Center for American Progress

5 Ways America's Newest Landlords Can Win the Public's Trust

By Sarah Edelman and Julia Gordon December 18, 2014

Over the past three years, large investors have bought more than 380,000 homes[1] that became available due to the foreclosure crisis. These investors now face a new challenge: building trust with the public.

Analysts and community groups have viewed the emergence of single-family rental companies as presenting both opportunities and risks. With a shortage of quality rental housing stock, particularly affordable rental units, the country needs the rental housing these companies can help bring online. At the same time, however, these firms have also encountered suspicion and distrust. News stories about high eviction rates and substandard property conditions abound, and several high-profile lawsuits have been filed against prominent, single-family rental companies.[2] The resulting damage to a company's reputation or brand could make it harder for firms within this industry to attract investors and to expand into new communities in the future.

One concern often raised by analysts, advocates, and local officials is whether these purchases are a short-term trade—meaning that companies are buying houses at low prices and planning to sell as soon as housing prices rise further—or whether companies are in the rental business for the long haul. Another concern is whether the firms will prove to be good neighbors: Are they pushing up rents and siphoning wealth from communities, or are they helping provide quality housing at reasonable rents and investing in the neighborhood?

These concerns exist at a time when distrust of Wall Street's involvement in housing is already widespread. Before and during the foreclosure crisis, the public watched companies take steps to maximize their own profits apparently without regard for the social and economic costs of their practices. After the housing market crashed, many companies, including some financed by Wall Street investors, bought homes at historically low prices—sometimes, directly from taxpayer-funded federal or state agencies. Going forward, in order to build trust with the public, this new industry must demonstrate emphatically that professional, single-family rental firms are good allies to renters and communities alike and not in business simply to maximize short-term profits without regard for longer-term prospects or social and economic costs.

In a sign that the industry recognizes the importance of its collective reputation, a number of the largest single-family rental firms have joined together to form a trade group called the National Rental Home Council.[3] This group recently published a set of management standards designed to support its claim that it can offer better tenant experiences than traditional landlords, such as mom-and-pop owners who manage a handful of properties. The standards, which members of the trade group have committed to following, address issues such as home rehabilitation, property management, and resident relations.[4]

While these guidelines are an important step, they largely advise firms to comply with existing law. Yet acting lawfully is not enough: Many states offer few legal protections for renters, and it is worth remembering that much of the predatory lending during the mortgage boom was technically legal. When laws governing certain business practices are lax or nonexistent, companies must set standards beyond the legal minimum to act responsibly. Acting responsibly is even more important for the single-family rental industry if these companies hope to demonstrate that they are, as industry leaders say, a major part of the nation's solution to the foreclosure and rental affordability crisis, rather than a source of additional strain on communities.[5]

Thus, in addition to adhering to the law and to the new trade group guidelines, the Center for American Progress recommends that companies in the emerging, investor-owned, single-family rental industry go the extra mile to demonstrate that they are committed to managing homes responsibly, treating tenants well, and contributing to the economic and social well-being of the neighborhoods where they own homes.

Companies should adopt the following five recommendations to enhance their reputations and support the neighborhoods where they operate. Most of these standards are good practices that all landlords—large and small, single and multifamily—should follow, while a few are targeted specifically toward landlords who own large portfolios. There may be a financial cost associated with some of these recommendations, but we believe that companies can still be profitable while committing to good practices and affordability. Following these recommendations will help ensure this industry's long-term viability.

Commit to core tenant protections

Certain basic protections can help renters feel stable and secure in their homes. These protections will become even more important as our nation's renting population grows and more families do not have access to the protections associated with owning their own home. The United States gained about 4.7 million renters between 2008 and 2013, and experts estimate that at least another 4 million households will begin renting over the next decade.[6]

Some jurisdictions, particularly those in the Northeast and in parts of California, have core tenant rights on the books that protect renters from certain abuses, including unjust eviction or sharp rent increases. Some jurisdictions also give renters a reasonable buffer between a missed payment and an eviction. Many states, however—including states where the number of renters living in single-family homes has grown significantly over the past few years—do not provide renters with adequate protections. This leaves them vulnerable to abusive landlord conduct, including having their rent raised significantly and with little notice or being subject to eviction if the rent check is just a few days late. Some of the largest single-family rental companies own high concentrations of homes in Georgia, Arizona, Florida, and Texas—all states that do not provide renters with these basic protections.[7]

Emerging single-family rental companies should signal their commitment to renters by offering leases with strong tenant-protection provisions, whether or not state law guarantees those protections. We suggest the following standards.

