INDEPENDENT LANDLORD RENTAL PERFORMANCE
REPORT

Chandan
ECONOMICS

rentredi

December 2021

Index

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Contact :
info@chandan.com

About This Report

The Independent Landlord Rental Performance report is a real-time look at how well non-institutional operators are collecting owed monthly rental payments. Utilizing data provided by property management software RentRedi, these findings track the performance of 51,962 rental units. Data are cleaned (reduced sample size = 20,030 units), analyzed, and reported by Chandan Economics. Where sample size quality meets sufficient reporting standards, data are offered from March 2020 forward, and new trends and analyses are reported monthly. Performance trends are discussed nationally, as well as along the lines of residential property type and geography.

Notably, these data track a segment of landlords that are underrepresented in leading market samples. For example, while the National Multifamily Housing Council's (NMHC) Rent Tracker holds an unmatched sample size (11+ million), it represents exclusively the professionally managed segment of the rental housing sector. According to US Census Bureau's latest Rental Housing Finance Survey (2018) individual investor-owned rental units (excludes LLCs, LLPs, or LPs) account for 72.5% of both the Single-Family Rental (SFR) and 2-4 Family rental housing stock. Additionally, individual investors accounted for 23.1% of 5–49-unit (Small Multifamily) properties. In the RentRedi independent landlord sample, 38.4% of units are SFR, 27.4% are 2-4 Family, and 29.1% are Small Multifamily.

Data contained within this report offer a contrasting set of statistics that may provide investors, brokers, academic researchers, and policymakers a benchmark to compare the performance and health of independent landlords against professional managers tracked by NMHC.
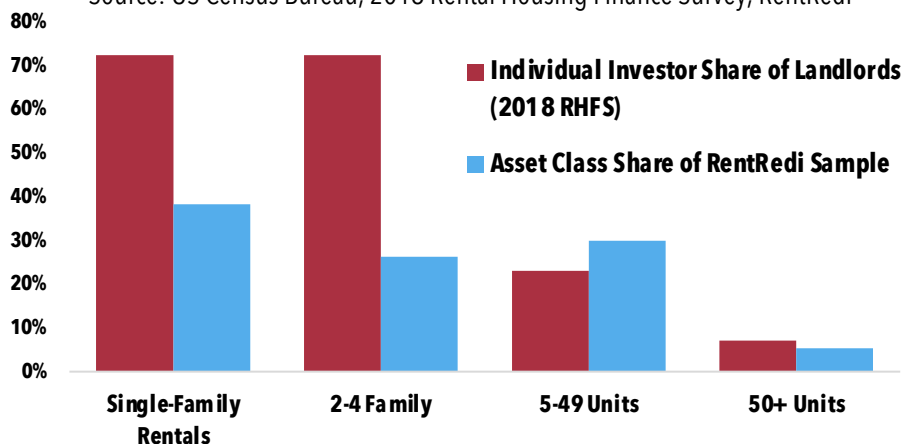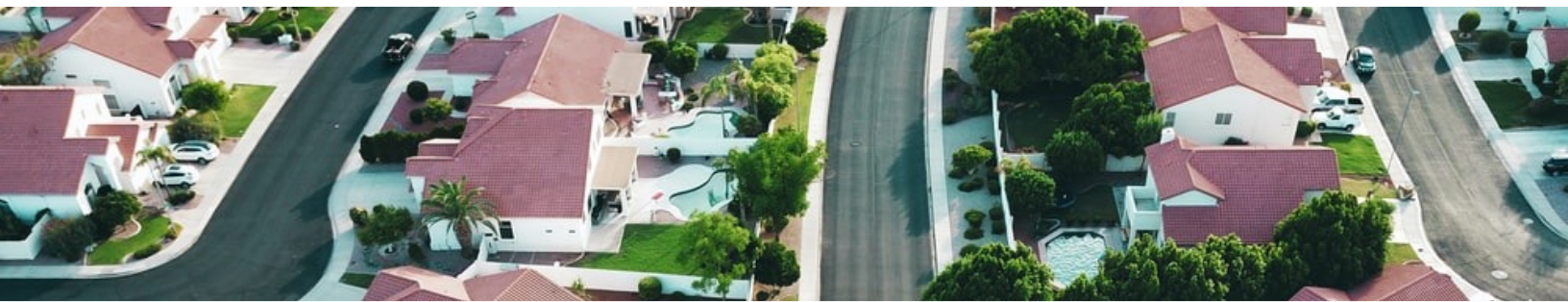
Individual Investor Market Share by Rental Housing Property Type

Source: US Census Bureau, 2018 Rental Housing Finance Survey, RentRedi

National Overview

Pandemic Trends

Rent collection rates for independent landlords have held up better over the pandemic than the national narrative might suggest— especially beyond this initial period of distress experienced in Spring and Summer 2020. Full-collection rates have never fallen below 82.0%, and since Fall 2020 they have consistently tracked above 86.9%.

At the same time, properties managed by independent landlords have proven more sensitive to pandemic distress than properties operated by institutional managers.

In March 2020, the last month of non-pandemic impacted data, independent landlords collected 81.3% of rental charges on time, 12.5% late, and 6.3% remained unpaid. The on-time payment rate in independently managed rental properties fell in four of

the next five months (including April 2020) as the pandemic-related recession took place. Collection rates reached their lowest point in the series at 71.3% in August 2020. Approximately 18.0% of rent charges from July 2020 remain unpaid.

Comparing rental collection rates for independent landlords against professionally managed units uncovers material differences in how the two segments have experienced pandemic distress.

In March 2020, the spread between the paid-in-full rate in independently managed properties sat 3.5% below the rate in professionally managed properties. The performance spread would eventually widen, topping out at 12.5% in August 2020. While performance spreads between independent and institutional operators have narrowed over the past year, they remain above their pre-pandemic benchmark, coming in at 5.5% through October— the last full month of comparable data.

