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Small Independent Landlords: At the Intersection of Affordable Housing and Business Ownership Strategies

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EXECUTIVE SUMMARY

This brief explores opportunities for leaders in philanthropy, financial services, housing, policy, and other sectors to engage with small, independent landlords to enhance the impact of their strategies to support asset building, housing affordability, small businesses, and racial economic justice. These landlords—sometimes called "mom and pop" landlords—typically own just one or two rental homes or apartments but, in aggregate, they provide 40% of all U.S. rental housing. They are often overlooked as potential partners or clients by leaders working on asset building, wealth preservation, small business, and housing, even though small, independent landlords play important roles in every community's economy.

This brief also identifies opportunities to work with Black and other landlords of color to support racial economic justice efforts focused on wealth preservation and renters' financial well-being.

Small, independent landlords play an important role in the provision of affordable housing. They tend to rent comparatively lower-cost housing to relatively low-income tenants. These landlords themselves tend to own few additional assets and have modest household incomes. This creates both opportunities and risks for their tenants. Landlords with little liquidity prioritize long-term tenants because they struggle to afford the costs of vacancy, preparing their rentals for new tenants, and sourcing them. This helps many low-income renters maintain stability, but it can also increase the barriers to housing security facing Black families, single parents, disabled people, and others.

These landlords effectively function as local small businesses within every housing market, meeting one of tenants' essential needs, spending money on local services, and often reinvesting net income into homes in the same community. Yet very few small, independent landlords are incorporated, have additional investors, or make more than modest returns, so they are generally left out of the nation's robust networks of support and financial services for small business owners.

KEY INSIGHTS

- Small, independent landlords are the primary providers of the lowest-cost type of private-market rental housing.
- There is no typical small, independent landlord—they follow deeply individualized journeys. People's personal reasons for becoming landlords are unique.
- Small, independent landlords and their tenants in nearly every community tend to have similar financial challenges, particularly lack of positive cash flow and inadequate savings.
- Less than 10% of small, independent landlords are business entities. Most of the rest would not benefit financially by becoming small businesses. They still, however, have unmet financial and product service needs.
- While most small, independent landlords use rent payments as current income, they also think of their rental properties as part of their personal wealth-building journey.

Small, independent landlords are important to consider in wealth-building and preservation efforts for three key reasons. First, renting out property is the preferred wealth-building strategy for many people—especially those who have low levels of trust in financial institutions. Second, many people become landlords unintentionally through inheritance or changes in life circumstances, and they often need support to preserve and pass on that asset and attendant wealth. Similarly, leaders committed to advancing racial economic justice should consider working with small, independent landlords of color to ensure that their properties translate to intergenerational wealth. Third, small, independent landlords are essential providers of housing to lower-income, low-wealth renters. To that end, this brief explores what strategies can ensure that small, independent landlords and their tenants become more financially secure.

SUMMARY OF RECOMMENDATIONS

- **Increase the knowledge base about small, independent landlords through public data collection and high-quality, representative surveys.**

- **Help stakeholders understand the opportunities to simultaneously improve the financial security of both small, independent landlords and their renters—with a focus on savings, loan quality, and home condition.**

- **Foster mentorship networks that connect small, independent landlords with each other for peer exchange and community building.**

- **Consider small, independent landlords of color as stakeholders in racial economic justice initiatives related to housing, small business, wealth preservation, and intergenerational wealth transfer.**

- **Help small, independent landlords access high-quality financial products and services that are designed with their needs in mind.**

- **Identify and educate leaders about public policy changes and government service delivery improvements that would help low-wealth small, independent landlords preserve their assets over time and across generations.**

INTRODUCTION

Small, independent landlords—sometimes called "mom and pop" landlords—typically own just one or two rental homes or apartments but, in aggregate, they provide 40% of all U.S. rental housing. They are often overlooked as potential partners or clients by leaders working on asset building, wealth preservation, small business, and housing, even though small, independent landlords play important roles in every community's economy.

This brief explores opportunities for leaders in philanthropy, financial services, housing, policy, and other sectors to engage with small, independent landlords to enhance the impact of their strategies to support asset building, housing affordability, small businesses, and racial economic justice. It also identifies opportunities to work with Black and other landlords of color to support racial economic justice efforts focused on wealth preservation and renters' financial well-being.

This brief begins with an overview of the limited public data describing who these landlords are and their role in rental housing markets. It then explains our key findings and shares insights and anecdotes from the 16 small, independent landlords with whom we conducted structured interviews (see the Methodology section for additional details). It concludes with recommendations to leaders within philanthropic institutions, financial services institutions, housing, and public policy about how to effectively engage with small independent landlords in their efforts to support asset building, housing affordability, small businesses, and racial economic justice.

SMALL, INDEPENDENT LANDLORDS ARE ESSENTIAL IN EVERY COMMUNITY, BUT DATA ON THEM ARE SCARCE

Rental housing ownership is remarkably fragmented in a housing industry that is otherwise dominated by large institutions, especially in urban areas. More than 40% of all rental housing is owned by the group that is variously called mom and pops; individual investors; small portfolio landlords; small, independent landlords (our preferred phrase); and similar terms. There is no common definition embraced by public agencies or housing experts.

Some studies have focused on landlords who own four or fewer rental properties while others focus on those who own 10 or fewer.[1] Unfortunately, the lack of comprehensive data is a significant barrier to more deeply understanding the full population of small, independent landlords—we address potential solutions to this problem in the Recommendations section on page 16.

