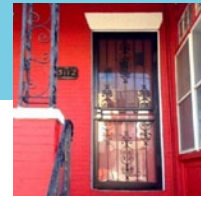


RENTING IN PHILADELPHIA

A Survey of Tenants and Landlords



Philadelphia City Planning Commission



This report was prepared by Octavia Howell and Ian Lazzara of the
Philadelphia City Planning Commission Staff.

Funding for this report was provided by the William Penn Foundation.
Research for this report was conducted by The Melior Group.

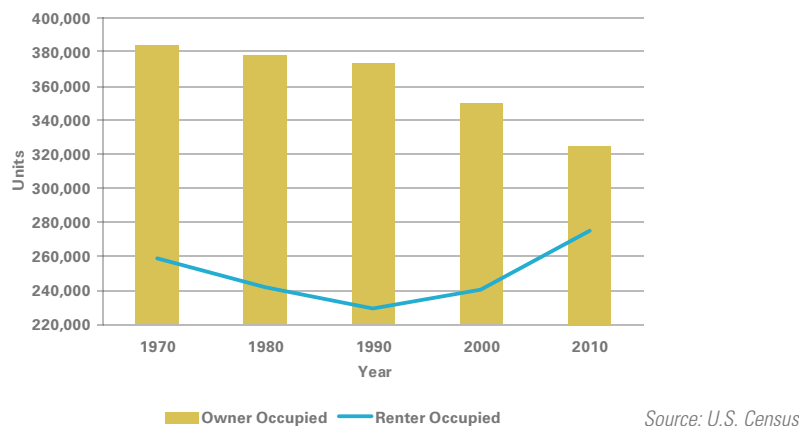


BACKGROUND

In 2011, the Philadelphia City Planning Commission (PCPC) adopted its *Citywide Vision* for Philadelphia. Within that vision, the Commission set a goal to ensure that a wide mix of housing is available to residents of all income levels.

Decennial U.S. Census numbers indicate that rental tenure is increasing throughout the Nation. Renters account for nearly half, or 46%, of all households in the City of Philadelphia. Recent decades have shown a definite trend of growth in the city's rental market and a weakening of the Philadelphia's historically dominant homeownership market. The city added about 46,000 new units of rental housing since 1990. During the same time period, the city lost about 50,000 units of owner occupied homes. Accompanying this trend, the Census recorded population growth in the City of Philadelphia for the first time in a generation. Construction of luxury rental housing has been a visible component of neighborhood revitalization and expansion in the city's core. While some neighborhoods are seeing a housing and construction boom and an increase of new residents, others have struggled to deal with the impact of the national housing crisis and persistent economic challenges among their residents.

Figure 1. Philadelphia Owner vs. Renter Tenure, 1970-2010



In order to expand the PCPC's knowledge of activity in the local rental market beyond basic counts, the agency engaged The Melior Group, an independent marketing research and consulting firm, to survey renters and landlords.

The PCPC sought to answer the following questions through the survey of tenants:

- How effectively does the rental housing stock meet the needs of existing households?
- Is rental tenure a precursor to homeownership within Philadelphia?
- What proportion of rental tenants plan to continue living in the city indefinitely?

The PCPC sought to understand through interviews with landlords:

- What proportion of registered landlords in the city are landlords by choice?
- What are the top challenges faced by landlords that would threaten their ability to continue to provide quality housing for the city's rental population?

What follows are findings from the research with each of these audiences. This work will help inform the PCPC's ongoing preparation of the city's comprehensive plan, *Philadelphia2035*.

RESEARCH METHODOLOGY

To gather the information needed from renters, a 25 question survey was conducted with Philadelphia tenants above the age of 18. The online survey was offered to a panel of pre-qualified renters in an effort to ensure participation from renters in each part of the city. Links to the survey were also posted on the PCPC's website and the *Phila2035* web and social media sites. Emails soliciting participation were sent to all City of Philadelphia employees as well as to community-based email lists. A total of 1,576 renters completed the survey.

The margin of error for the sample population of $n=1576$ is $\pm 2.5\%$ at a 95% confidence interval. If the study were to be repeated 100 times with the same methodology, the results would be consistent within two and one-half percentage points, or 95 times out of the 100 times the study is performed. Note that the margin of error is a function of the sample size and the margin of error will vary by geographic and analytical grouping. For the purpose of analysis, respondents were grouped into zip code clusters that closely approximate the PCPC Planning Districts. Survey respondents were also grouped by age and race of householder.

Center City is home to the greatest proportion of the city's renters, about 23%. The survey distribution method was particularly effective at reaching renters in this part of the city such that this group accounts for 43% of the survey participants. These renters are more likely to be white, younger, and wealthier than renters in the remainder of the city.

The survey methods were less effective at capturing respondents from North and West Philadelphia. Only 5% of the survey participants were from North Philadelphia. Census figures reveal that the area is home to 12% of the city's renters, second only to Center City in terms of its proportion of rental units. West Philadelphia residents were underrepresented to a lesser degree than North Philadelphia renters. Renters in these communities are more likely to be black, older, and have higher incidences of poverty than the population surveyed.

To prepare for the research with landlords, a subset of 250 rental properties with active rental licenses were identified for inclusion in landlord interviews. The selection included a mix of property types and locations across the city. Landlords and property managers of the affected properties were mailed invitations to participate in a 30-minute telephone interview. Realtors were also interviewed to add a more global perspective. A total of 21 interviews were conducted. The information gathered provides a broad overview of the viewpoints of landlords and property managers from across the rental landscape of the city.