Rental Collection Rates: Independent Landlords vs. Professionally Managed

Spread   Professionally Managed (NMHC)   Independent Landlords (RentRedi)
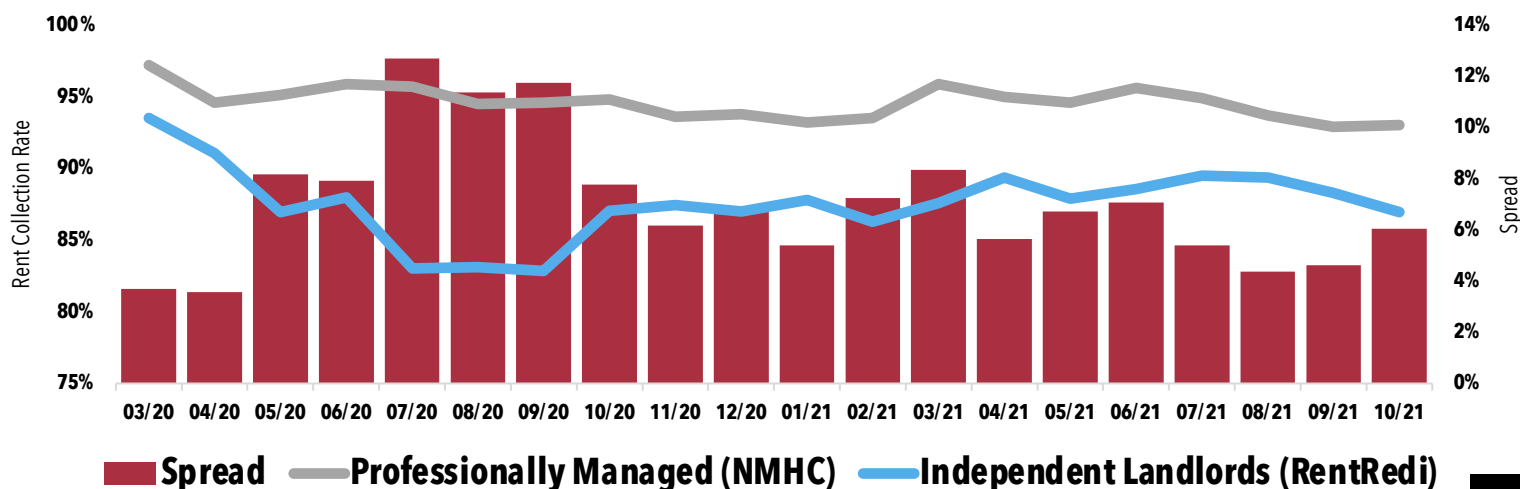
The reason as to why independent landlords have seen disproportionate levels of non-performance is likely attributable to labor market phenomena. According to Opportunity Insight, a research foundation sponsored by Harvard University, low-wage workers have not, on average, participated in the labor market's recovery in the same way as middle-and-high-wage workers. As of this past August, low-wage employment levels remained 25.6% below their pre-pandemic benchmark.

Leveraging average unit rents as proxy for renter income, the RentRedi sample contains a high share of units that are moderate and low-income households. A slightly less than half (49.2%) of the RentRedi sample have monthly rents less than $1,000. Yet, these sub-$1,000 per month units account for 54.1% of all units that have yet to pay rent in December.
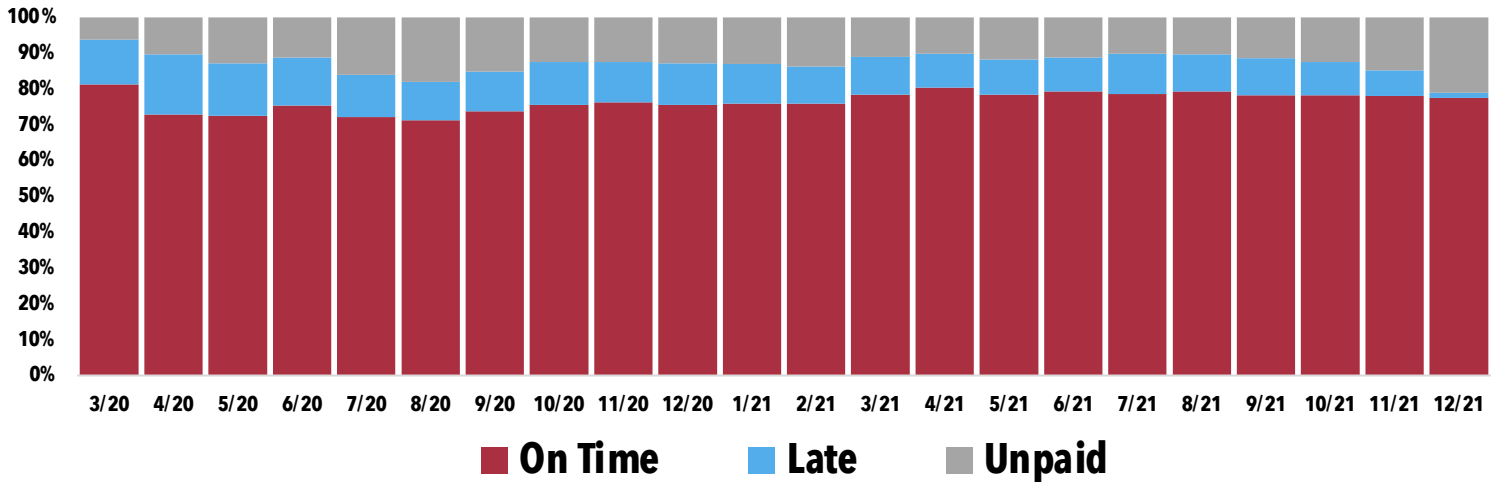
RentRedi Sample Distribution by Monthly Rents Totals