This section describes the existing survey data on the demographic and financial characteristics of small, independent landlords. We focus on small, independent landlords who rent one- to four-unit properties because:

- According to the Census data discussed below, the nation's nearly 11 million small, independent landlords own about 16 million units in one- to four-unit properties. On average, they own 1.7 units.[2] That suggests that most small, independent landlords only own properties of these sizes.
- Small, independent landlords own 70% of all rental properties of one to four units.[3]
- The 16 landlords we interviewed exclusively owned properties in that size range.

In 2018 there were over 10 million small, independent landlords.[4] Nearly 10.6 million reported personal ownership of rental property on their 2018 income tax filings.[5]

Small, independent landlords who did not claim their rental properties on their tax returns may be operating in legal gray areas—such as not using formal leases, renting out rooms in their own residences, or leasing to multiple unrelated residents who live in the same unit—practices which sometimes violate state and local laws.[6]

WHAT RENTAL HOUSING DO SMALL, INDEPENDENT LANDLORDS OWN?

There are approximately 143 million housing units in the United States,[7] of which 49.5 million are rentals.[8] Among these rentals:[9]

- 41% are owned by small, independent landlords;
- 46.5% are owned by for-profit business partnerships and corporations, a small proportion of which are wholly owned by individual investors;
- 4.6% are owned by Real Estate Investment Trusts and real estate corporations;
- 2.9% are owned by nonprofit organizations; and
- 5.4% are either publicly owned or have a different ownership structure.

About 22.5 million rental units are located in one- to four-unit buildings; small, independent landlords own 16 million of these units,[10] this being the most common type of housing that they own. Of these units, 16.5 million are single-unit properties (most of which are single-family rental homes) and 6 million are rental homes in properties with 2-4 units.[11] Notably, one quickly growing type of two-unit properties are single-family homes with accessory dwelling units (ADUs).[12]

Common examples of ADUs are small cottages or tiny homes sited in the yard of a single-family home and basement apartments. Though there are not yet good sources of data on the total number of ADUs across the country, several states—most notably California[13]—have seen rapid growth of this housing type after statewide legalization and the implementing of administrative solutions such as fast-track permitting[14] and connections to lenders.

Some occupied rental units are not available to local residents because they are primarily rented on a short-term basis through platforms such as Airbnb. Industry experts estimate their number to be between 1.1 million[15] and 2.25 million,[16] most of which are owned by small, independent landlords. While this is less than 5% of the national rental supply, in some housing markets, small, independent landlords have shifted their business strategy to short-term rentals, removing significant shares of local rental housing and driving up rents for area residents.[17] In fact, one landlord we interviewed determined that it would be financially feasible to turn the rental half of his duplex into an Airbnb rental, but he decided it was not the best choice for his community, which he cares about.

People age 65 and older are overrepresented among owners of small rental properties. In 2018, 21% of the adult population were people age 65 and older.[18] In comparison, 34% of owners of two- to four-unit properties were over age 65.[19]

OWNERS OF SINGLE-UNIT RENTAL PROPERTIES ARE DISPROPORTIONATELY WHITE, BUT OWNERS OF 2-4-UNIT RENTAL PROPERTIES REFLECT THE RACIAL DIVERSITY OF THE U.S. POPULATION.

	OWNERS OF 1-UNIT RENTAL PROPERTIES (2018)	OWNERS OF 2-4-UNIT RENTAL PROPERTIES (2018)	UNITED STATES POPULATION (2018)
WHITE	76%	61.7%	60.4%
BLACK	7.9%	13.2%	12.5%
HISPANIC/LATINO	9.6%	14.9%	18.3%
OTHER[20]	6.5%	10.2%	8.8%

Sources: "Small Multifamily Units." Urban Institute Housing Finance Policy Center, May 2020. https://www.urban.org/sites/default/files/2020/05/15/small_multifamily_units_0.pdf;

American Community Survey, 1-year population estimates, 2018. United States Census Bureau.[21]

Small, independent landlords tend to have moderate incomes, though there is significant variation by age and race.[22] In 2018, the median income of landlords with two- to four-unit properties was $67,000—similar to the U.S. median at the time ($63,179).[23] Landlords who owned single-unit rental properties had higher incomes, with a median of about $81,000. [24] Nearly a third of small, independent landlords are part of low- to moderate-income (LMI) households. Racial disparities also play a role. Black and Hispanic small landlords were more likely than white landlords to have household incomes below $75,000.[25]

Most small, independent landlords use their rental revenues to augment rather than replace employment earnings.[26] Growing a rental portfolio for its income flow is a common aspiration. Advice from "landlord influencers" is a popular genre on YouTube and Tik-Tok.[27] In reality, however, only 3.8% of small rental properties have owners who draw a traditional, regularly scheduled salary for their rental property work.[28] Most use whatever net income their rental properties generate to supplement other income sources.[29] In our interviews, only one landlord reported rental ownership as their main source of income. Just two others expressed the desire to make their primary living by renting out homes and one other was preparing for a future without employment income due to disability.

Small, independent landlords' assets are highly concentrated in real estate with significant mortgage debt. This makes their wealth precarious, and they are deeply impacted by business cycles in housing markets. Virtually all of these landlords own a primary residence, and they own, on average, 1.72 rental units.[30] They tend to have low levels of liquid assets, substantial debts, and little retirement savings, which can quickly put their assets at risk if their income is interrupted or falls. More than 70% of small, independent landlords carry mortgages on their rental properties.[31] These financial conditions meant that small, independent landlords entered the COVID-19 pandemic unprepared to withstand an unprecedented, if brief, rate of unemployment.