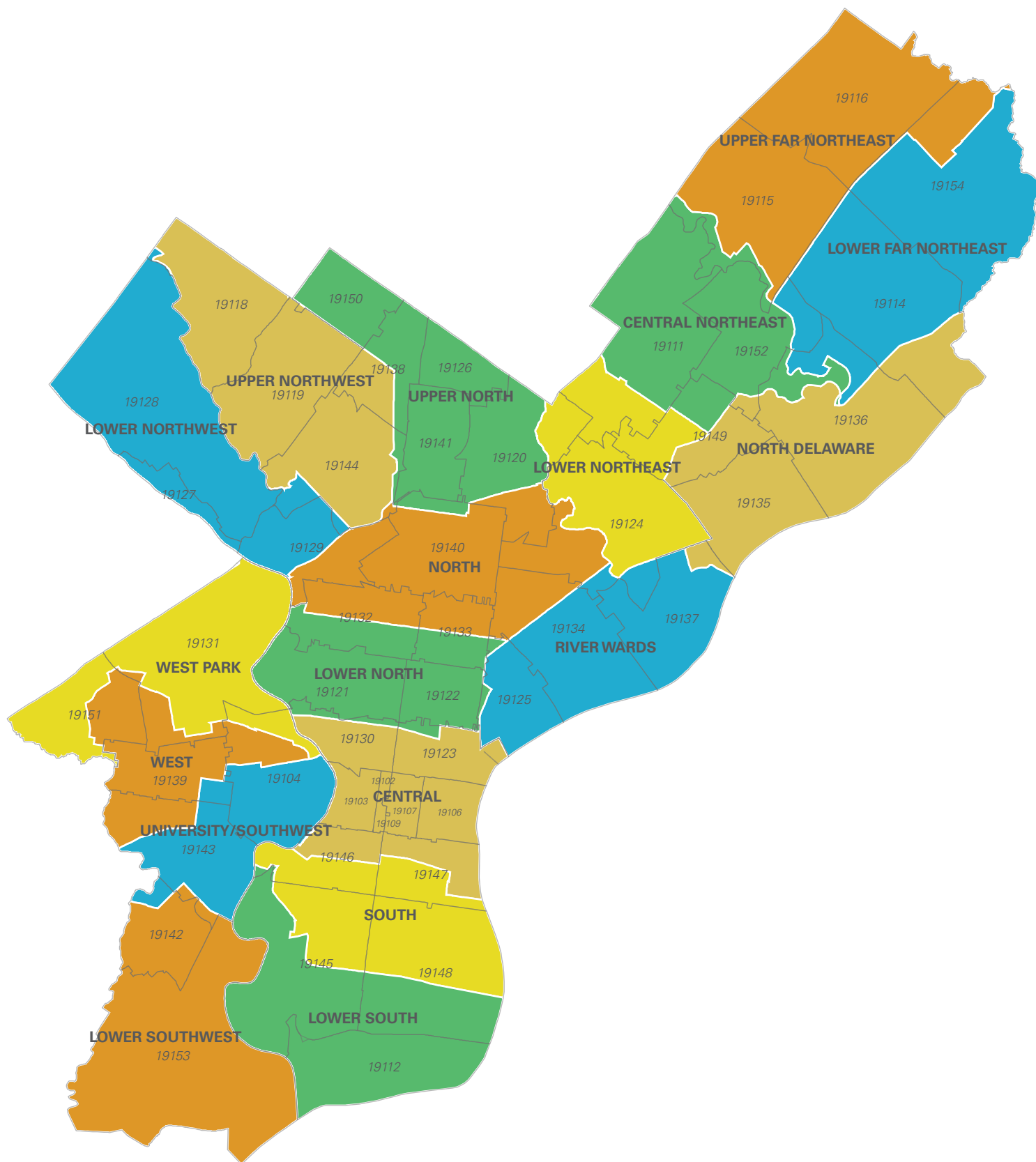


Figure 2. Map of Zip Codes and PCPC Planning Districts

Source: Philadelphia City Planning Commission

KEY FACTS & FINDINGS

RENTERS

The average monthly rent in Philadelphia is \$1,000. Rents in Center City average \$1,202. In other areas of the city, rents average \$846 per month. For a typical renter, monthly housing and utility expenses consume 41.9% of household income.

Renters in Center City are younger and wealthier than in other parts of the city. Renters residing in Center City are five years younger, on average, than those in other parts of the city, i.e., 33.7 years old vs. 38.7 years old. Household incomes for those renting in Center City average \$77,200, while household incomes of renters in other parts of the city, combined, average \$52,800. The average age of renters represented in this study is 36.5 years old.

Renting is motivated by economic reasons. For roughly one-third of respondents it was a choice that enables them to avoid the hassles of home ownership and the flexibility to move around. For the majority of renters, renting is a temporary or less than ideal living arrangement. People rent largely for economic reasons including saving for a down payment or waiting to be able to purchase a home in their preferred neighborhood.

The majority of renters say that there are “some” to “many” affordable rental options available within in their neighborhood. Availability of places they can afford to purchase is limited. Residents of Center City are least likely report that they can afford to purchase a home in their current neighborhood.

Two out of ten renters are planning to purchase a home in Philadelphia within the next five years. Roughly 44% of renters are undecided about whether or not to purchase a house. Affordability of a desired home, in terms of one’s personal finances, is the most significant reason not to purchase a home. However concerns about school quality and safety also influence a tenant’s desire to purchase in Philadelphia rather than local suburbs.

LANDLORDS

Philadelphia is considered a good city to own rental property. Compared to the suburbs, Philadelphia real estate is affordable, taxes are low, and demand for rental housing is high. Individuals typically become landlords out of choice rather than necessity.

Many neighborhoods in Philadelphia are gentrifying, but landlords are not very concerned because they see the change as part of an environment that enables them to charge higher rents. Almost all the landlords interviewed for this research seem to want to serve renters at the middle to higher end of the market in their neighborhoods.

In areas where rental housing is in high demand, landlords prefer not to rent their properties to low-income tenants.