% of Sample vs. % of non-Performance

■ % of Total Unit Sample   ■ % of Non-Performance
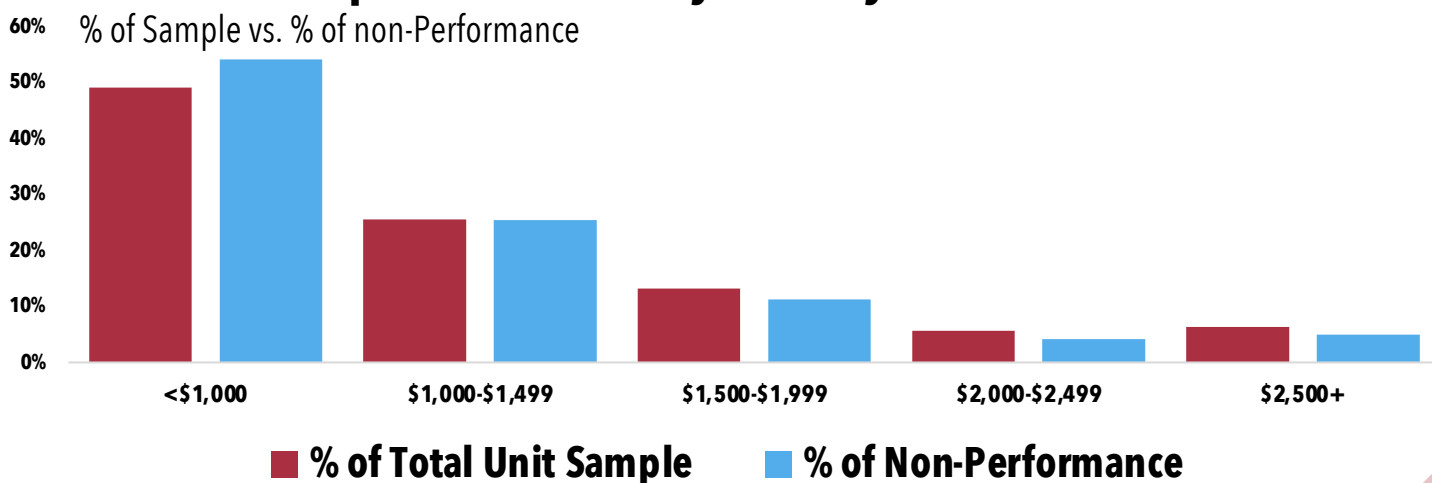
Current Performance

The most recent data contained in this report, including November's month-end estimate and preliminary collection trends through mid-December, offer signs of both hope and concern. The non-performance rate, which includes both late and unpaid rental charges, ticked up 18 basis points (bps) in November as on-time collection rates fell slightly to 78.1%. The full-collection rate for November rent charges currently stands at 85.2%, though this share should continue to rise as some unpaid units will eventually transition to paid late.
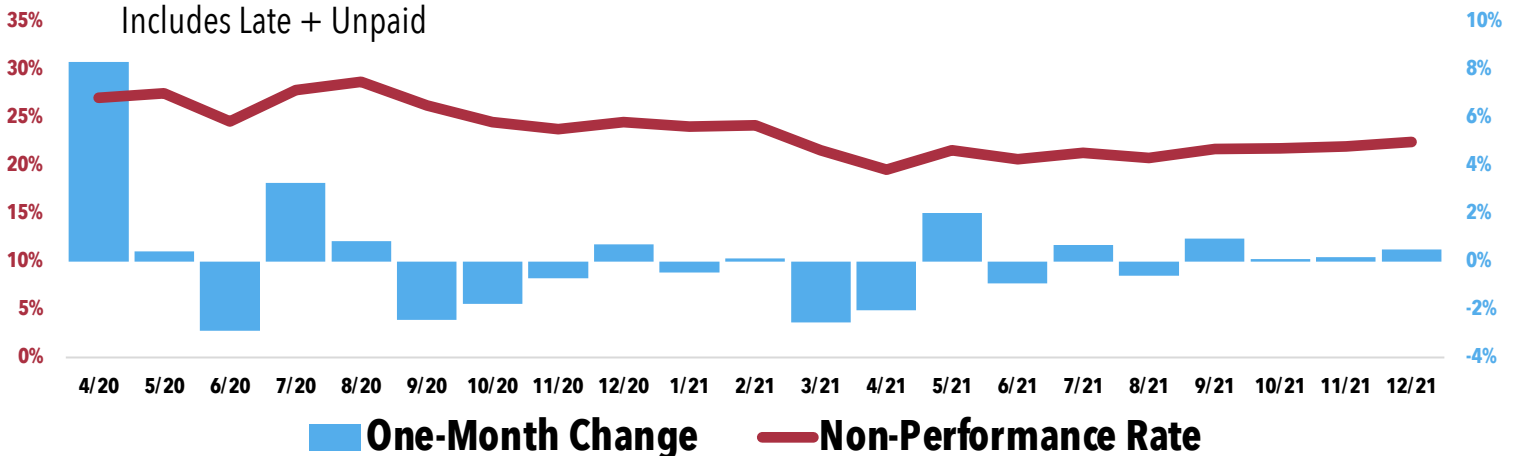
Meanwhile, December's preliminary on-time collection rate estimate (77.6%) dropped by 49 bps month-over-month, reflecting a continued downward trend in performance. On-time collection rates have now dropped in four-consecutive months and sit at their lowest rate since February 2021. Some deterioration could still lay ahead—especially if the rapidly spreading omicron variant weighs on the macroeconomic recovery.
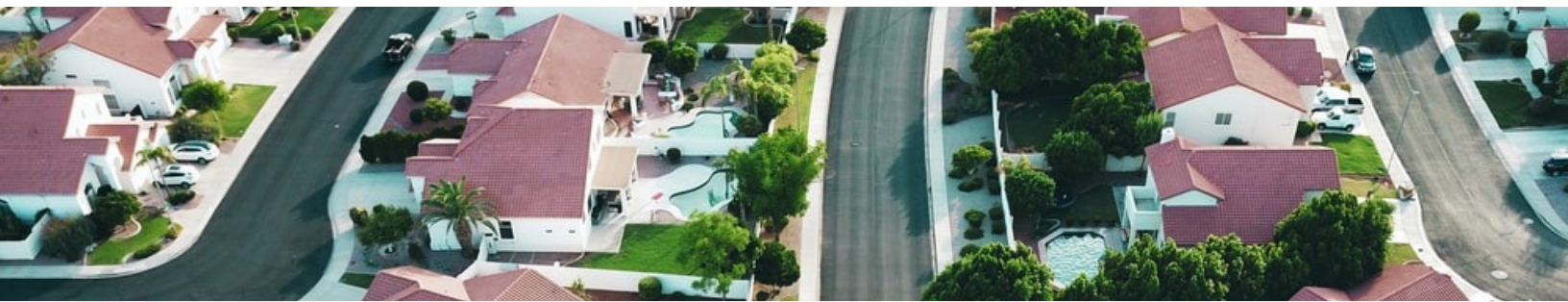
Independent Landlord Rental Payment Tracker