Racial wealth gaps disadvantage Black and Latino small, independent landlords. Among these landlords, white people were most likely to own more than one rental unit (68%), compared with 60% of Black people and 53% of Hispanic people.[32] White landlords were the least likely to have mortgages on their rental properties (70%), compared with 77% of those who were Hispanic or Latino, and 79% of those who were Black.[33] These facts suggest that, as white Americans do in nearly all aspects of their financial lives, white small, independent landlords benefit from structural advantages in their ability to build wealth through renting out property.[34]

KEY INSIGHTS ABOUT SMALL, INDEPENDENT LANDLORDS

This section highlights insights from our review of existing research, consultation with experts, and interviews with 16 small, independent landlords. Our research focused on issues most relevant to asset building, housing affordability, small businesses, and racial economic justice.

SMALL, INDEPENDENT LANDLORDS FOLLOW DEEPLY INDIVIDUALIZED JOURNEYS.

Some people become landlords intentionally as part of their personal or family wealth-building strategy. For them, buying rental property may be a significant personal achievement, provide a form of self employment, or reflect their preference for owning real property as opposed to financial assets. Many small, independent landlords own rental properties in neighborhoods they are part of and seek to support the community. It is important to understand the importance of this goal for some people, even if they could hypothetically earn higher returns from financial assets.

People also often purchase housing to rent out in response to unanticipated market opportunities. For example, the number of individuals reporting rental income on their tax returns rose by 23% between 2009 and 2011, as the people who had some savings and access to credit were able to purchase foreclosed single-family homes at low prices and rent them out.[35]

Others become landlords accidentally. More than 40% of small, independent landlords rent out a property that was once their own home.[36] About half of the landlords we interviewed used words like "accident," "unintentional," and "by chance," to describe how they became landlords.

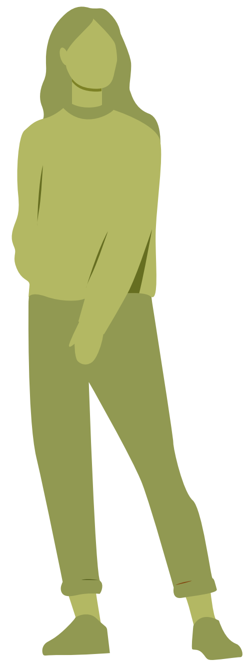
Finally, 16% of small, independent landlords received their property through an inheritance.[37] While we did not interview anyone who became a landlord in this manner, several interviewees hoped to pass their rental property down through their family.

Michael, a Black man in his 50s, started off by mixing his personal finances with that of his rental properties, but eventually decided to open a business account: "You need to be able to show expenses against revenue…So I set up that business account so I could track expenses and know when it is profitable, when it is not, and headed in the right direction or not. I have never had an expectation to get X number of dollars back. Almost all the properties have had a positive cash flow, but it is more difficult now than it used to be.

SMALL, INDEPENDENT LANDLORDS OFTEN SHARE THE SAME FINANCIAL CHALLENGES AS THEIR TENANTS.

Small, independent landlords play a critical role in the provision of stable and affordable housing, which is central to renters' financial security,[38] but they are frequently financially insecure themselves. Our interviewees faced common financial challenges. The landlords we interviewed consistently (but not unanimously) raised three issues:

- Lack of liquid savings makes it difficult to spend as needed on maintenance and repair;
- Cash flow may or may not be positive, depending on tenants' financial situations and recent expenses, and it is difficult to predict in advance; and
- Lack of awareness of or connections to available and affordable financing options for making improvements, renovations, and acquisition of additional properties—despite, in some cases existing options from Community Development Financial Institutions (CDFIs) and other lenders serving their communities.



Mary, a white woman in her 40s living in Washington state with her husband, bought her first home at 29. Years later, she and her husband had the opportunity to purchase a duplex. They rented out her first home rather than selling it, on the advice of a mentor from their church.

Taylor, a white man in his 30s living in Iowa, bought his first home for about $20,000 in 2011. It was in poor condition, so he learned how to repair it himself and lived there while doing so. Within a few years, he purchased a similar home, moved into it and repaired it, and profitably rented out his newly updated first home. He repeated this several times between 2011 and 2020, gradually building a portfolio of a dozen houses.

Although individual landlords received $354 billion in rental income in 2018, only about half reported positive net income.[39] In 2019, 35% of small-portfolio rental properties did not report a profit.40 Operating expenses—mortgage payments, property taxes, and insurance—take well over half of rental income for these landlords.[41] We asked all the landlords we interviewed about cash flow and net income. Nearly everyone said that their properties did not generate net income for at least two years.

More than half of small, independent landlords lack the savings and credit they need to maintain financial stability when faced with unexpected challenges. They report not having access to additional funds or lines of credit to respond to emergencies—putting them at risk of foreclosure or bankruptcy.[42] When renters are not able to make full, on-time monthly payments, these landlords can quickly experience financial distress themselves.

Small, independent landlords' tenants experience higher levels of financial instability. The median household income of tenants in two- to four-unit buildings is lower by 11% than that of tenants in single-family homes or larger apartment buildings.[43]

They are often cost-burdened (spending more than 30% of their income on housing costs) despite living in the least costly type of rental housing. Renters and lower-income households alike struggle to save enough to manage emergencies.[44] Lower income, lack of liquidity, and challenges in handling unexpected expenses or interruptions in income combine to create financial instability.