Companies should not terminate leases without good cause and should offer longer-term options

Single-family rental companies should allow tenants to stay in their home as long as they pay their rent and follow the rules of their rental agreement. While renting families generally have "good cause" eviction protection in some Northeast states as well as in parts of California—which allows them to stay in their rental home as long as they are following the rules of their rental agreement[8]—this protection is less common in many of the jurisdictions where single-family rental companies have purchased the largest number of properties. In Georgia, for instance, leases that allow a landlord to terminate the lease at any time and for any reason with 60 days' notice are both common and legal, and these lease terms and have been used by at least one large single-family rental firm.[9] These types of provisions cause great uncertainty for renting households and are disfavored in jurisdictions with strong tenant protections.

Single-family rental companies should also offer tenants longer-term leases as long as they comply with the rules of their rental agreement. Currently, leasing periods and renewal practices vary by company. At least one large firm offers tenants a two-year lease with the opportunity to renew.[10] On the other hand, some companies want to maintain the flexibility to either rent to a new tenant or sell the property at the end of one year.

Yet families seeking out single-family rental homes often want to stay for multiple years in order to put down roots in a neighborhood and perhaps to send their children to a particular school, according to analysts at the investment research and ratings firm Morningstar.[11] Renters who live in places with good-cause eviction protection are, with a few exceptions, guaranteed a lease renewal if they are in compliance with the rules of their lease; in jurisdictions without these protections, a landlord is no under no obligation to renew a lease after the initial term is complete.[12]

Guaranteeing tenants a longer tenure helps them plan better for the future and avoid costly moving fees. This practice is also consistent with the business goal of single-family rental companies to keep a property occupied by a responsible, rent-paying tenant. Formalizing the practice of either offering longer-term leases or guaranteeing lease renewal at least once after the initial one-year lease period will provide renting households with a greater degree of tenure security.

Companies should provide tenants a reasonable buffer between a missed payment and an eviction

Single-family rental firms should put procedures in place to protect tenants from mistaken or preventable eviction. The protections provided to renters if they miss a payment vary widely depending on the landlord and the jurisdiction. Some companies allow a one-week grace period after a missed payment before taking steps to evict, while others offer only three days. For example, renters living in Washington, D.C.; Vermont; Wisconsin; Rhode Island; New York; or Pennsylvania have at least three weeks to pay their rent in order to halt an eviction, while renters living in many parts of California, Florida, and 15 other states have fewer than five days to stop an eviction by paying rent.[13]

Yet eviction carries serious upfront and longer-term costs for both renters and landlords. In the short term, an eviction can cause serious financial stress for renters, as they may lose their possessions during the eviction[14] or have to pay higher rates for temporary shelter. For renters, as a recent MacArthur Foundation study notes, "eviction can be the equivalent of a prison record."[15] Like a criminal record, a prior eviction can prevent a prospective landlord from considering a renter's application or make it harder for a renter to be hired by a prospective employer once the eviction is reflected on the renter's consumer report.[16] Since a renter is already more likely to be lower income and to have less wealth than a homeowner, the costs of eviction can set a person back for years.

For landlords, an eviction may lead to a period of vacancy during which the property is returning no value to the investor and is more vulnerable to damage by natural causes or vandalism. It also requires the landlord to incur the costs of advertising the property and screening a new tenant.

The best approach is for landlords to give renters a reasonable buffer between a missed rental payment and an eviction. A one-week grace period for missed payments can ensure a payment was not missed simply due to a technical glitch. If a tenant is experiencing a temporary financial hardship, the rental company could also first offer the renter a short-term payment arrangement before pursuing eviction. If a company subsequently decides to move forward with an eviction, it should give renters at least two weeks to halt the eviction process by paying what they owe.[17] Twelve states already require all landlords to provide this opportunity, and the federal government requires it for public housing landlords.

Companies should minimize rent increases and give tenants advanced notification of rent increases

Instead of basing rent increases on real cost increases, some companies will push rents as high as the market will bear in order to produce greater returns and to attract investors. Sharp rent increases can put renting households in a difficult position: If renters cannot afford the rent increase, they must either cut back on other household needs or pay to move, which can be costly. Companies should give renters the assurance that they will not sharply raise their rent.

Additionally, a company should also help the renter prepare for any increase by providing 60 to 90 days' advance notice of rent increases, as well as a written copy of any policies the company follows when calculating rent increases. This notice will make it easier for households to plan their finances and prepare to pay the increased rent, which is good for both renters and landlords. The recent guidelines issued by the National Rental Home Council acknowledge the importance of advance notice and encourage single-family rental operators to let renters know about upcoming rent increases.