Legend: On Time, Late, Unpaid

Non-Performance Rate

Includes Late + Unpaid

Legend: One-Month Change, Non-Performance Rate

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Performance by Property Type

Property Type Overview

While independently managed single-family rentals (SFR) entered the pandemic with the lowest on-time payment rates of the three tracked property types (78.0%), they have outperformed the rest of the market in recent months. While the preliminary December data indicates a marginal decline in its on-time collection rate, SFR still beat the next best performing property type (2-4 Family) by 82 bps. Independent landlords operating 2-4 Family assets hold the distinction as the only residential property type to see on-time collection rates rise in December, improving by 45 bps to 77.5%. Small Multifamily properties operated by independent landlords hold up the rear, posting the worst one-month

change (100 bps) and the lowest on-time payment rate (76.5%) of the three tracked property types.

When it comes to unpaid rental charges, units in Small Multifamily assets hold the unfortunate titles as the asset type most likely to still owe back-rent. For November 2021, the last available period of month-end data, 15.5% of Small Multifamily units have still yet to pay their rent in entirety. This non-paying share rose to 16.0% for apartments in 2-4 Family properties. Independently managed SFR units again hold up the best performance in this area, with only 13.4% of rents for November remaining unpaid.

On-Time Rent Payments by Property Type

Single-Family Rentals
2-4 Units
5-49 Units
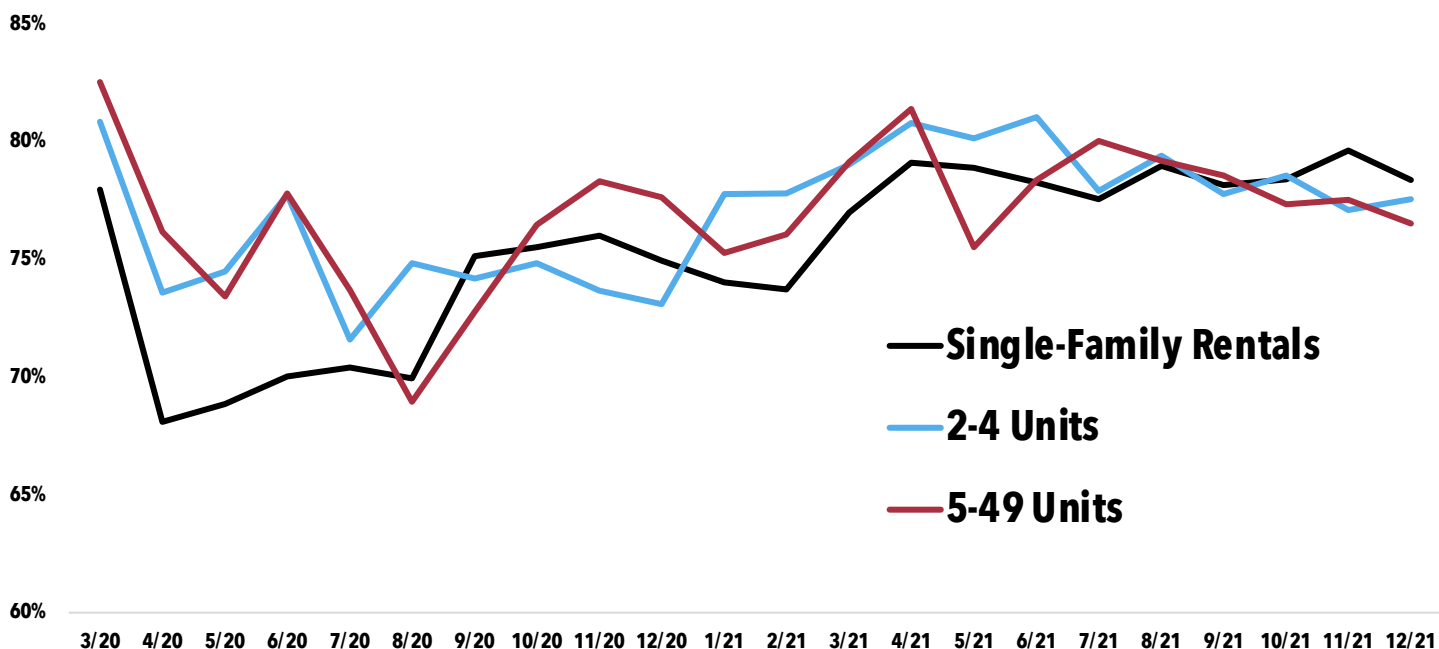
Single-Family Rentals

Rental collection rates for Single-Family Rental (SFR) properties operated by independent landlords improved in November compared to the month prior. On-time SFR collection rates rose by 123 bps between and October and November, notching up to 79.6%— the highest level since March 2021. Preliminary estimates for on-time rental collection rates in December (measured through the 15th of the month) indicate a drop-off in performance, following the national, all-property-types trend. For December, on-time payment rates have fallen to 78.4%— 131 bps below the November reading.

