Economic & Real Estate Consulting

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From: **Elliott Pollack**
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Date: **July 17, 2020**

Re: **Impacts of Eviction Moratorium on Rental Property Owners**

Elliott D. Pollack & Company has analyzed the impacts facing residential rental property owners due to federal and state mandates requiring a moratorium on evictions (initially for a four-month period from March 24, 2020 to July 23, 2020 and now extended through October 31, 2020). The following are our conclusions, followed by additional analysis.

Conclusions

- Though well-intended, the combination of relief measures including enhanced unemployment benefits AND an extended eviction moratorium have created a perverse incentive to withhold rent payment without penalty. This is patently unfair to rental property owners who have been forced to bear the brunt of someone else's financial burden without recourse.
- Moratoriums became largely unnecessary. The CARES Act, signed into law on March 27th and with funds disbursed in mid-April, provided financial relief for most affected individuals in the form of stimulus and generous unemployment benefits. Also, an additional round of stimulus is expected in the coming weeks.
- Rental property owners remain caught in the middle without any prescribed government aid to compensate them for ongoing losses that are bound to occur. Without compensating owners, this action is the equivalent of a government induced taking of income. Billions of dollars could effectively transfer from rental owners to renters by simply withholding their rent payments.
- Very few can withstand this extended loss of income. Rental property owners are not just large corporations. Many small and family businesses, individuals, and couples have invested substantial portions of their savings in rental real estate. Rental income may be all or most of their total household income. Without that income, people could eventually lose their properties if they cannot pay their mortgages.
- **The moratorium extending past the distribution of CARES Act funds has effectively incentivized renters not to pay their rent and now government should act to remedy the issue, including compensation to owners. The status quo is simply inequitable.**

Analysis

- **THE SIZE OF THE LOSSES IS YET UNKNOWN BUT SIMPLY BASED ON THE NUMBER OF RENTERS IN THE STATE, IT IS GOING TO BE SUBSTANTIAL.** Renters account for over 35% of total households in Arizona. The latest U.S. Census survey places that at 919,931 renter households. Combined with a median rent of $1,036 per month, nearly $1 billion in rent is paid every month.

  If renters cannot pay rent or decide not to pay rent during the eviction moratorium, losses add up quickly. The moratorium also dictates that eviction proceedings cannot be started during the now 7-month period. This could add an additional two months of lost income for eviction proceedings and preparing the rental unit for a new tenant. So, while the percentage of renters who don't pay rent is currently unknown and likely to fluctuate over time, the following illustrates a potential range of scenarios:

  - **1% non-payment:** Over seven months equates to **$67.8 million** in lost revenue. Adding the eviction process and turnover (up to two months of lost income), totals **$87.1 million**.
  - **15% non-payment:** 7-month losses grow to over **$1.0 billion**. Including the eviction process and turnover equates to over **$1.3 billion** in losses.

Owner Loss Scenarios

Percent Non-Payment	7-Month Moratorium	2-Month Turnover	Total
1%	$67,757,158	$19,359,188	**$87,116,346**
15%	$1,016,357,370	$290,387,820	**$1,306,745,190**

Source: U.S. Census American Community Survey; Elliott D. Pollack & Co.

  There will also be a ripple effect. The employees, contractors, and suppliers that rental property owners utilize will begin to be impacted if owners do not have the ability to pay their obligations. This, in turn, impacts the employment of those supplier industries and the financial health of those workers and their families. **The apartment industry alone employs over 21,900 workers both directly and through their ripple effect. This will impact their estimated $695.9 million in wages and the $3.8 billion economic activity that is generated annually.**

- **INDIVIDUALS AND COMPANIES ARE BEING FORCED TO TAKE LOSSES *AND* CONTINUE OPERATIONS WITHOUT COMPENSATION.** Apartment operators and owners of rental real estate are under a unique burden in that they must continue to provide essential services without a plan to provide a source of revenue to cover operating costs. They must maintain employment, perform repairs and maintenance, and pay taxes but have no recourse for nonpayment of rent by their tenants.

  While there may be some relief for qualified owners with federally backed mortgages offering loan forbearance conditions, it is not nearly enough compared to the permanent loss of income faced by rental owners. First, as described, the forbearance provision in the CARES Act does not cover the entire universe of rental properties. Second, mortgage costs represent only 39% of operating costs in the U.S., on average. Loan forbearance does not provide for costs related to capital expenditures, labor, property taxes, or owner income.

- **THE MORATORIUM DOES NOT JUST IMPACT COMMERCIAL APARTMENT CORPORATIONS. INDIVIDUAL OWNERS ARE UNDER THE SAME MANDATE.** According to the Census, over half of the rental market are in smaller housing types and not in a traditional apartment community. An estimated 331,022 rentals are single family homes and another 148,442 units are made up of condos, duplexes, triplexes and fourplexes. These are largely owned by other individuals or small businesses, not large companies. For those in retirement years, rental income may represent a substantial share of their total source of income.

- **THE CARES ACT HAS PROVIDED AN INCOME SOLUTION FOR MANY HOUSEHOLDS AFFECTED BY COVID-19 AND THE STATE'S MORATORIUM PRE-DATED THE STIMULUS PACKAGE.** The Federal CARES Act enhanced unemployment benefits by $600 per week. Without this stimulus, existing unemployment benefits may not have been able to cover an individual's or household's obligations. But with the passing of the CARES Act and now disbursement of these enhanced benefits, much of an affected worker's income is being compensated to a point that essential personal expenses and debt obligations can be paid.

- **THE SIGNAL BY STATE GOVERNMENT TO IMPOSE A MORATORIUM COULD HAVE A DAMPENING EFFECT ON RENTAL HOUSING DEVELOPMENT.** Apartments and other rental units are one of many solutions to positively impact our state's growing affordable housing issue. **Each year, an estimated $1.1 billion in apartment construction activity generates an estimated 14,374 jobs in the state with wages of $746.6 million and a total economic impact of $2.0 billion**. At a time when affordable housing is at its greatest need, developers may start planning for the risk to future income by moratoriums such as the one currently in place. This could displace substantial investments in our state in favor of alternative locations.

RECOMMENDATION

The conditions and uncertainty of COVID-19 that lead to an unprecedented level of unemployment starting abruptly in March justified a response such as the decision to initiate an eviction moratorium. Now that the federal government has enacted a historic stimulus package to address the needs of affected workers, rental owners must be compensated for their loss of income from the moratorium.

The mechanism for compensation could involve a variety of methods and sources, including direct payment rental assistance from federal, state, and local governments. But the mechanism is less important than the objective: **rental owners must be compensated for the losses already imposed upon them and for losses that are likely to continue to mount over the next several months caused by government mandates related to COVID-19**.