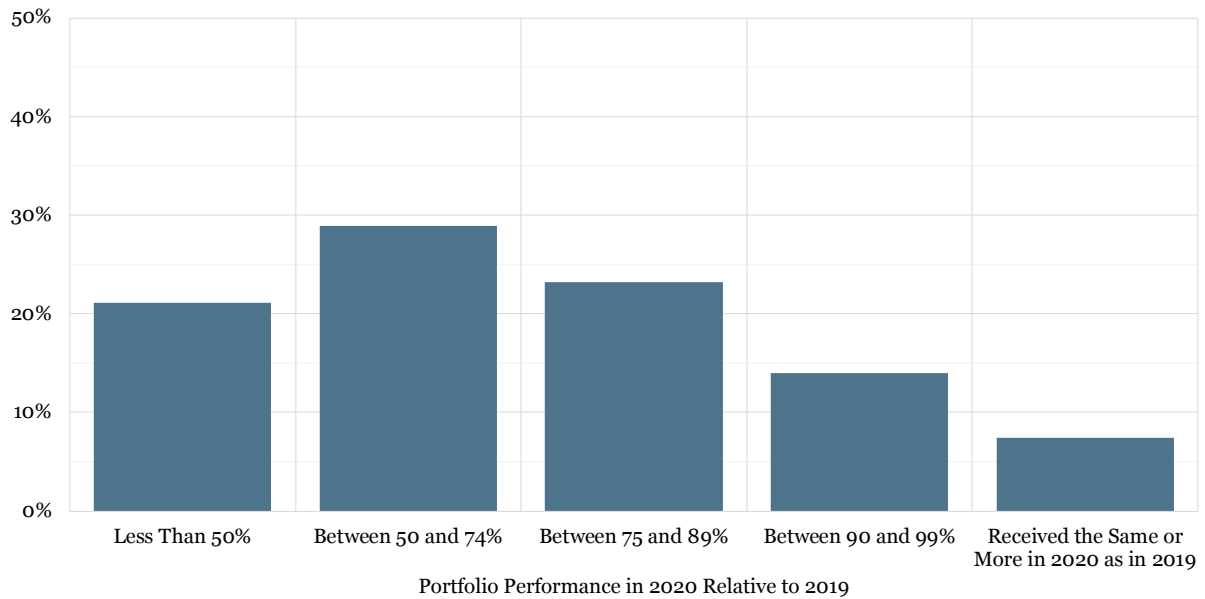
Reductions in revenue also led owners to take steps to reduce property-related expenses. Figure 11 shows the direct relationship between portfolio losses and the likelihood that owners cut expenses. Owners who cut expenses mostly reported cutting maintenance costs, though some reported reducing financing expenses (e.g. through mortgage forbearance) and utility costs as well. Very few owners reported that they had missed tax payments. In addition, interviews showed that maintenance was a challenge even for owners who did not have reduced rent collections. The pandemic caused many tenants to spend more time at home using appliances, kitchens, and bathrooms more frequently than they did before the pandemic, which owners reported added to wear and tear and also made it more difficult to schedule maintenance.

For some owners, the drop in revenues led to significant financial distress, leading them to take steps to sell their property. The owners of about 13 percent of the

units covered in the survey said that they were forced to take steps to sell off one or more units as a result of the pandemic. Figure 12 shows that higher levels of portfolio losses were strongly associated with owners moving to sell their properties.

Owner responses also differed depending on how far behind on rent their tenants were (Figure 13). Tenants who were one month or less behind on rent appear, for the most part, to be paying back rent according to the revised set of policies established by many landlords in response to the pandemic. However, when a tenant misses more than a month of rent, the owner's expectations and response shifted. For moderate delinquencies of 2 months to less than 6 months, many owners reported that they anticipate the tenants will eventually become current, but only after the owners forgive a portion of the missed rent. Owners with tenants in deeper delinquency were more likely to report that they will try to remove the tenant, either through a formal or informal eviction.