Full-collection rates (on-time + late) have consistently tracked the highest for SFR of the three tracked property types in recent months. In four of the past five months, independently managed SFR's have beat out both 2-4 Family and Small Multifamily. As of this writing, 86.6% of SFR units have paid their November month in full, a significant 213 bps better than any other property type.

Who are Single-Family Renters?

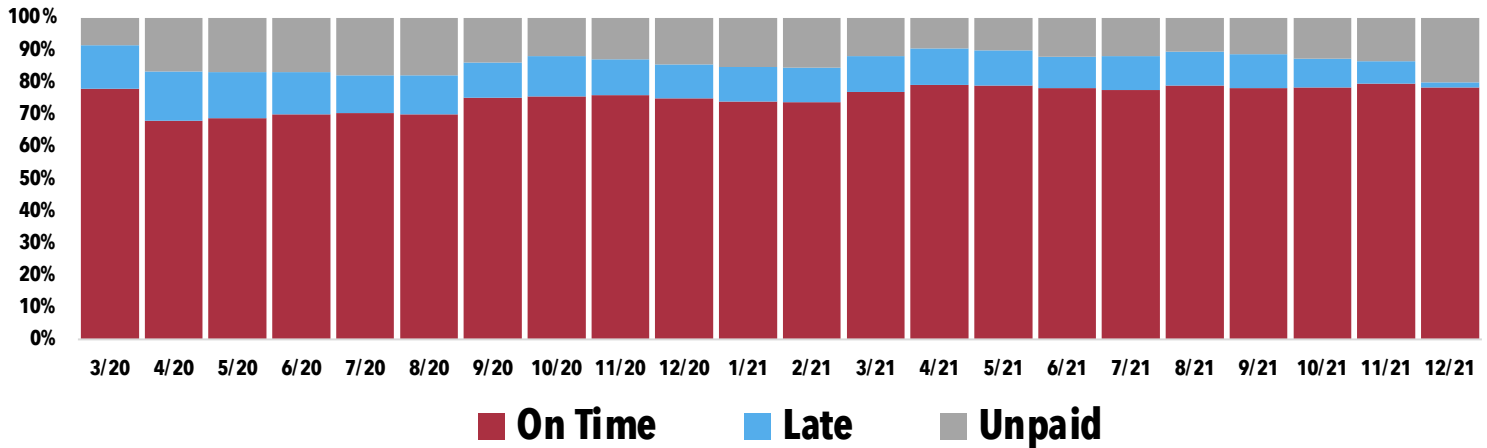**Average Household Income**

$73,364

Average Number of Children
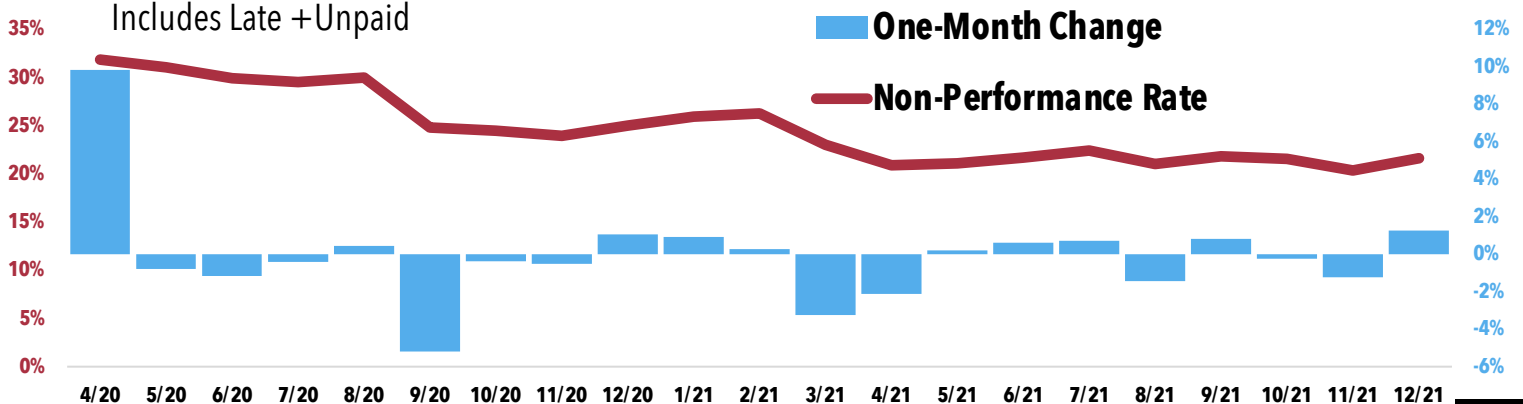
0.63

Source: 2019 American Community Survey

Single-Family Rentals
Independent Landlord Rental Payment Tracker

Single-Family Rentals Non-Performance Rate
Includes Late +Unpaid

6

2-4 Family

Through November 2021, units in 2-4 Family properties operated by independent landlords collected 77.1% of rental payments on time. Another 6.9% of rent charges we paid late, and 14.5% of charges remain unpaid. Overall, the on-time rate fell by 147 bps between October and November. Preliminary estimates for 2-4 Family on-time rental collection rates in December show a slight tick up. Between November and December, on-time collection rates rose by 46 bps to land at 77.5%. Over the course of the pandemic (to date), 2-4 Family properties hold the distinction as the property type to see the mildest levels of distress. At its low point in July 2020, 71.6% of 2-4 Family units kept paying rent on-time— 264 bps better than the next property type