The landlords we interviewed were all aware that their renters' financial insecurity could easily impact their own finances. Some viewed it as a risk to mitigate through intensive tenant screening and trying to find renters who will stay for a long time, while others chose to secure steady revenue by accepting housing choice vouchers (also known as Section 8 vouchers). With these vouchers, the tenant pays 30% of income for rent, and the local housing authority (with funds from the U.S. Department of Housing and Urban Development) pays the rest.[45] Small, independent landlords generally are less likely than corporate landlords to accept housing choice vouchers, however.[46]

Of the landlords we interviewed who accepted housing choice vouchers, these tenants are appealing because the landlord can count on receiving most of each month's rent. Two of the landlords we interviewed were currently renting to voucher-holders and one had done so in the past.

Peter, a white man in his 60s living in Pennsylvania, owns about a dozen apartments located in two-to four-unit buildings. For the past decade, many of his tenants have had Housing Choice Vouchers. In his experience, they have been stable tenants. In 2020, many tenants lost jobs and were not able to make their portion of rent payments, but Peter still received 70% of his expected revenue. Being able to depend on the housing authority for most of the rent enabled him to work flexibly with those who fell behind.

FEWER THAN 1 MILLION SMALL, INDEPENDENT LANDLORDS ARE BUSINESS ENTITIES.

Among small, independent landlords, those that are organized as business entities are the most likely to separate their personal and rental finances in different accounts.[47] They number fewer than 1 million, out of the roughly 11 million small, independent landlords. These landlords typically rent out more than four units and often have multiple properties.[48]

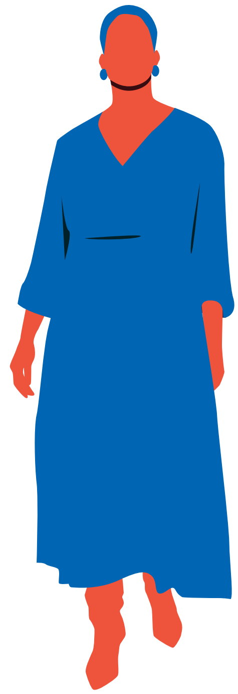
For the 70% of small, independent landlords who rent out just one or two homes, there is little incentive to become small businesses. The benefits—such as access to commercial lending and business banking products—are less valuable to landlords who do not intend to grow the number of properties they own. Many value being able to supplement their household income with rental revenues, which is easiest when funds flow to the same accounts.

There are, in fact, several downsides to becoming small businesses. The costliest are additional tax liabilities.[49] Landlords that form unincorporated businesses or single-owner LLCs must report their revenues and expenses on federal tax Form 1040 Schedule C, subjecting their net income to a hefty self-employment tax (generally 15.3%).[50] Small businesses with multiple owners or shareholders must file more complicated tax forms, keep detailed records, and abide by stricter accounting rules. In contrast, landlords who have not organized as small businesses are able to report their rental income without incurring additional taxes.[51]

Another drawback to small, independent landlords organizing as businesses is that they could experience additional bureaucratic and administrative hurdles and costs without receiving any additional benefits based on being a small business. States and some local governments require all businesses that earn income within their jurisdiction to file paperwork regularly and maintain a business license, for example.

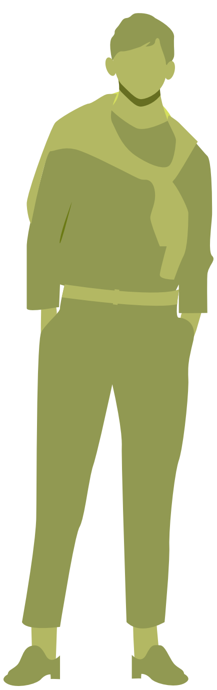
For a typical independent landlord (who owns fewer than two rental units), this would add significant responsibilities and potential costs without providing an increase in revenues, access to additional credit, or other financial benefits. A landlord we interviewed from the Washington, D.C., area felt that small landlords in that city were subject to too many rules designed to regulate corporations.

Though that burden depends greatly on the jurisdiction, most small, independent landlords are making the rational choice not to become business entities.



Carla, a Latina woman in her 50s living in Texas, already owned a restaurant with her husband before purchasing rental homes with him, so establishing an LLC was a natural decision for them. She valued liability protection and said it was important to separate their family finances from their business activities.

Two small business owners made different business decisions as landlords:



Brad, a white man in his 40s living in Maryland, is self-employed and his business is incorporated. When we asked whether he had established a separate business for his two rental properties, he said he had never considered it and that it did not seem necessary because consumer mortgages were all he needed.

SMALL, INDEPENDENT LANDLORDS GENERALLY MIX PERSONAL AND RENTAL FINANCES.

Although small, independent landlords function like small businesses in their local economies, the majority do not manage their rental finances like small businesses. Instead, they use the same bank accounts for their rental expenses and revenues as their household expenses and income.

A recent analysis of consumer and small business bank account data included a sample of more than 32,000 individual landlords—almost all of whom commingled rental revenues with earnings and other income.[52]

In our interviews, only three landlords described managing their expenses and revenues through channels other than their general household accounts. Of these, one's primary source of income was as a small business proprietor, one did not want to have access to the net income until he retired, and the third rented properties through a small business he established for that purpose.

This commingled strategy facilitates using rental income to supplement other sources of income, but it can have some drawbacks. Commingled accounts make it more difficult to accurately keep track of rental expenses, for instance. In contrast, separating rental revenue and expenses from household personal finances is beneficial for tax records and for accessing other financial products including additional mortgage credit.