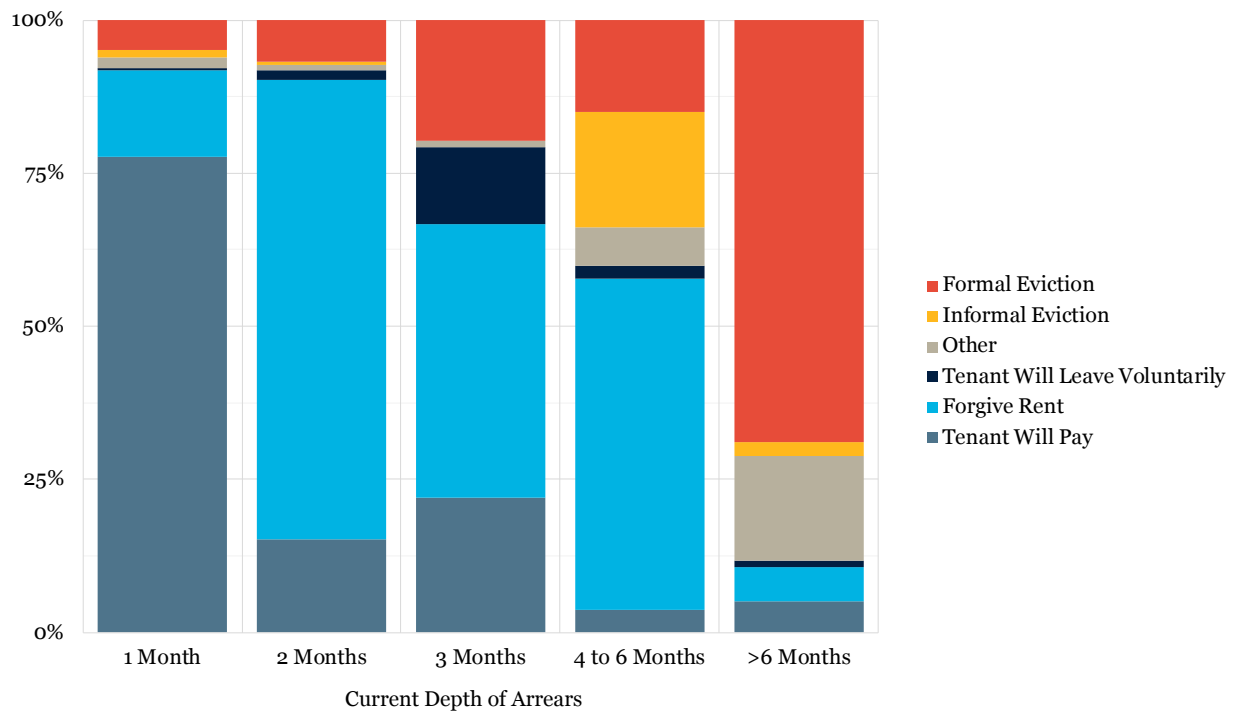
Figure 12. Proportion of Owners Who Report Having Taken Steps to Sell Due to the Pandemic



Source: Turner Survey

Note: Deeper portfolio losses were associated with selling units ($p < 0.05$).

Figure 13. Respondents' Anticipated Resolution of Rent Delinquency, By Depth of Arrears



Source: Turner Survey

Owners with tenants who are more than 6 months behind on rent typically reported that they expect to remove the tenant, usually by formal eviction.