Treat all renters fairly and provide greater opportunity by accepting rental vouchers

As single-family rental companies scale up to serve more tenants, they will need to ensure that their employees serve all families and communities equally. Larger companies recognize the importance of preventing discrimination and in their guidelines call for companies to take steps to comply with all fair-housing rules. Companies should make sure that qualified fair-housing personnel train their employees and contractors to prevent discrimination. Companies should also regularly review marketing efforts, tenant selection, housing rehabilitation standards, and maintenance response times in order to ensure that they are treating families and communities equally.

Companies can help with efforts to reduce concentrated poverty by accepting rental vouchers

Single-family rental companies can also contribute to a community's strategy to address concentrated poverty and segregation. Communities will be required by the Department of Housing and Urban Development's, or HUD's, proposed Affirmatively Furthering Fair Housing rule to have more in-depth plans for reducing concentrated poverty and racial segregation,[18] and single-family rental housing companies could be allies in these efforts, building a positive relationship with local governments and HUD in the process.

One specific way that single-family rental companies can help reduce concentrated poverty is to welcome families receiving housing subsidies. New research from Arizona State University finds that many foreclosed properties converted into investor-owned rentals have provided an opportunity for low-income voucher holders—who are disproportionately African American and Latino—to move to a higher-opportunity neighborhood.[19] While some of the nation's largest single-family rental companies allow tenants who receive subsidies to rent their homes, others do not.[20] The firms that are accepting vouchers may not be doing so all that often. Last year, less than 1 percent of tenants renting from the largest single-family rental provider held Section 8 vouchers, according to Bloomberg.[21]

While working collaboratively with local governments, renting to voucher holders may also help companies stay in compliance with the Fair Housing Act and avoid costly lawsuits. While the Fair Housing Act does not explicitly prevent companies from refusing to serve subsidy holders, 12 states and the District of Columbia have passed laws to prohibit discrimination based on source of income.[22] Nationwide, nearly half of all tenant-based voucher holders are African Americans; in some popular jurisdictions for single-family rental—such as Atlanta, Georgia—the percentage is much higher.[23] Blanket prohibitions on voucher holders may disproportionally affect African American renters and expose rental companies to challenges.

Preserve affordability

Single-family rental opportunities, which are often located in neighborhoods with strong schools and local amenities, should be available to families earning at or below the median income level and those recovering from the housing crisis. At least in some instances, however, overly restrictive tenant screening or high rents and fees put these rental homes out of reach for these families.

Companies should not turn down an applicant based on one metric

When companies evaluate prospective tenants, they should broadly evaluate an applicant's ability to pay rent using a variety of sources and a full credit history, rather than declining an application solely based on a poor credit score or a bankruptcy. Households recovering from a foreclosure or a job loss during the economic downturn may still have damaged credit, especially since many credit scoring models do not take into account on-time rent and utility payments that could show a household is getting its finances back on track. Narrowing the pool of applicants prematurely will make it harder for single-family rental companies to fill their homes with rent-paying households. If households can demonstrate a history of on-time rental payments and sufficient income to support monthly rental payments, their full applications should be considered even if they have a low credit score.

Companies should commit to maintaining affordable rents

Single-family rental housing, if priced appropriately, can help ameliorate the rental housing crisis by increasing the pool of affordable rental options. The most commonly used definition of rental affordability is that the rent is no more than 30 percent of a renter's gross income.[24] While many single-family rental companies price at or close to the average rent for their area, often, average rents are not necessarily affordable rents.

We recommend that single-family rental companies compare their rents with area median incomes to be sure that some portions of their units are affordable to those earning at or below the median income level. Many multifamily developers are already required to set aside affordable units as a condition of the Low-Income Housing Tax Credit or through inclusionary zoning rules.[25]

Firms can also build stronger relationships with community stakeholders and policymakers by demonstrating sensitivity to the economic challenges families are facing in the recovering communities where they are buying homes. Maintaining affordable options may also help single-family rental companies better reach the lower-wealth segments of the U.S. population that may have a hard time buying a home, saving the firms money on turnover since these families are likely to rent for longer periods of time.

Firms can preserve affordability in a number of ways. They can limit rent increases, accept renters who will use rental subsidies to help pay their rent, offer lower rents on properties they have purchased from the state or federal government at significant discounts, and offer rental units in neighborhoods with less-expensive housing stock. By committing to maintaining a level of affordability, single-family rental firms can also play a more meaningful role in a neighborhood's recovery, helping support home prices over time.