THE COVID-19 PANDEMIC CREATED SERIOUS FINANCIAL PROBLEMS FOR LOW-INCOME RENTERS—AND THEIR LANDLORDS.

The COVID-19 pandemic wreaked havoc across the globe beginning in March 2020. As businesses shuttered and wage earners lost income, the ability to pay rent in full and on time suffered.

Small-portfolio rental property owners—whose financial position could already have been precarious—were especially vulnerable to any disruption in rental income streams.

Mortgages, taxes, and insurance still had to be paid, creating a potentially disastrous squeeze.[53]

Federal, state, and local moratoria on tenant evictions saved thousands of lives[54]—but also caused significant financial distress for small, independent landlords, especially those with lower household incomes.[55]

Rental revenues, in aggregate, fell about 10% by May 2020.[56] Over the next several years, more than 1 in 5 tenants fell behind on rent, and about 30% of landlords saw more than a 10% decline in long-term rent revenue.[57]

Small-portfolio landlords became more likely to have tenants who were behind on their rent than owners of more properties.[58] They were also the most likely landlords to have tenants fall deeply behind in rent payments.[59] Renters in two- to four-unit buildings were the most likely to be working in industries vulnerable to COVID-19 shocks.[60]

Despite that, a majority (61%) of small, independent landlords surveyed in 2021 did not offer payment plans to their renters. But in cases when a tenant proposed repaying overdue rent on a schedule, most landlords (61%) accepted.[61]

One landlord we interviewed waived several months' rent for a tenant of nearly 20 years who lost his job in 2020. That tenant returned to paying rent as soon as he was reemployed.

Another had several renters with vouchers stop paying, but he was still able to collect 70% of the rents from the housing authority. While the landlord did not initiate eviction proceedings, the tenants moved out of the city, and he now has different renters who also receive vouchers.

Pandemic response programs such as the federal Emergency Rental Assistance Program (ERAP) were intended to provide low-income renters, who lost income due to the pandemic, the funds they needed to pay rent for up to one year of payments.[62]

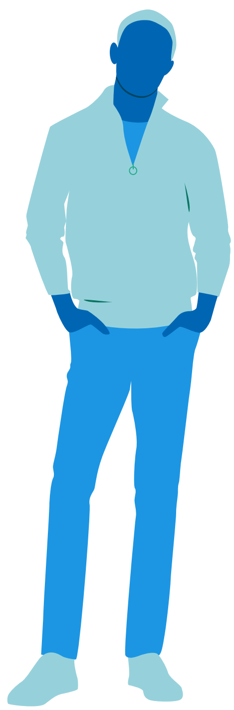
Small-portfolio rental property owners faced inequitable access to pandemic-related aid, when compared to both small business owners and larger landlords.

This reflected both their underlying information acquisition challenges and their resource barriers to successful engagement with program application and documentation processes.

Among landlords generally, 22% reported lack of awareness of the federal Emergency Rental Assistance Program,[63] and more than half were unclear about their eligibility.[64] Larger-scale rental property owners were more successful at accessing assistance.[65]

Payment delays also limited the program's effectiveness, with 45% of landlord applicants not having received funds as of February 2021 (this had improved somewhat to 59% by September 2021).[66]

Only one of the landlords we interviewed had tenants who applied for the COVID-19 ERAP.



John, a Black man in his 60s living in Washington state, owns a duplex and five single-family homes in Washington and Colorado. John did not collect rent for nine months from one of his properties during the pandemic and was also left responsible for a $3,000 garbage, sewer, and water bill that went unpaid. He did not know about the Emergency Rental Assistance Program.

Small, independent landlords who lost rental income most often covered the shortfalls by pulling money from savings or emergency funds to cover operational expenses.[67] Some missed making payments on the mortgages for their rental properties (6.9% in May 2020) and 10.3% requested pandemic-related mortgage forbearance by June 2020.[68] Some landlords—especially those with household incomes under $50,000 and those with mortgages—felt increased pressure to sell their holdings due to missed rent payments, high expenses, high vacancies, and lower non-rental earnings.[69]

Carmen, a Latina woman in her 50s living in Texas, is a first-generation American citizen and her husband is an immigrant. Both felt distrustful of banks based on their own and their families' experiences in other countries. She views property ownership as the most sustainable path to wealth, so they have purchased not only the building where their restaurant is located, but also five single-family rental homes in nearby neighborhoods.

Despite that, small, independent landlords tended to be more accommodating of their renters' financial challenges than larger and corporate landlords.[70] During the first years of the pandemic, for example, Black and Hispanic landlords—who make up a disproportionate share of two- to four-unit building owners—were more likely to offer their tenants payment plans or discounted rent. These landlords also tended to file eviction notices at lower rates.[71]

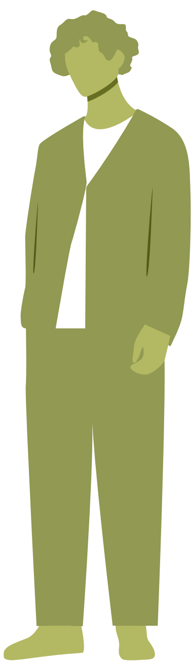
SMALL, INDEPENDENT LANDLORDS VIEW THEIR PROPERTIES AS ESSENTIAL TO THEIR BUILDING OF WEALTH.

Just as the paths to becoming a small, independent landlord vary considerably, so do views on the role of rental property ownership in long-term financial planning.