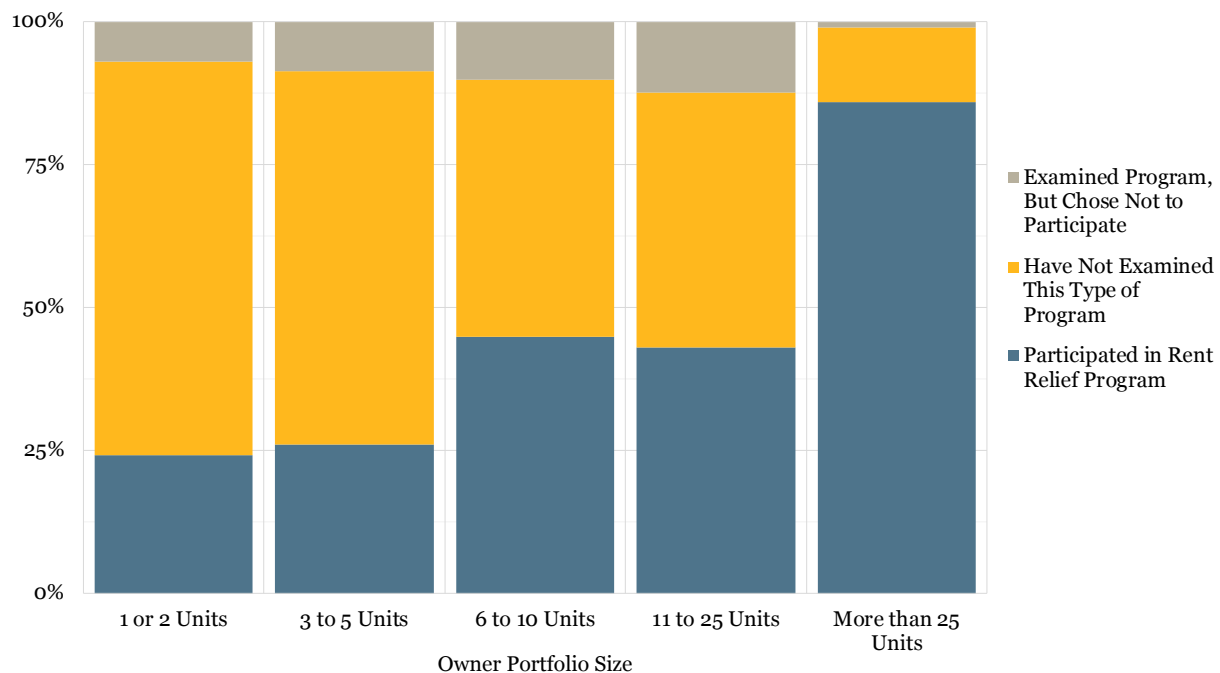
Owners also reported concerns that tenants were taking advantage of the eviction moratorium. 71 percent of owners reported that the pandemic-related rent delinquencies arose from tenants “not having sufficient money to pay rent.” The remaining 29 percent of owners reported that their tenants “have sufficient money but choose not to pay rent,” with those owners who had tenants in deeper arrears significantly more likely to report that their tenants had the ability to pay but chose not to. In those cases, owners reported in follow-up interviews that they felt galled by the feeling that their tenants were not even trying to make rent and that they, as the owner of the property, had no means to address the problem of missing rent. Some interviewees in our survey

felt that early rental assistance programs had made non-payment worse by offering the promise to pay for renters’ housing without providing sufficient funding to do so, leading some of their tenants, expecting rental assistance from the state or federal government, to stop paying rent.

Relief payments have helped, but assistance remains unevenly distributed.

Larger-scale, more professional owners have accessed rental assistance at much higher rates than the typical owners of small rental properties (Figure 14). Although tenants are usually required to apply to the programs, some interviewees reported that they have provided tenants with information about assistance programs and helped them with applications. In practice this appears to have led to large variations in program utilization based on who the owner is. More technology-

Figure 14. Owner Participation in and Awareness of Rental Assistance Programs



Source: Turner Survey

savvy owners also appeared to have higher utilization rates. Among owners who had reported losses relative to 2019, and controlling for portfolio size, owners who reported that they used no technological tools to manage the surveyed property were less likely to have accessed rent relief funds.

Among the owners of small rental properties, lack of knowledge of ERA programs currently appears to be a larger problem than the design of the programs. Of owners who reported a COVID-19-related rent delinquency at the surveyed property, only 7 percent reported that they had examined a pandemic rent-relief program and chosen not to participate, while 68 percent reported that they had never even examined rent assistance programs.

Conclusion

Our survey was designed to provide insight, both into the makeup of the small rental property market and into the extent of the impact of the pandemic on this part of the market. Our analysis of the survey results show the striking unevenness of the economic consequences of the pandemic, the resiliency of both the owners and tenants in small rentals, and a number of severe and emerging problems in the market. On one hand, most tenants have continued to pay rent through the pandemic and most owners have not reported declines in rent revenue. And of the tenants who missed a payment due to the pandemic, many have since become current. However, on the other hand and of particular concern are the tenants that are still behind on rent, who are disproportionately low-income or Black. These outstanding arrears mean that more than 1 in 3 owners have experienced revenue

losses due to the pandemic. While emergency rental assistance is still available across the country, many owners, even those in dire need, have yet to access these programs.