Fees should be transparent, fair, and not overly burdensome

Companies should let renters know upfront what types of fees they will be charged in the case of a late payment or a maintenance request; they should also make sure the fees they charge are reasonable.[26] The amount tenants are charged when they are late on their payment varies significantly. A report earlier this year published by housing advocates highlighted a single-family rental lease in Georgia with late fees in excess of 10 percent of the monthly rent charged to the tenant after the rent was five days past due, which is an onerous amount for typical families.[27] In contrast, the residential lease templates available through the Florida and Texas Bar Associations—forms landlords may consult when writing residential leases—set late fees at 4 percent and 5 percent of a tenant's monthly rent, respectively.[28] We recommend firms limit their late fees to a size that will encourage on-time payments and perhaps compensate for any costs the company incurs as a result of late rent, rather than make them so high that they are punitive and potentially prevent the family from getting back on track with payments.

Moreover, landlords should not include provisions in rental leases that require a renter to pay for attorney's fees the landlord incurs during an eviction proceeding. These fees can grow quickly and make it difficult for a household to keep up with rent obligations—or, in the case of a successful eviction, make it harder for the family to recover financially from the eviction. Voluntarily disclosing late-payment and maintenance fees and being careful to avoid burdening renters with excessive fees could also help companies steer clear of federal enforcement actions.

Ensure the community knows who owns the home

As single-family rental firms seek to professionalize single-family rental management, they should follow the example of some multifamily firms and make their ownership of properties clear so that it is easy for local government and community stakeholders to contact them.[29]

The first step is for single-family companies to register their properties according to local requirements. This advice seems simple, but companies do not always adhere to it. In New York City, for example, landlords are required to register their apartment buildings with the city government and to supply emergency contact information so the city can reach the landlord if there is a hazardous condition in the building, but less than one-quarter of New York City landlords register their properties as required.[30]

It is also important to register under the parent company's name rather than under the name of a subsidiary or separate legal entity. While a company may buy a property under a different name in order to avoid broadcasting its buying strategy to competitors, once it buys the home, a company should be transparent about its ownership.

Invest in the surrounding neighborhood, and when it's time, leave responsibly

In some neighborhoods, single-family rental companies are the largest property owners, but they may be headquartered thousands of miles away. Companies will need to commit to bridging this gap by establishing relationships with local governments and stakeholders, investing in the communities where they own homes, and assuring these communities that they will proceed responsibly if they decide to sell the homes they have purchased.

Companies should build good relationships with community stakeholders

Opening lines of communication with local governments, homeowners associations, legal aid and tenant advocates, and community development organizations is good for communities and good for business. As described earlier, when community stakeholders are encouraged to reach out to a firm, it is more likely the firm will find out early when there is a problem with a home they own, before there is damage to either the home or their reputation. Additionally, the more trust a firm can build with the local community, the less community resistance it is likely to meet as it further expands its business.

Investments should address needs identified by the community

Investing in the communities where single-family rental firms own homes helps strengthen the neighborhoods surrounding their homes. When investing in local communities, companies should be sure to align community revitalization investments with the needs identified by local policymakers and well-established, community-based, affordable housing nonprofits. Firms could also give back in an important way by investing in affordable rental units and by providing housing counseling services.

Firms should have a responsible exit strategy

Firms should have a responsible plan that takes the surrounding neighborhood into consideration if they sell the properties they have purchased. Some investors plan to own their rental homes long term, while others may shift their capital to more attractive investments if the single-family rental returns are not as profitable as anticipated.

When a company decides to sell an individual property, it should have policies in place to make sure the transition is smooth for the tenant. First, the company should offer the tenant the option to buy the home. This right of first refusal gives tenants a chance to buy if they can afford to do so and may also make it easier on the surrounding neighborhood than multiple changes of ownership. Moreover, the possibility of buying the home when the investor sells may create another incentive for tenants to stay current on their rent to avoid damage on their credit report and to take good care of the home. If tenants are not interested or cannot afford the property, the company should consider allowing nonprofits and other prospective owner occupants the opportunity to buy before flipping the property to another investor. This type of policy could build support for single-family rental companies among local and federal governments and community stakeholders.

If a company is selling off a large portfolio of homes and therefore cannot provide a first opportunity to owner occupants and nonprofits, the company should still take steps to ensure that its disposition does not undermine local home values.

Conclusion

The spirit in which single-family rental companies operate their businesses will determine whether the public perceives them as allies helping provide decent and affordable housing options or whether communities approach them with skepticism and mistrust. In order to build strong national brands, single-family rental firms should provide renters a reasonable level of service and protection regardless of what state law demands and should aim to build trusting relationships with neighbors and local governments by investing in local communities.

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Endnotes

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