The current economic environment in Philadelphia, is concerning to landlords. Higher taxes, new fees, recent regulations, property maintenance costs, and a tenant-friendly legal system are substantially increasing landlord financial responsibilities and expenses. Rental income cannot be increased correspondingly given the risk of pricing oneself out of the market. While it is still profitable to buy, develop, upgrade, and modernize inexpensive properties in up-and-coming neighborhoods, in general, landlords feel their profit margins are narrowing.

In order to keep their properties profitable, landlords are considering different options. Examples include increasing rents, modifying properties to maximize rental income, and upgrading properties to serve higher paying tenants. What actually happens will be a function of what individual landlords can afford and what the expectations are in the neighborhoods in which their rental properties are located.

Figure 3. Study Cohorts by Zip Code and Mean Household Income and Rent

Cohort	Mean HH Income	Mean HH Rent
Total	\$63,400	\$1,000
Group 1 (Center City) 19102; 19103; 19106; 19107; 19109; 19123; 19130; 19146; 19147	\$77,200	\$1,202
Group 2 19104; 19143	\$53,000	\$777
Group 3 19111; 19152	\$49,400	\$899
Group 4 19112; 19145; 19148	\$60,100	\$884
Group 5 19114; 19154	\$59,700	\$862
Group 6 19115; 19116	\$48,000	\$810
Group 7 19118; 19119; 19144	\$47,000	\$827
Group 8 19120; 19126; 19138; 19141; 19150	\$45,000	\$707
Group 9 19121; 19122; 19132; 19133; 19140	\$56,100	\$852
Group 10 19124; 19149	\$62,800	\$990
Group 11 19125; 19134; 19137	\$46,500	\$815
Group 12 19127; 19128; 19129	\$45,800	\$861
Group 13 19131; 19139; 19151	\$52,800	\$811
Group 14 (Non-Center City)	\$52,800	\$846

Source: Melior Survey



Profile and Perspectives of Renters

PROFILE OF PHILADELPHIA RENTERS

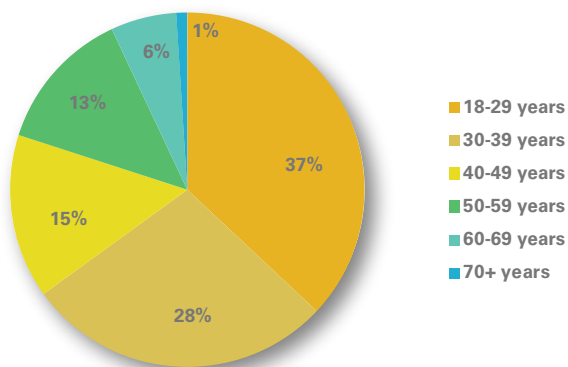
Philadelphia's renter population is diverse. The citywide rental market is not dominated by one type of renter, but certain types of households do tend to form clusters. Senior renters are most likely to be found in the Far Northeast. Renters in the Upper Northwest tend to be African Americans with moderate incomes. Renters between the ages of 35 and 44 are more geographically dispersed, but are more likely to live in Upper North Philadelphia than in other parts of the city.

Center City is home to the Millennial age cohort. These young renters are least likely to be homeowners and are more likely to have incomes above the city's median. In Philadelphia, renters in this 18-34 year old age group live in the Lower Northwest, mainly Manayunk, or in the Metropolitan Center. Among the surveyed residents, renters in Center City were five years younger, on average, than those residing in other parts of the city. Over one-third, or 37%, of renters in the survey population are under the age of 30.

58% of respondents self-identifying as White. Since 43% of responses came from the Center City group of zip codes, where 59% of Center City renters are White and 25% are Black, Black renters are underrepresented in these survey results. Blacks renting downtown are five times more likely to be living in the 19104 or 19146 zip codes that are situated along the edges of Center City.

Among the population sampled, incomes were highest for renters aged 30-39 years old and for those residing in Center City. Citywide, renters aged 30-39 reported incomes averaging \$71,900. Household incomes for those renting in Center City averaged \$77,200. Within the Metropolitan Center, the number of renters is highest in the 19104 zip code which includes the University City and Mantua neighborhoods. The median income for renters in this zip code is significantly lower than other zip codes within the analysis area. The incomes of survey participants from 19104 reflected this income disparity but to a lesser degree than when

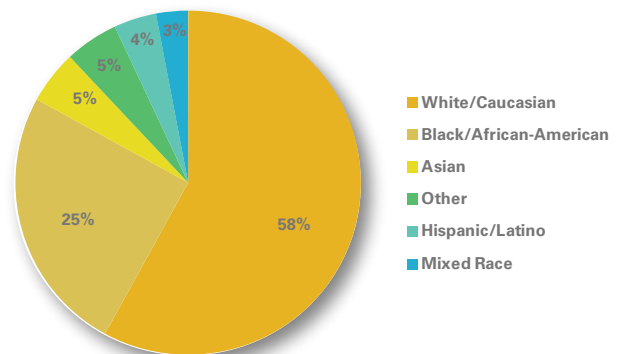
Figure 4. Respondent Age Composition



Source: Melior Survey

According to the 2010 Census, White and Black renters occupy similar shares of the city's rental housing. Black renter-occupied rental units slightly outnumber White renter-occupied rental units by 3.5% or 20.4% to 16.9% respectively. About 25% of the survey respondents self-identified as being Black/African-American versus the

