

OWNERSHIP AND MANAGEMENT OF SMALL MULTIFAMILY RENTAL PROPERTIES

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The Ownership and Management of Small Multifamily Rental Properties

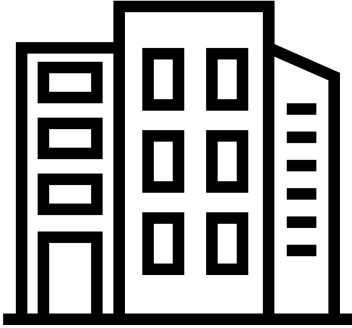
New Insights on an Overlooked Part of the Rental Market

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Why small multifamily rentals (5-49 unit)?



17%

of U.S. rental
stock

Small multifamily rentals make up **8.2 million** units across **493 thousand** properties.¹

- Understudied in academic research
- Unique property management and financing challenges
- Underrepresented by landlord associations

1. Rental Housing Finance Survey, 2021

Survey Topics

Owner characteristics

Property finances

Property management
practices

Methodology

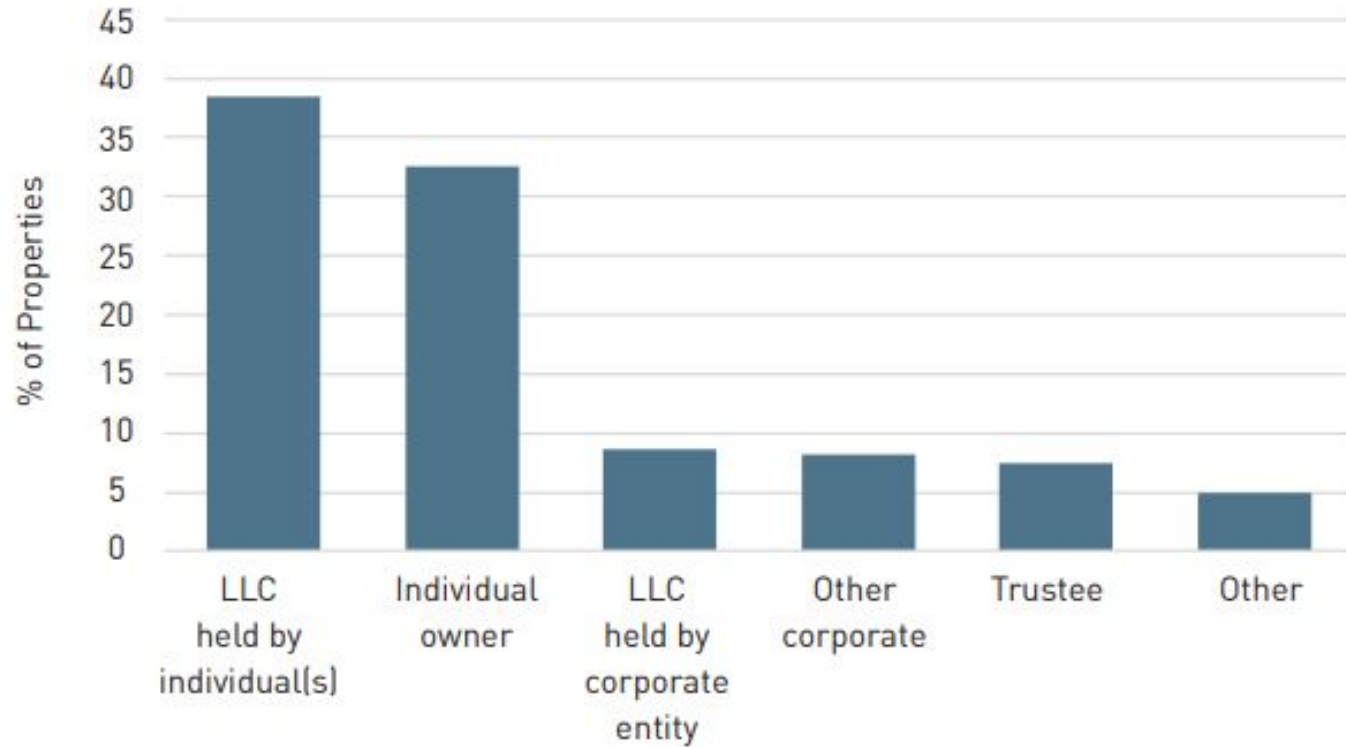
Format: Nationwide, online survey of owners and managers of 5-49 unit rental properties