Some landlords who initially offer their properties for rent to supplement their income eventually see them become long-term assets. Among the many reasons that people view property ownership as a cornerstone of the American Dream, real estate values tend to appreciate over time, so owning some units to rent out can be a fruitful investment.

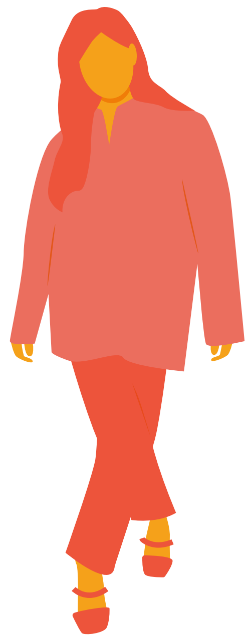
Regardless of their long-term goals, small, independent landlords see their rental properties as important parts of their wealth-building journeys. Notably, they spoke about wealth building as an ongoing, lifelong process, rather than as an achievement with a fixed endpoint. Landlords we interviewed had differing long-term goals. One planned to sell their properties to local first-time buyers, one planned to sell after a long-term tenant moved on, and the rest intended to continue renting out most of their units in retirement so long as it remained a positive experience.

Many small independent landlords also plan to use their rental properties for intergenerational wealth transfer to leave a legacy for their children and grandchildren.



Devin, a Black man in his 20s living in New Orleans, currently owns two units and is working to arrange financing for a third. He said that he is just getting started, hoping to eventually buy enough properties so that managing his rentals could be his full-time occupation. At present, though, he must reinvest all revenues into maintenance and repairs rather than using the rents he collects to supplement his income.

Some small, independent landlords plan to sell their rental properties when they reach retirement age and use the proceeds to replace income or invest in financial assets they will draw down in the future. For many older small, independent landlords, rental income is a necessary supplement to Social Security, retirement account distributions, and other income sources.



Renee, a white woman in her 50s living in New Jersey, owns a four-unit building. She and her partner live in one unit while she rents the remaining three. Renee has a disability that requires specialized care that she receives out of state. This disability will eventually disrupt her ability to work full time. She views her rental property as both part of her retirement plan and as a way to fund her healthcare costs when she leaves the workforce.

RECOMMENDATIONS FOR LEADERS IN PHILANTHROPY, FINANCIAL SERVICES, HOUSING, AND PUBLIC POLICY

We developed the following recommendations after a literature review, interviews with experts, consultation with the Asset Funders Network's regional partners, and interviews with 16 small, independent landlords. **The recommendations are designed to help ensure that these landlords can sustain their properties, provide quality rental housing to lower-income households, build wealth, and support intergenerational wealth transfers.** They are tailored to be relevant for leaders in philanthropy, the financial services industry, the housing industry, and public policy who are working in the fields of asset-building, intergenerational wealth, housing security, small business, and racial economic justice.

In developing the recommendations, we considered what it would take to ensure that small, independent landlords and their tenants can become more financially secure. With these recommendations, we acknowledge the history of racist housing and lending policies and practices—such as redlining, lending discrimination, and steering of tenants and buyers—that still shape landlords' and renters' experiences, wealth, and housing situations today. The recommendations also focus on opportunities to work with landlords as financial services providers, affordable housing professionals, and policymakers.

1 Increase the knowledge base about small, independent landlords through public data collection and high-quality, representative surveys.

Limited high-quality public survey data on small, independent landlords impeded our ability to analyze this population nationwide. We had hoped to more deeply explore the racial demographics of the full population of 10 million to 11 million small, independent landlords, but data was only available for those who own the smallest properties. We were also interested in exploring racial disparities in liquid savings and access to credit, as well as business entity status, but here too there was very little information available.

REALIZING ECONOMIC JUSTICE

AFN's Realizing Economic Justice's platform helps asset funders expand their commitments to racial and economic justice and offers a shared framework for action.

For some funders, this is a new area of intentional focus. Other funders have made ongoing progress in race-conscious grantmaking and social investments.

Whether new to thinking about how to advance racial equity through grantmaking or actively working at these intersections, the Realizing Economic Justice platform provides support in actively addressing racial bias in the philanthropic sector.

There are current opportunities to improve data at the state level, as policymakers in some areas are requiring all landlords to register their rental properties in response to challenges that arose between 2021 and 2022—such as verifying renters' eligibility for Emergency Rental Assistance Program (ERAP) or preventing double-digit rent increases. In Maryland, for example, a recently passed law will require all landlords, regardless of size, to register with the state in order to access eviction courts. Ongoing efforts to pass rent stabilization laws would also require more collection of data from small, independent landlords to ensure compliance. Public policy leaders are in the best position to solve this problem by funding research and data collection specific to small, independent landlords or expanding existing government research to close these gaps.

Philanthropic leaders can be effective partners in closing these gaps by supporting case-making around the need for this data; by partnering with governments, CDFIs, and community or regionally based research organizations to support expanded efforts to collect data and research small and independent landlords; and by supporting state or local pilots of new data collection processes. Leaders can also convene stakeholders to develop action plans that address data and research needs and implement solutions that result from that expanded knowledge base.

2 Help stakeholders understand the opportunities to simultaneously improve the financial security of both small, independent landlords and their renters.

The keys to simultaneously improving the financial security of these landlords and their tenants are related to liquid savings, mortgage quality, and home quality and condition. Owning rental property can be a risky investment, and many small, independent landlords who actively pursue this option need more guidance.