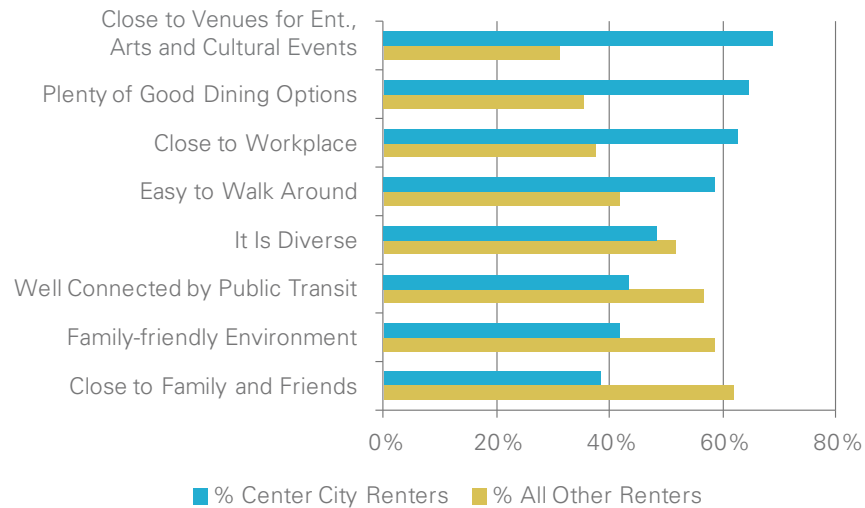
Figure 5. Respondent Race/Ethnic Composition



Source: Melior Survey

compared to Census figures. Median income figures for all survey respondents are well above the Census reported median income for Philadelphia renters. This suggests that the renters who participated in the survey are on the upper end of the income distribution within their respective communities.

Figure 6. What Respondents Liked About Their Current Neighborhood



Source: Melior Survey

WHY DO RENTERS CHOOSE PHILADELPHIA?

Seven out of ten, or 69%, residents of Center City live in Philadelphia because they prefer the urban environment and half, or 51%, of these residents are attracted to the arts and culture scene in the area. Younger renters were more inclined to state a preference for the urban lifestyle than older residents. The same holds true for those with higher incomes. Almost half, or 45%, of those aged 18-29 years old live in Philadelphia because this is where they got a job. Of these young renters, 22% earn more than \$75,000 annually.

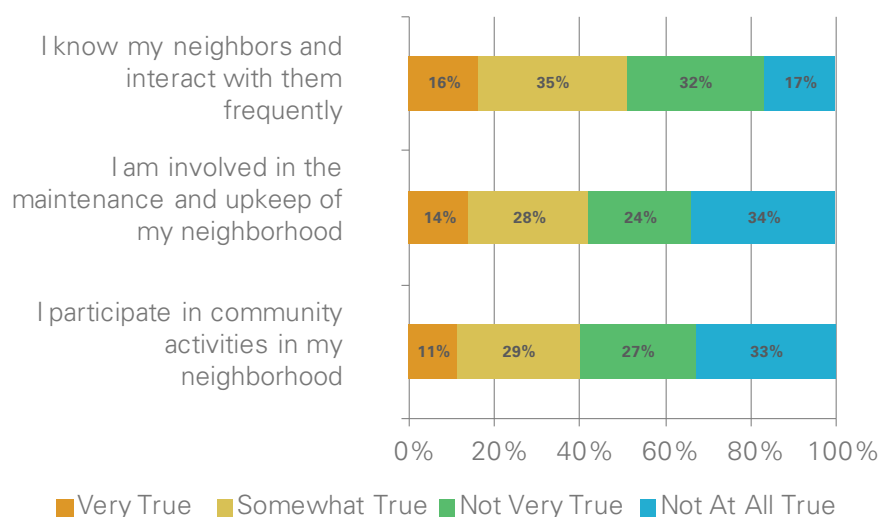
Center City renters identified more amenities within their neighborhoods than renters in other parts of the city. Walkability, transit access, and ease of access to other places were selected as neighborhood assets by over half of the survey respondents. Center City residents valued that their neighborhoods provided them with convenient, walkable access to work, entertainment and dining establishments. This group was also more likely to have chosen to live in Philadelphia to experience an urban lifestyle. Renters in Center City were more likely to express the belief that their neighborhood is safe and has well maintained public facilities and a good housing stock.

Proximity to family is a more important neighborhood attribute to renters living outside of Center City. For less wealthy and older survey participants, proximity to family and friends had the strongest influence over their choice to live in Philadelphia. Many older renters grew up in Philadelphia and remained, citing their comfort with the their surroundings as a reason to live in the here.

The data suggest that renters who live outside of Center City look at their neighborhoods more than just a place to live but as a community of people they call a family. Six out of ten renters outside of Center City say they know and interact with their neighbors, half say they are involved in the upkeep of their neighborhood, and many participate in community activities.

Renters in Center City were less likely to have developed relationships with their neighbors and were far less likely to be involved in community maintenance and upkeep than residents in other areas.

Figure 7. Level of Community Engagement Across Philadelphia



Source: Melior Survey

WHERE DO PHILADELPHIA RENTERS LIVE?

Rental housing is distributed throughout the city. The number and proportion of rental units is highest in the Metropolitan Center, however, rental housing is mixed into the fabric of the city and comprises at least 20% of the housing stock in most areas. In several zip codes, rental housing accounts for as much as 60% of all housing units.

Philadelphia's rental housing stock is dominated by small scale properties. Renters typically live in rowhouses or

townhouses, apartments in converted single-family homes or rowhomes, or apartments in low-rise buildings. Almost four in ten renters with incomes over \$100,000 live in high-rise building rentals, or 37%. The highest rents are found in high-rise buildings. Older people also tend live in high-rise buildings. Renters over 60 are least likely to live in a single-family detached home in the city.