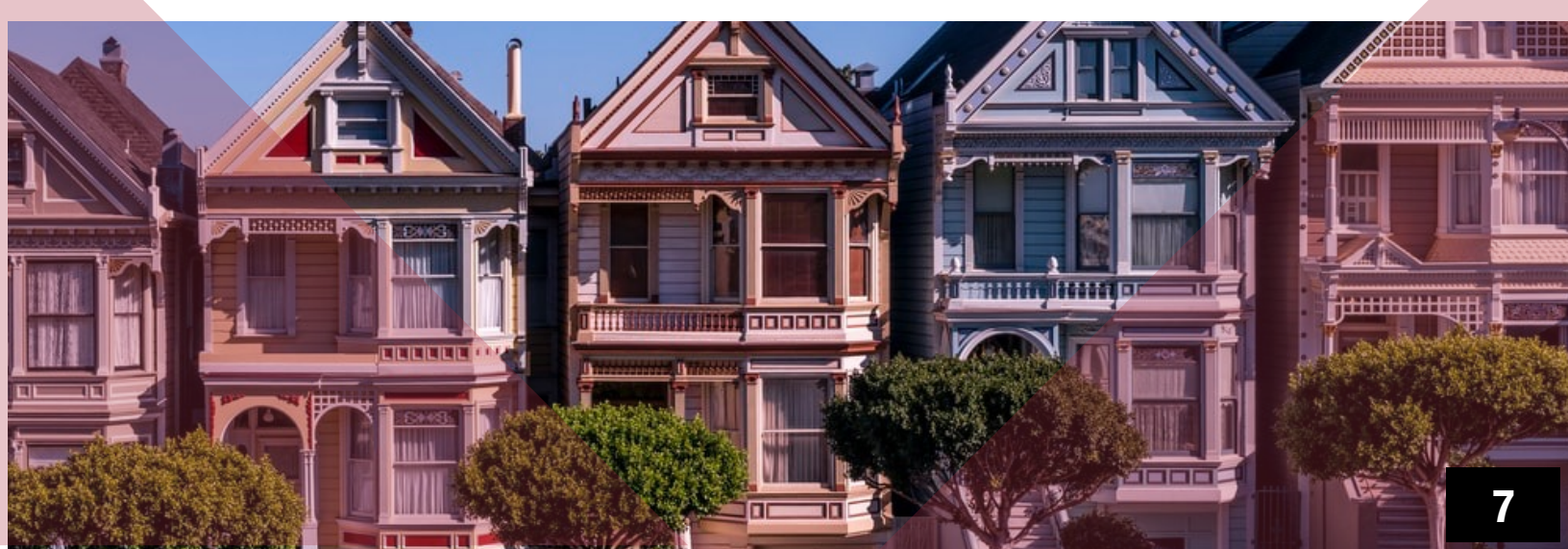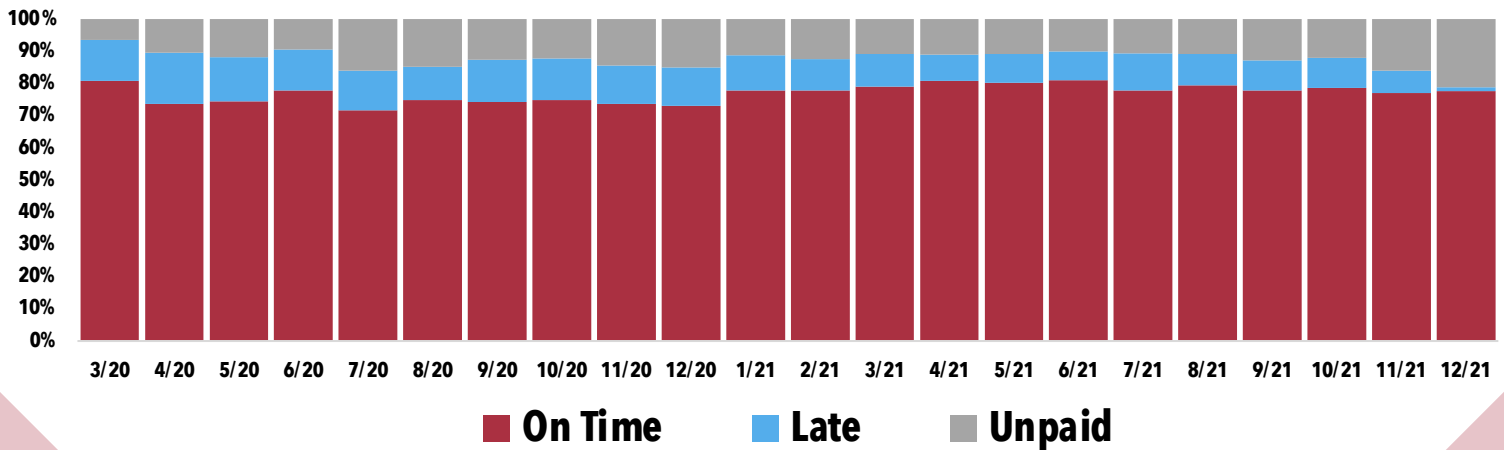## Who are 2-4 Family Renters?