Timing: July - September, 2022

Analysis of 764 responses

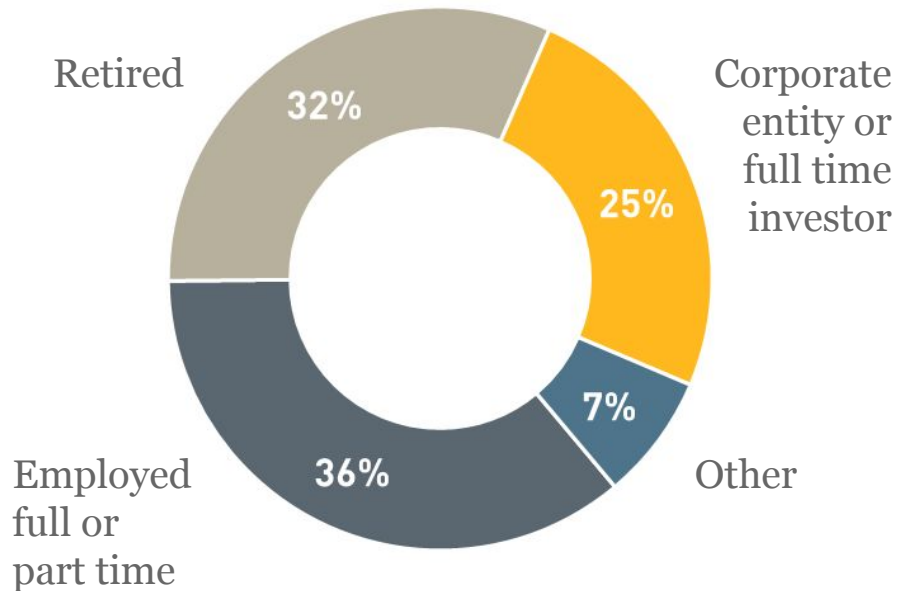
Weighted by property size to match national distribution of 5-49 unit properties (2021 RHFS)

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



Owner Characteristics

Share of Properties by Owner Employment



Top Reasons for Acquisition

- **Rental income (71%)** and **capital gains (30%)**
- **Retirement (42%)** and **family security (26%)**
- Provide **affordable housing in community (16%)**