Because the provision of a large proportion of the city's rental housing is controlled by private citizens, there is the danger that housing providers may not maintain

Figure 8. Composition of Respondent's Primary Type of Residence by Age Cohort and Monthly Rent Payments

	Total	Age Cohorts (Years Old)					Monthly Rent (\$)		
		18-29	30-39	40-49	50-59	60+	0-499	500-999	1000+
Rowhouse or Townhome	28%	27%	30%	9%	33%	16%	41%	31%	26%
Apartment in a Converted Single	26%	31%	28%	20%	18%	17%	24%	28%	22%
Apartment in a Low-Rise Building (1-4 Floors)	24%	23%	22%	27%	21%	27%	18%	27%	15%
Apartment in a High-Rise Building (5+ Floors)	14%	12%	13%	12%	15%	29%	6%	7%	27%
Single-Family Semi-Detached	4%	4%	5%	4%	7%	3%	6%	3%	7%
Single-Family Detached	1%	1%	1%	3%	2%	2%	2%	1%	1%
Other	3%	3%	2%	4%	5%	7%	3%	3%	2%

Source: Melior Survey

standards that are suitable for tenant health and safety. To limit the possibility of substandard rentals, the city requires all landlords to register with the Department of Licences and Inspections (L&I) to obtain a housing inspection license and rental certificate. Landlords are expected to furnish a number of documents to prospective tenants to demonstrate their compliance.

A Certificate of Rental Suitability verifies that a property has been inspected and the landlord was issued a rental licence. This certificate along with lead paint disclosures, the Partners for Good Housing brochure, and a lease document are among the forms that provide tenants with assurance of the safety and legal status of their apartments.

Almost all renters, or 90%, have signed a lease. About one in ten renters have received a Certificate of Rental Suitability or a Partners for Good Housing brochure. Those paying the least amount of rent, less than \$500, are less likely to have a lease, more likely to have received the Certificate of Rental Suitability, and more likely to have received the Partners for Good Housing brochure than other renters; in other words, 79%, 15%, and 8% of renters, respectively.

Overall, Philadelphia’s renters are generally satisfied with their rental units. About one-quarter describe their homes as being in “excellent” condition and say that they are “very satisfied.” Those with the highest level of satisfaction live in Center City, the River Wards, Southwest Philadelphia, and the Lower Northeast. The higher the rent paid, the more positive people are about the condition of their units and their overall satisfaction.

Those with the highest level of dissatisfaction are renters in West and North Philadelphia. Renters in these parts of the city are more likely to have lower incomes than other residents and were under represented in the survey sample.

IS RENTING IN PHILADELPHIA AFFORDABLE?

The average monthly rent reported by survey respondents citywide is \$1,000. Rents are higher in Center City, averaging \$1,202, while the remainder of the city reported an average rent of \$846. Thirty-four percent of renters aged 18-29 years old share housing costs with roommates. Eleven percent receive financial support from family or friends to manage their household costs.

According to the U.S. Census Bureau, Americans pay

Figure 9. Source of Payment for Housing Expenses (Rent & Utilities) by Age Cohort and Monthly Rent Payments

	Total	Age Cohorts (Years Old)					Monthly Rent (\$)		
		18-29	30-39	40-49	50-59	60+	0-499	500-999	1000+
Income From Employment	89%	91%	95%	89%	85%	63%	77%	90%	94%
Share Costs With Roommate(s)	18%	34%	15%	6%	2%	1%	16%	13%	20%
Income from Other Sources (e.g., Retirement, Child Support, SSI, etc.)	12%	7%	7%	12%	15%	50%	24%	11%	11%
Support from Family/Friends Who Do Not Live With You	6%	11%	4%	5%	2%	3%	9%	7%	7%
Support from Related Household Members Who Live with Me	4%	5%	2%	3%	7%	3%	7%	3%	7%
Discounted Rent Through Public Subsidies	2%	2%	1%	2%	2%	4%	5%	1%	0%

Source: Melior Survey

about 30% of their income on housing and 10% on utilities. Survey responses indicate that the renters surveyed are in line with national trends for housing expenditures. The average monthly housing and utility expenses for survey respondents was 41.9%. Renters with monthly rents between \$500 and \$1,000 report the greatest cost burden. These households are spending 44% of their income on housing expenses.

The majority of renters, or 58%, say that there are “some” to “many” affordable rental options available to them in their neighborhood. This is less true in the Upper Northwest, Lower Northeast, and West Philadelphia where higher percentages of respondents feel there are not many affordable rental properties to choose from.

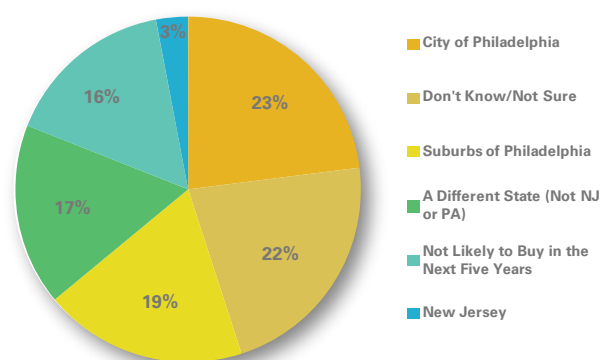
About half of renters with annual incomes below \$50,000 reported occasional difficulties making rent. When asked how much they could realistically or comfortably pay for rent each month, responses indicated that overstretched renters are close to the limit of what they can afford but are not paying significantly more than they would be able to afford. Unforeseen expenses and utility costs were the top two reported factors that interfere with tenants’ ability to pay rent. Debt was the next leading financial constraint with student loans affecting more than 40% of renters. Renters with an income of \$25,000 or less have difficulties making rent due to inconsistent or unstable income streams. About 55% say this causes them problems compared to 29% of all renters citing this factor as a cause for late rent payments or nonpayment.

DO RENTERS INTEND TO PURCHASE A HOME IN PHILADELPHIA?

Only about two in ten renters are planning to purchase a home in Philadelphia within the next five years. Among those who are hoping to purchase homes within a longer time horizon, 23% would like to live within the City of Philadelphia.

One fifth, or 22%, of the renters surveyed have plans to purchase a home in Philadelphia in the

Figure 10. Where Respondents Will Purchase a House in the Next Five Years



Source: Melior Survey

next five years and 44% of the other renters would purchase in the Philadelphia area if they were able to afford making a home purchase. The incidence of residents who intend to purchase was greatest among those renters currently residing in the River Wards, the Upper North, and Southwest Philadelphia.