Average Household Income
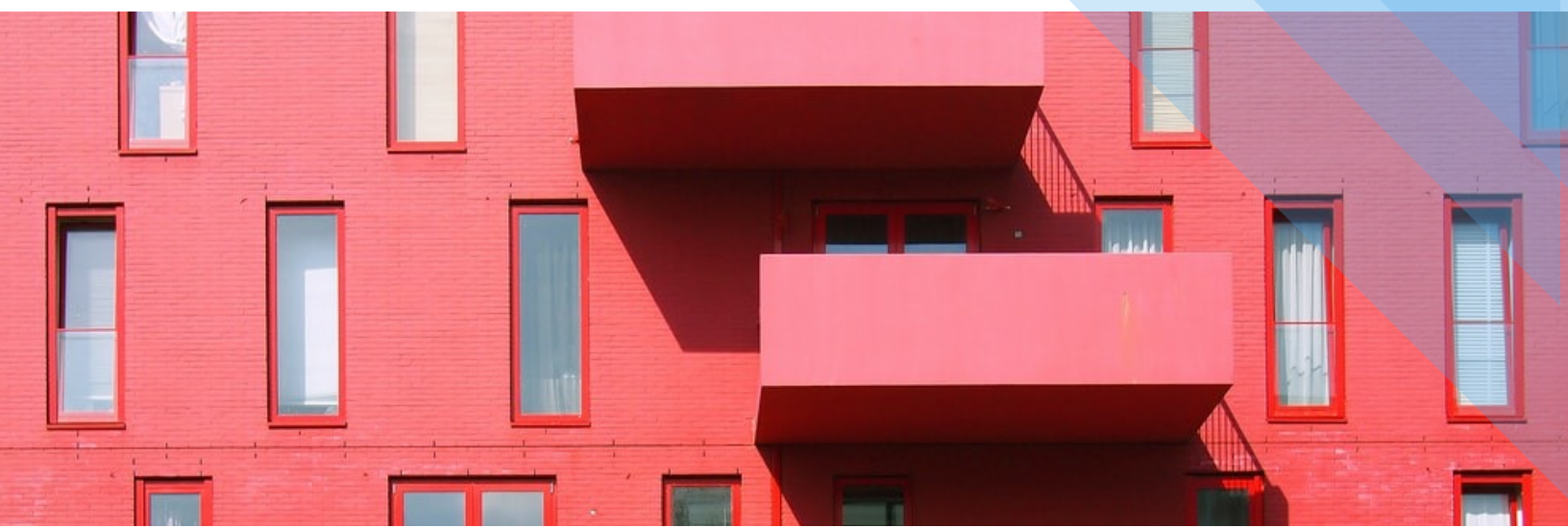
$59,654

Average Number of Children

0.47

Source: 2019 American Community Survey

2-4 Family Rentals
Independent Landlord Rental Payment Tracker

Legend: ■ On Time ■ Late ■ Unpaid

7

Small Multifamily (5-49 Unit) Rentals

The on-time payment rate for apartments in Small Multifamily properties (5-49 units) improved by a marginal 18 bps between October and November, rising to 77.5%. An additional 6.9% of Small Multifamily units have paid their November rents past due, and 15.5% have still yet to pay. Initial data for the month of December suggest a reduction in on-time collections. Preliminary estimates have the on-time collection rate falling by 100 bps and landing at 76.5%. The December reading is the lowest on-time collection rate in more than a year. According to a recent Arbor Realty Trust-Chandan Economics analysis, renters in these types of smaller Multifamily properties are, on average, less able to transition into remote work than renters in larger multifamily properties.

Who are Small Multifamily Renters?
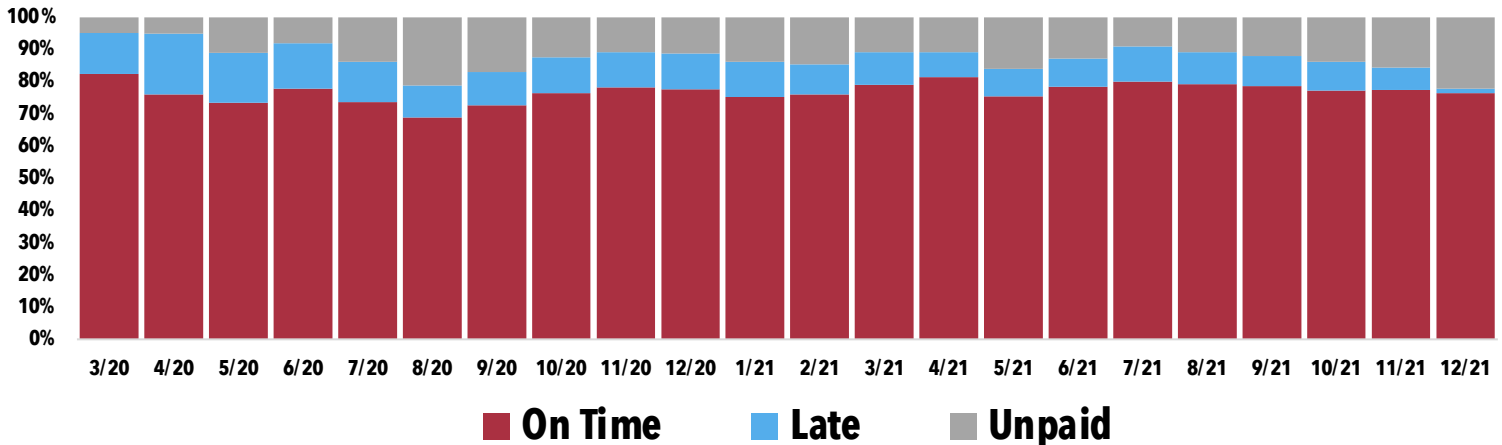
Average Household Income