A striking theme from our interviews was how much landlords who had purchased two- to four-unit properties to live in and rent out appreciated getting advice from housing experts through community organizations—such as a community action agency—or from personal connections (such as the interviewee who met their real estate mentor through their church).

This suggests that accessory dwelling units (ADUs) could be powerful contributors to solutions that build the financial security of both small, independent landlords and their tenants. New ADUs increase rental housing supply without requiring public financial subsidies; they improve the value of the existing primary residence; they offer monthly rents that are generally affordable to moderate- to middle-income renters;[72] they provide high-quality housing in neighborhoods at a variety of income levels;[73] and they can proliferate quickly.

Helping aspiring landlords buy homes with existing ADUs may also be a powerful strategy. We spoke to leaders at the New Orleans Housing Authority (NOHA), which offers a program to help eligible homebuyers purchase the city's "doubles" (duplexes) in exchange for renting the other half of the home to voucher holders. The program offers training on home repair and maintenance so that buyers are prepared for the experience of owning older properties in the city. Buyers have been able to get the same type of mortgage they were familiar with rather than a specialized product, but it has come with an additional revenue stream.

Many participants shared that having the rental income helped them afford improvements to the property that benefitted both themselves and their tenants. NOHA also provides a foundation to build on, hosting homebuyer education and administering down payment grant funds to duplex purchasers.[74] More data and research are needed to flesh out, deepen, and vet these initial conclusions.

Philanthropic leaders are well-situated to convene the stakeholders whose expertise is necessary to develop replicable strategies that work for those intended to benefit. Some of these include public leaders, nonprofit housing organizations, financial security experts and service providers, community leaders—and, of course, small independent landlords and their tenants.

3 Foster mentorship networks that connect small, independent landlords with each other for peer exchange and community-building.

Multiple interviewees expressed the desire to have relationships with experienced landlords in their local area—as is common among small business owners in other sectors—but they struggled to make connections. Some landlord interviewees we spoke to did have access to these networks and emphasized the value of connecting to similar landlords. There are some small landlord associations and some community organizations that have helped bring small landlords together. For example, Tower Grove Community Development Corporation in St. Louis provides trainings both over Zoom and in person to current and aspiring landlords. Tower Grove not only provides landlord education but also connects landlords to each other.

Philanthropic leaders are well-equipped to help meet this need in their local communities. These efforts would not necessarily require large initial investments to start, as long as they are carried out in partnership with other community institutions and resources—such as public meeting spaces and library facilities. The SCORE Foundation offers a relevant model: providing free business advice to entrepreneurs and small business owners across the U.S. through a network of volunteers who are themselves experienced, usually as recently retired business owners.

4 Consider small, independent landlords of color as stakeholders in racial economic justice initiatives.

This is especially relevant to efforts to support intergenerational wealth transfers and close racial wealth gaps. A few Black and Latinix interviewees described family members and friends who lost their only assets to local tax liens and the foreclosure crisis that sparked the Great Recession. They expressed anxiety about ensuring that they could pass down their assets to their children and relatives because they struggled to keep up with maintenance and repairs.

Likewise, racial equity strategies that focus on the social determinants of health could enhance their impact by working with small, independent landlords in Black, Latinx, Asian/Pacific Islander, and Indigenous communities that have been harmed by environmental racism. Several hospitals have piloted such programs as part of their community benefit requirements under the Affordable Care Act, such as Nationwide Children's Hospital in Ohio.[75]

Many philanthropic organizations already invest in racial equity strategies that are designed to address, reverse, and make reparations for past and present racism in housing and financial markets—but not to scale and not in every affected community. Small, independent landlords (especially those who are people of color and who rent to people of color) play such an important role in rental markets that supporting them could increase the impact of racial equity initiatives. Established financial institutions and governmental racial equity investment strategies already have the framework to address the financial challenges—taxes, fines and fees, and access to credit—that small, independent landlords of color face. Intentional, targeted actions to make access universal are needed.

5 Help small, independent landlords access high-quality financial products and services that are designed with their needs in mind.

Small business products seem to be a good fit for many small, independent landlords, but federal tax policy makes it unlikely that many of them would convert their operations into formal business entities. For leaders focused on small business strategies, it may be helpful to draw on the programs and resources created by the community economic development field in order to identify and develop relationships with small, independent landlords.

The segment of small, independent landlords who may experience net benefits from becoming small business entities are those whose current properties have positive net income, and who themselves have healthy liquid savings reserves, good credit scores, and a desire to grow their portfolios. While they are not numerous, they would benefit substantially from business banking products.

For landlords, the challenge with financing is less a lack of access to credit, and more the absence of credit products that meet their needs. Many of our interviewees desired access to better financial tools. Financial institutions can connect more small, independent landlords to tailored products available through CDFIs, credit unions, and other community based lenders—and could even offer such products. They can also help build the sector by working with small, independent landlords in organizational efforts to support low- and moderate-income renters and housing affordability. This has worked well in California with accessory dwelling units— ADU developers have developed relationships with local banks, CDFIs, and credit unions to ensure that the financing process is smooth for borrowers and scalable.[76]

To meet this challenge, philanthropic funders can make mission-oriented investments such as establishing loan loss reserves to enable nonprofit lenders to make loans to small, independent landlords; program-related investments (PRIs) to provide longer-term, affordable capital; and grant-making.