Among those who are not planning to purchase here within five years, more were influenced by their own financial readiness than by other factors. A quarter of those who “need to rent” due to questions of affordability or not having saved enough money, indicate that they are interested in buying. A higher percentage of those who cannot afford to buy in their preferred neighborhoods are currently renting in Center City, the River Wards, and South and West Philadelphia.

Roughly 2% of the renters surveyed already own a house in Philadelphia. Of these renters, one-third choose not to live in the homes that they own because of dissatisfaction with the neighborhood surrounding their property. Only 16% of these renters own their house for investment purposes.

One-third, 33%, of all renters indicated they could afford to buy a house in their current neighborhood if they wished, 18% say they could afford a home of similar or better quality than they have now, and 15% could afford something of lesser quality than they

have now. The perception of affordability is greatest among renters surveyed in the Upper North District. About 50% of these residents believe they could afford to purchase a home in their current neighborhood.

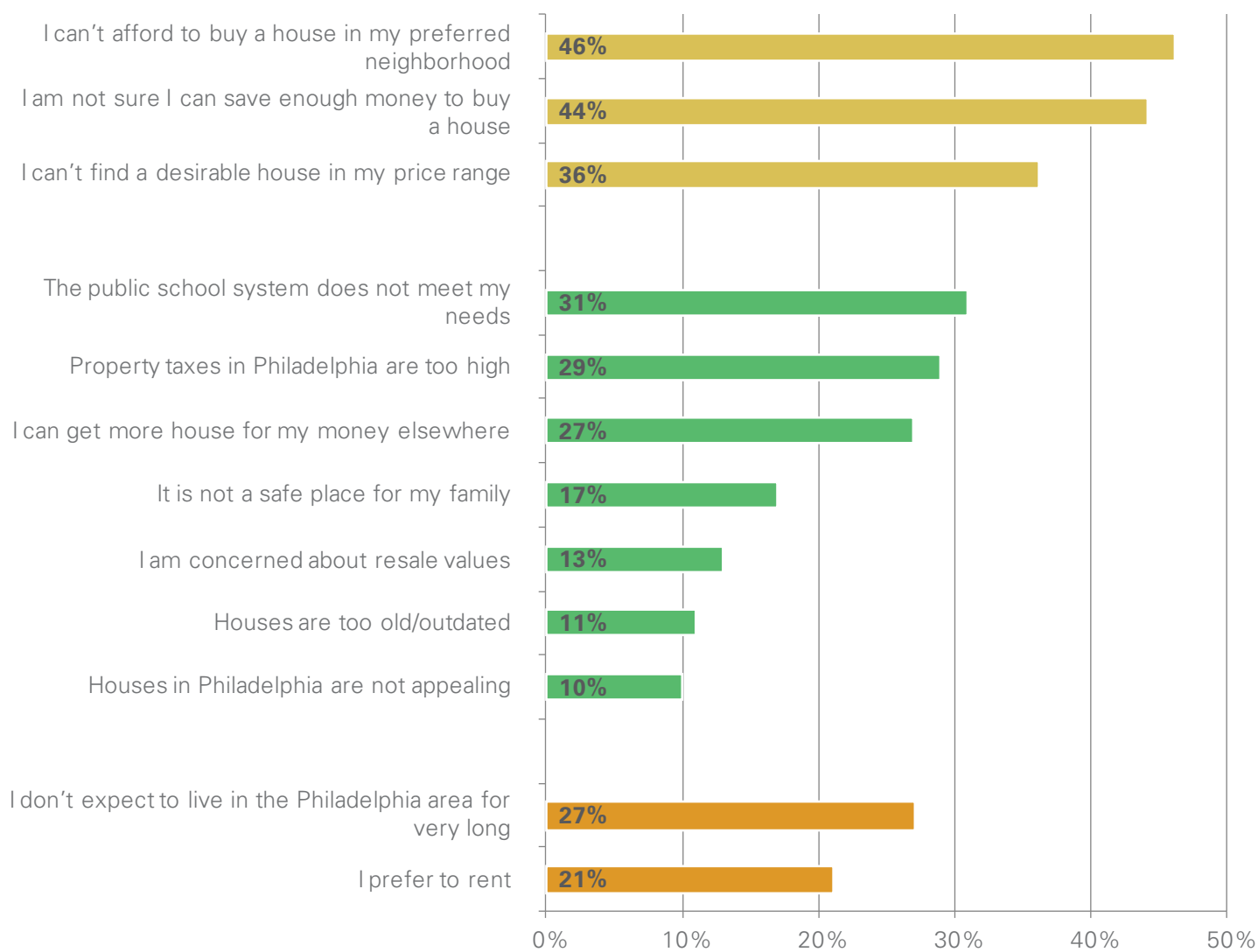
Residents of Center City are least likely to report that they can afford to purchase a home in their current neighborhood. Among this group, 58% would have to move elsewhere and 17% would have to settle for poorer quality housing if they chose to become homeowners.

In the parts of Center City that are experiencing demographic shifts and in zip codes just beyond the Central Analysis area, homeowners earn three times more than residents who rent in the same zip code. In more stable portions of Center City, the gap between renter and owner earnings decreases significantly. Renters in 19102 (Center City West) and 19106 (Society Hill) earn 70% and 61%, respectively, of homeowner incomes in the same zip codes. Citywide, renters make about 50% of the income of the homeowners in the same zip code.

Next to financial readiness, dissatisfaction with Philadelphia was a leading deterrent to becoming a homeowner in the city. For about one in three renters who are not likely to buy a home in Philadelphia, the state of the public school system and property tax rates discourage them from purchasing homes in the city. A smaller but significant group of those surveyed mentioned safety, an old and outdated housing stock, and the undesirability of the city as reasons for not purchasing a house in the city.