Tenant Screening and Selection

Owners reported that **credit checks** were the most important screening method

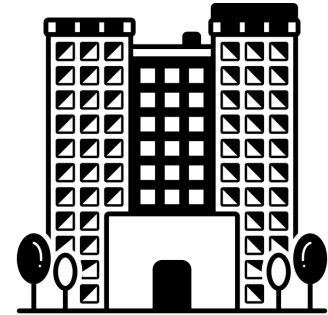
Personal interviews

were more important among owners with small portfolios



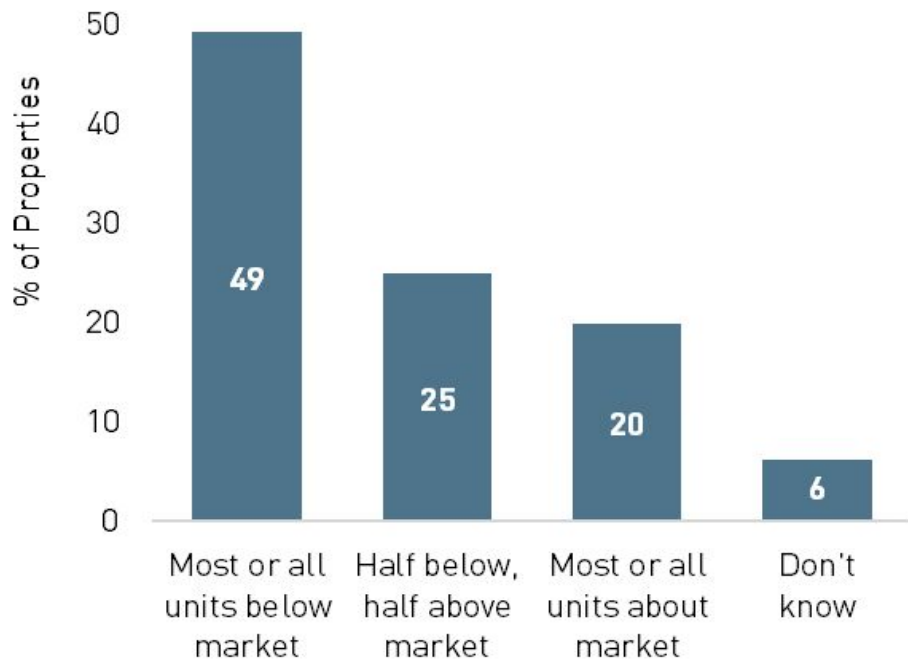
Online screening tools

were more important among owners with large portfolios



Below market rents are common in SMF

Owner Reported Rent Levels

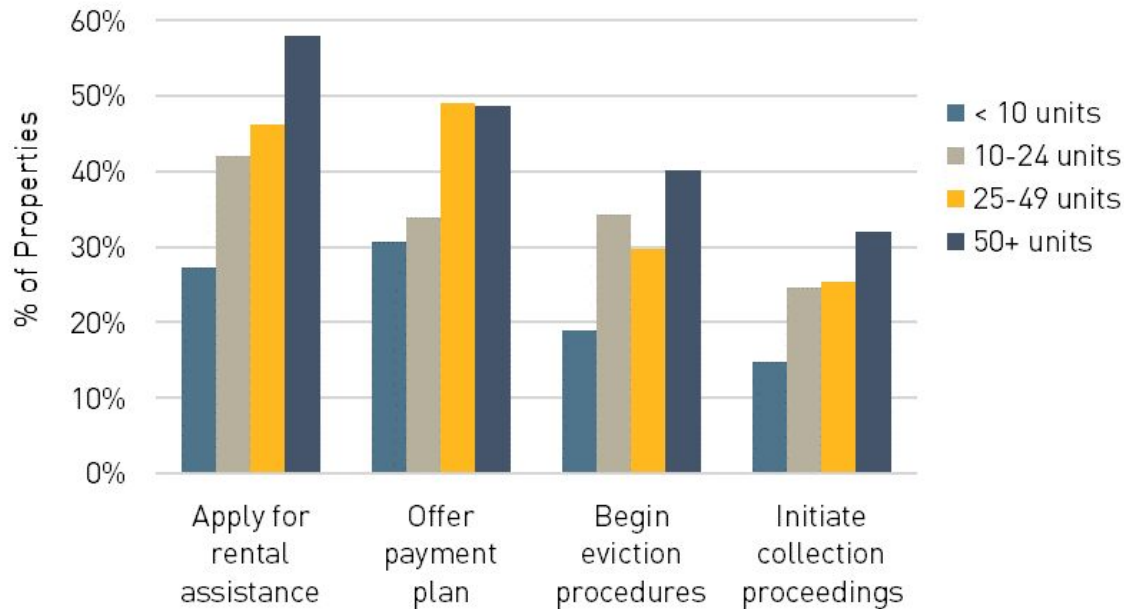


Why are rents below market?

- **Prevent turnover**
 - **32%**: rents rarely change at renewal
- **Ensure tenant can pay consistently**
- **“Other”**: rent restrictions, property condition and age, and/or subsidy program regulations

Late rent payments increased during the pandemic; bigger landlords more likely to take action

Responses to Rent Delinquency by Portfolio Size



- Moderate to severe cash flow problems in **28% of properties**
- Owner pursued rental assistance (**45%**)
- Owner began eviction proceedings (**33%**)

Finances and Financial Performance

Many small multifamily properties show signs of substantial financial problems



1 in 5 properties
have been turned down
for financing



Owners of about **25%**
of properties
reported no profit



Moderate to severe cash
flow problems in **28%**
of properties

Maintenance Practices

Most properties were in **excellent or good condition** according to their owners; **however, 28% need substantial improvements**



Owners of **25%** of properties report **postponing maintenance**



Serious cash flow problems were associated with deferred maintenance



Higher rents and newer stock associated with better property condition

Reflections

- Small multifamily owners are **mixed** in terms of **professionalism**
- Important source of **unsubsidized lower-cost housing**
- **Habitability** and **affordability** are of concern, esp. older stock and those held by small-scale owners
- Important target for **preservation**

Opportunities for Further Research

Tenant perspective

Reporting requirements

Geographic variation