$60,433

Average Number of Children

0.40

Source: 2019 American Community Survey

Small Multifamily Rentals
Independent Landlords Rental Payment Tracker

■ On Time ■ Late ■ Unpaid

8

Performance by Geography

Gateway vs. non-Gateway

Gateway markets (New York, Los Angeles, San Francisco, Washington, DC, Houston, Dallas, Chicago, and Boston) contained some of the worst-hit areas from a macroeconomic and public health perspective when the pandemic began. At the same time, these markets quickly swung into recovery mode as the country re-opened. Data suggest that independent landlords in Gateway metros are outperforming units elsewhere. Gateway markets are a rare example of on-time collection rates that rose in December, gaining 109 bps and coming in at 78.1%. Independently managed properties in non-gateway markets saw on-time collection rates drop-off by a weighty 202 bps, landing at 77.4% in December.
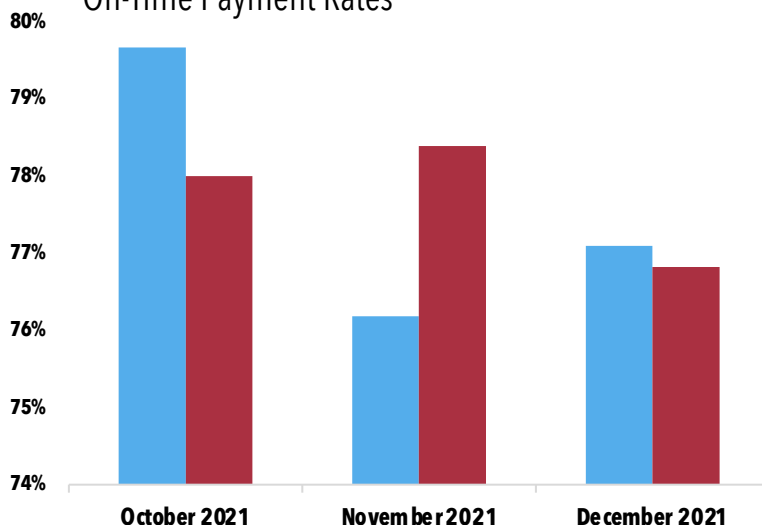
Sun Belt vs. non-Sun Belt

One of the more perplexing features of these recent data is the on-time collection rates in the Sun Belt— an expansive region that hugs the southern portion of the US from coast-to-coast. While strong levels of

domestic in-migration have proven a shot in the arm for rental housing fundamentals, on-time collection rates in the Sun Belt have underperformed the rest of the market in both November and December (to date). After holding up on-time collection rates of 80.0% in October, a reading that was 108 bps better than non-Sun Belt markets for the same period, performance slid by a whopping 322 bps in November. While initial on-time collection rates indicate an improvement (+11 bps) for Sun Belt assets in the December, they still underperformed non-Sun Belt units by 94 bps.

Further, these recent data align with trends observed last year during peak levels of pandemic distress. At no point during the pandemic did average on-time collection rates in non-Sun Belt rentals fall below 72.6%. Meanwhile, for independently managed Sun Belt rentals, on-time collection rates fell as low as 70.2% in September 2020.
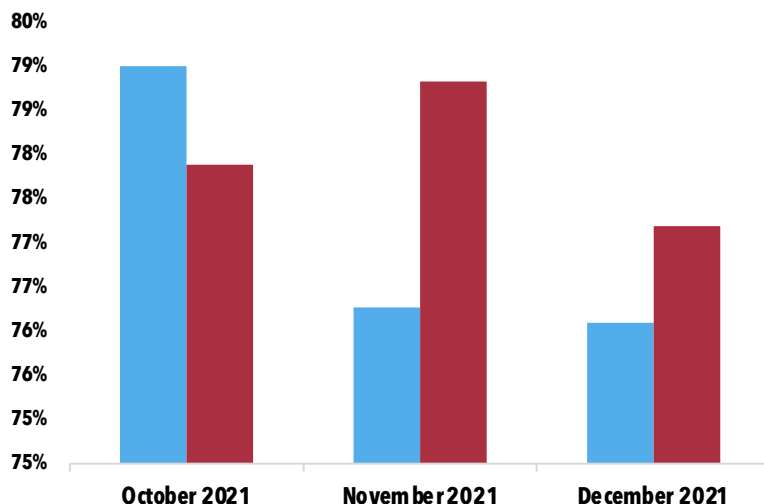
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Gateway vs. Non-Gateway
On-Time Payment Rates

Sun Belt vs. Non-Sun Belt
On-Time Payment Rates

About: Chandan ECONOMICS

Chandan Economics is an economic advisory and data science firm serving the commercial real estate industry. The firm's primary businesses include real estate data science (REDS), economic & market research, and litigation consulting.

About: rentredi

RentRedi is a property management software that saves landlords time & money by empowering them with tech to manage their rentals—all from the palm of their hand.

For landlords, RentRedi provides all-in-one web and mobile apps to collect rent, list & market vacancies, find & screen tenants, sign leases, and manage maintenance & accounting. RentRedi has partnered with platforms including Plaid, REI Hub, Latchel, TransUnion, TSYS, Sure Insurance, and Realtor.com, and Doorsteps to create the best experience possible.

For tenants, RentRedi's easy-to-use mobile app allows them to pay rent, set up auto-pay, report rent payments to credit bureaus, prequalify & sign leases, and submit maintenance requests

Methodology

Data are reported on forward basis from March 2020 through December 2021 (current reporting period). As of the latest month of data availability, reduced unit sample size totals 20,030. Rent charges are measured on a 15th-to-15th of the month basis. Rent charges that are issued after the 15th of the current month are treated as a rent charge for the following rent-tracking period (E.g., a rent charge sent on December 16th, would be treated as charge corresponding to January's owed rental payment). Only charges designated as "rental income" are included for analysis. Rent charges below $500 and above $10,000 are excluded from this analysis. In current month estimates, only rent charges tenants received on or before the 5th of the month are included for analysis.

On-time rental units are defined as units that have fully paid their monthly rent totals within ten days of the due date. Late units have fully paid rents and are more than ten days late. Unpaid units refer to all units that have yet to fully satisfy their owed rents for a collection period, including units with partial payments.

Units that have not paid any form of rental income (full or partial) in the previous 60 days at the time a new rental charge is issued are removed from the rent tracking sample. As a means of reporting standardization, units with more than one monthly rent charge (E.g., rent paid weekly) are removed from the rent tracking sample.

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