For about one-third of those surveyed, renting is a preferred housing arrangement. Among wealthier households renting is attractive because it is a way to avoid having the hassles of home ownership. For younger residents, the appeal of renting allows them to maintain greater mobility. About 27% of renters who do not intend to purchase homes in Philadelphia indicate that they intend to leave the Philadelphia area.

Figure 11. Reasons for not Purchasing a Home in the City of Philadelphia Within the Next Five Years



Source: Melior Survey



Profile and Perspectives of Landlords

WHO ARE PHILADELPHIA'S LANDLORDS?

The majority of landlords who participated in this study own one or two rental units. A small portion of the landlords interviewed live in their rental properties. Those who own duplexes often live in one portion and rent out the other.

Landlords either manage their rental units themselves or contract out for property management services such as advertising for tenants, conducting background checks, and addressing maintenance requests. Landlords must balance the cost of paying an outside manager with practical and personal factors affecting their ability to manage their properties. These factors include the number of units owned, how conveniently they can access their properties, previous experiences with tenants, and their appetite and ability to handle tenant requests.

“If you hire a property manager, it is easy to be a landlord but difficult to make a profit – you have to see if it is worth it.”

WHY DO PEOPLE BECOME LANDLORDS?

While the appetite for investing in and managing rental properties varies for different landlords, all agree that owning rental property is a good investment and yields good returns. These investments provide short-term returns as supplemental income and long-term returns through appreciation in real estate values.

With only one exception, landlords said they wanted to be landlords, and as such, either purchased a property with the intention of renting it out, or inherited a property and decided to rent out. One landlord felt “forced” to convert his property to a rental.

“I wanted to sell my house. When the market crashed and I got only one low-ball offer, I had no choice but to rent out the house to pay the bills.”

Aspiring landlords generally start by investing in rental

properties in places in which they are comfortable such as the neighborhoods they grew up in, are living in, or ones they are familiar with. As they begin to understand the nuances of being a landlord, those who want to grow their business expand their investment to properties in neighborhoods they do not personally know but believe are going to improve. Information from friends, real estate agents, the news, and recent construction activity usually inform their decisions.

WHAT LANDLORDS APPRECIATE ABOUT PHILADELPHIA

Landlords see Philadelphia as a good city in which to own rental property. Compared to the suburbs, landlords believe that real estate is affordable, taxes are low, and there is a high demand for rental housing.

Providing rental housing is a business, and as such, landlords seek to make a profit. Those surveyed feel that there is good money to be made from investing in up-and-coming neighborhoods in Philadelphia, especially if one can buy inexpensive properties and/or qualify for the city's 10-year tax abatement on new construction and property rehabilitation.

Landlords believe people like to rent in the city for many reasons – the city is large, walkable, has plenty of parking available, has good public transit, has a vibrant arts and culture scene, and has significant dining and entertainment options:

“If you work or go to school in the city, it is very convenient living here.”

WHAT CONCERNS LANDLORDS ABOUT PHILADELPHIA

Landlords are worried that, in the current environment of higher taxes, new fees, and a tenant-friendly legal system, their profit margins will be squeezed. Their financial responsibility and expenses have gone up substantially while rental income has remained relatively stable. If landlords increase rents

too much to accommodate their rising expenses, they risk pricing their properties out of the market.

SUDDEN INCREASE IN PROPERTY TAX

Landlords acknowledge that taxes are relatively low and agree that raising taxes is not unreasonable. However, landlords fear sudden and significant increases in taxes such as the reassessment in 2014. Landlords alleviate some of their property tax burden through increases in rents, but this can only be done in stages.

“We cannot drastically increase rents in one year.”

Almost all landlords plan to increase their rents going forward in an attempt to cover increases in taxes.

TENANT-FRIENDLY LEGAL SYSTEM

Landlords, particularly those owning properties in low income neighborhoods, are critical of the tenant eviction process. They believe that legal recourse for landlords is limited and that the eviction process is very long and costly. The legal system is seen as too tenant friendly.

“It is very difficult to deal with or evict irresponsible tenants. And you almost never get your money back.”

DESIGNATED AGENT REGISTRATION

To obtain a Housing Rental License, Philadelphia requires that landlords living outside of the city designate an agent who is responsible for forwarding notices, orders, and summons to the owner. The agent needs to be 18 years of age and have an address located within the city limits. If the agent's address is a commercial location, they must have a registered Commercial Activity License under the same address. If the owner meets these requirements they can act as the agent. This requirement can be a burden to non-local property owners.

“If you are an owner and you live outside of the city, you are now required to employ a registered agent inside city limits to receive paperwork as stated on the certificate of rental suitability. Why should we be forced to hire someone and pay more?”

HOW LANDLORDS MANAGE INCREASING FINANCIAL PRESSURE

Faced with increasing financial pressure from taxes, fees, regulations and costs involved in property maintenance, landlords feel stretched in trying to keep their properties profitable. To address these challenges, landlords consider a variety of solutions. Rent increases, property modifications, and upgrades are popular options. Landlords are interested in either attracting higher paying tenants or reducing apartment sizes to accommodate new tenants and make their properties more profitable.

A number of landlords mentioned utilizing unused spaces like basements to earn additional revenue. Increasing the number of rental units is attractive but not always a practical or legal option.

“I would split my three bedroom apartment into two apartments if I could, but the layout does not lend itself to that.”

“Rooming” arrangements involve splitting a large house into separate rooms, adding a mini refrigerator and hotplate in each room, and renting out each room separately for a fixed amount per week that includes utilities. Landlords acknowledge rooming is not legal unless you have a license and that it is not ideal given sanitation and safety concerns but they feel there may be “no choice.”