The survey also provides a clearer picture of the size and character of the potential wave of evictions in small rental properties that is poised to occur with the end of eviction moratoria. The federal moratorium from the CDC is currently scheduled to end at the end of July. At that point, in most states, landlords will have the opportunity to initiate or proceed with cases regarding non-payment of rent. Our survey suggests that the SRP landlords most likely to bring these claims will be those with tenants who have deep arrears of more than six months. Given a rate of rent delinquency of between 13 percent and 21 percent and the distribution of arrears we find in our survey, between 229,000 and 1.2 million households in small rental properties could be at risk of eviction. That would be in addition to the number of households who would be at risk due to a more recent rent non-payment. Not all those at-risk households will be evicted, but the number of eventual evictions is likely to be a substantial increase from the typical 3.7 million evictions filed in a year.³³ The tenants who are evicted also will face a very tight housing market with historically few vacancies.³⁴

In addition to the threat of evictions and their impact on vulnerable tenants, the survey suggests that some owners have already moved to sell one or more of their properties due to the financial stress of the pandemic, raising concerns about the future of the stock of small rental properties, especially lower-cost properties and properties in high-opportunity neigh-

borhoods. While rental property owners have higher incomes and more assets than tenants on average, some are low- or moderate-income themselves. Furthermore, small rental properties are a large source of naturally occurring affordable housing, and sales of units may deplete this critical resource.³⁵

Together, these findings underscore that ERA programs have the potential to help curb the looming eviction wave and stave off losses in the stock of naturally occurring affordable housing, but to do so they must be far more effective in marketing and raising public awareness. Large numbers of respondents with COVID-19-related rent delinquencies have never examined emergency rental assistance programs, and interviews show that in some cases they are unaware such programs exist. This includes many owners who report experiencing moderate or serious cash flow problems with their property due to the pandemic. Much of the policy conversation around ERA programs has focused on ensuring the design of the programs responds to the needs and limitations of tenants and owners. Improving the design of ERA programs is critical, but these improvements will have limited impact if owners continue to remain unaware that these programs exist. Furthermore ERA programs are typically not designed to deal with deep arrears, where tenants owe six or more months of back rent and where the owners typically report that they want the tenant to leave. These cases may require a different policy response that addresses the large arrears, but also addresses the strained relationship between the tenant and the landlord.



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28. The surveys were sent to a broad cross-section of landlord types, with two important exceptions. We did not survey institutional SRP owners, such as Invitation Homes, American Homes 4 Rent, and Colony Starwood Homes. Institutional owners hold about 2 percent of the stock of small rental properties (see: Strochak, S. (2017). "Five things that might surprise you about the fastest-growing segment of the housing market." Urban Institute. Retrieved from: <https://www.urban.org/urban-wire/five-things-might-surprise-you-about-fastest-growing-segment-housing-market>.) The survey also did not include resident landlords of 2-4 unit properties, which comprise about 3 percent of the stock of small rental properties, according to the 2019 AHS.
29. Some of the questions mirrored an even longer survey of small rental property owners that we conducted in 2019, which received 982 responses. See: Decker, N. (2020). Affordable Housing Without Public Subsidies. *Journal of the American Planning Association*, 87(1), 62–72. <https://doi.org/10.1080/01944363.2020.1798806>.
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ACKNOWLEDGMENTS

We are grateful to Fannie Mae for funding the survey of rental property owners. ATTOM provided the data for the survey sample, and Roofstock, Inc. performed additional identity resolution. Thanks to Shazia Manji for her research assistance on this analysis, and to Carolina Reid, Elizabeth Kneebone, Noerena Limón, and Ben Metcalf for their comments on earlier drafts of this brief.

This research does not represent the institutional views of UC Berkeley or of Turner Center funders. Funders do not determine research findings or recommendations in Turner Center's research and policy reports.