But more than they need access to lines of credit, many of these landlords need assistance to build sustainable funds for maintenance and emergency reserves. Many nonprofit organizations and financial institutions have developed products that enable mortgage holders to automatically save for future expenses, such as requiring loan payments every four weeks rather than monthly to generate reserves over time. Philanthropic institutions with experience investing in low-income and first-time homebuyers, foreclosure prevention, and asset building could apply lessons from that work to small, independent landlords because they tend to have similar financial challenges. Philanthropic organizations also could engage with organizations that provide HUD certified housing counseling and loss mitigation and financial coaching—such as the New Jersey Citizen Action Education Fund (NJCAEF), which also serves small, independent landlords.

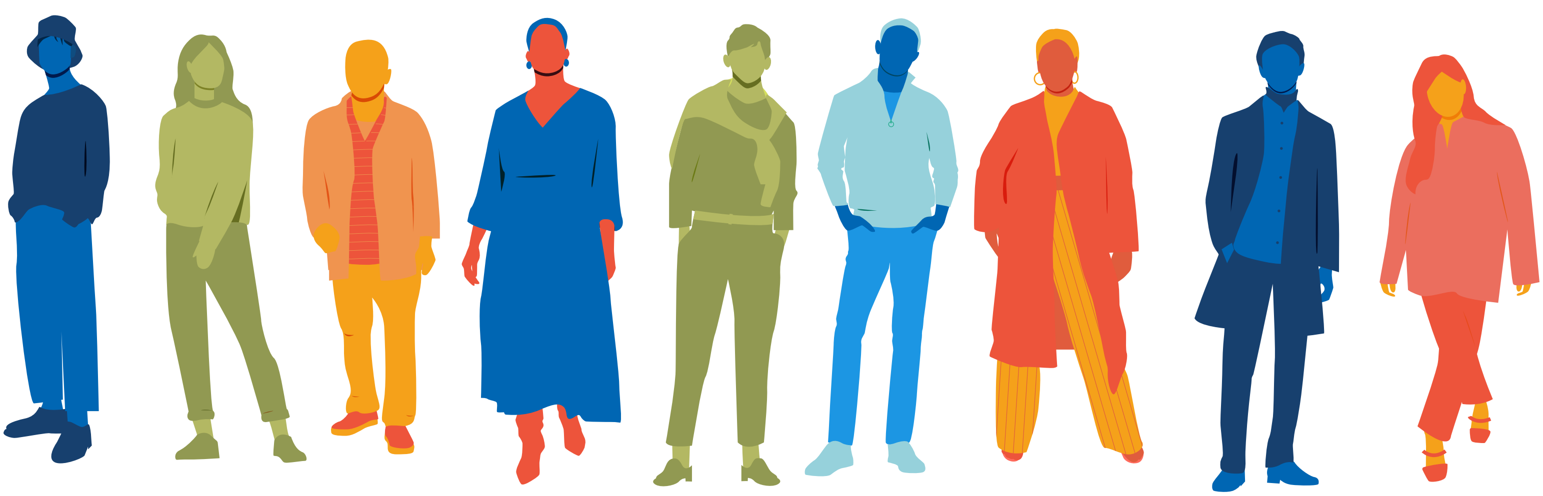
6 Identify and educate leaders about public policy changes and government service delivery improvements that would help low-wealth small, independent landlords preserve their assets over time and across generations.

Small, independent landlords need tailored solutions that ease the burdens of local regulations, ensure practical access to available resources, and prioritize intergenerational wealth retention. More work is needed to understand how public policy can best demonstrate and effect system change that addresses these issues. The effective policy solutions are likely to differ by state or even locality, so it is essential to engage community-based organizations in such efforts.

Philanthropic institutions have long played a critical role in the development and socialization of policy solutions to the well-defined types of challenges this brief details.

CONCLUSION

Small, independent landlords tend to be underserved and overlooked when it comes to philanthropic, business, and policy initiatives. Yet, there are important opportunities to advance goals related to wealth building, racial economic justice, and housing security. Small, independent landlords play an important role in the provision of stable and affordable housing, which is central to renters' financial security—even though the landlords are often relatively financially insecure themselves. **These landlords and their tenants struggle with liquidity, cash flow, and housing conditions related to maintenance and repair. These common challenges create opportunities for strategies focused on all three areas.** Likewise, working with small, independent landlords is essential in local efforts to support housing affordability and ensure that low-income renters have decent shelter.



METHODOLOGY

To produce this report, Aspen FSP engaged in the following research activities:

Expert interviews: We interviewed a dozen leaders, experts, and innovators working with small, independent landlords or on rental housing. We also sought feedback from the Asset Funders Network's regional partners and staff.

Literature review: We began with a review of the limited research on small, independent landlords and their renters. We collected as much demographic information as we were able to do without analyzing Census microdata. We also documented what is known about these landlords' financial characteristics, experiences in COVID-19, and other relevant information we reviewed.

Small landlord interviews: We developed an interview script after an initial round of expert interviews and the literature review. We sourced 16 interviewees primarily through our and AFN's professional connections across the United States. Interviews were conducted between February 2023 and May 2023. Participants were compensated $100 for their time and valuable insights.

Interviewees lived in Iowa, Louisiana, Maryland, Missouri, New Jersey, Pennsylvania, Texas, Washington state, Washington, D.C., and Wisconsin. They owned properties in Alaska, California, Colorado, Iowa, Louisiana, Maryland, Missouri, New Jersey, Pennsylvania, Texas, Washington state, Washington, D.C., and Wisconsin. To ensure interviewees' anonymity, we have changed the names of everyone identified in this brief.

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