“Landlords all over the City are considering rooming with or without a license. There is a significant percentage

of single renters who can't afford high rents, so for them the rent will actually be cheaper if they rent out one room. Landlords make more money, tenants pay less rent, and if someone defaults on payments it is easy to kick them out without losing income from other rooms."

WHAT LANDLORDS DO TO STAY IN BUSINESS

Landlords recognize that to stay in business their properties need to offer what renters want and be competitive with other rental properties in the neighborhood. As such, landlords are very aware of what is appealing to renters and what is going on in their neighborhood with respect to demographic changes, new construction activity, home sales, property renovations, rents, and amenities. Landlords pay close attention to what their neighbors are doing and, when applicable, rely on property managers for information on emerging trends and advice on if and how to change their properties to keep them appealing.

Landlords realize that to stay profitable, they need to invest in maintaining and upgrading their properties. The money for this work, landlords say, comes from rental income or a portion thereof, and from independent loans. Smaller landlords with tighter budgets invest in property upgrades when they can afford it. Bigger landlords and property management companies plan ahead for maintenance and modernization expenses. Larger landlords expect 5-10% of their rental income to go toward these upgrades and factor these costs into the pricing of their rental portfolios.

Whether investments in property maintenance and upgrades are considered to be a necessity or a value-add depends upon the neighborhood.

In low-income neighborhoods landlords believe that renters expect the basics such as clean, well maintained units with working appliances, and a reasonable rent. Landlords generally do not see property upgrades in

these neighborhoods as a good investment. Although property prices are low, significant sums are often needed to secure properties from vandalism, bring them up to code, and make them appealing to renters. Given that some neighborhoods cannot accommodate high rents, recovering property investment takes time.

While landlords in these neighborhoods recognize that they cannot raise rents too much, they believe that by upgrading their properties, they can attract better quality renters.

"If I keep my properties nice, I can get the upper end of the low-income renters. I cannot increase rents too much, but I can hopefully attract more responsible tenants."

In high-income neighborhoods landlords believe that renters want more in addition to the basics such as hardwood floors, central air, and luxury appliances. The cost of building and maintaining these types of properties is high. Landlords need to invest substantially in remodeling and upgrading to stay current with renter expectations. As such, landlords charge high rents, and look to rent to young professionals with substantial incomes, rather than to students. Landlords in these neighborhoods consider property upgrades a necessity.

"No one will rent my units if I don't offer the amenities my neighbors do."

In up-and-coming neighborhoods landlords find that renter expectations vary in tune with changing demographics of renter income, age, and family size. Landlords in these neighborhoods view property upgrades as a necessity and as an excuse to charge higher rent.

"With high income renters moving in, it is a good time to upgrade and increase rents. I have to offer what others do anyway."

Some landlords go a step further and update areas around their properties.

“I leveled out the sidewalk, made the surrounding green, put in new paintings – higher income people care about these things.”

Across income groups, landlords say that investments in energy efficient measures like good windows and central heat are important, even if the responsibility of paying utility bills lies with the tenant.

“When utilities are not included in the rent, tenants look at these things. I care about it too – if tenants spend all their money paying utility bills, they will not have enough left to pay my rent.”

WHAT LANDLORDS THINK ABOUT CHANGING NEIGHBORHOODS

Landlords perceive that gentrification is happening in many city neighborhoods as low-income residents move out and students and young professionals, seeking to avoid Center City prices, move in. This flux is not of concern to landlords. They see the change as part of an environment that enables them to charge higher rents. Some landlords are hoping to benefit from property windfalls by flipping or renovating and holding properties while values continue to appreciate.

“Fishtown, Kensington, [and other neighborhoods within 15 minutes of downtown] have several undervalued properties - bank owned, foreclosed or abandoned. These can be bought easily and for cheap. As these areas improve, rents will increase and property prices will go up – buying here is a good investment.”

“If you pick the neighborhood right, you can double or triple your investment in 5-10 years. Renting is temporary; the real money will come by selling the property in 10 years.”

Some areas in Lower North Philadelphia are growing for the first time in decades, in part due to significant investments by Temple University. While landlords note the redevelopment efforts in this region and the influx of young renters, they are cautious about investing here given the high crime rates in the surrounding areas:

“The neighborhoods surrounding the area are still bad. It’s going to be a problem to fill rentals there unless the neighborhoods get better.”

Also with Temple building housing for their students, landlords believe their scope is limited and the market is getting close to saturation at current demand levels.

In conjunction with the growth and improvement in the neighborhoods around Center City, landlords note that low-income residents are being displaced. Still, almost all the landlords interviewed, 16 out of 17, want to serve renters at the middle to higher end of the market in their neighborhood. Landlords prefer not to rent their properties to low income tenants, even though they can get city-guaranteed market rents from these tenants with certain subsidies. Landlords believe that the risk involved in renting to low income residents is too high for even guaranteed rent to be worthwhile.

Only two landlords saw value in preferentially renting to Section 8 tenants. And here, only in lower income neighborhoods.

“There is always the risk of property damage with any tenant; I have been doing Section 8 for years, it works for me because I get assured rent which does not always happen in low-income neighborhoods.”

WHAT THE CITY CAN DO TO HELP LANDLORDS

While the landlords feel that Philadelphia is moving in the right direction with respect to increased transparency and easier accessibility of information both online and in-person. Landlords say there is room for improvement. When asked what the City can do to help them continue to provide good quality housing, respondents suggested the following eight actions:

1. HELP LANDLORDS NAVIGATE THE PROCESS, CODES, AND REGULATIONS;

Many landlords, especially new landlords, express frustration with navigating the City's codes and bureaucracy.

"We have to spend a lot of time deciphering what the City wants us to do. Communication and instruction for landlords should be simple and clear – the City should provide a straightforward list of the steps and requirements expected in one spot."

2. TREAT LANDLORDS WITH FEWER PROPERTIES DIFFERENTLY FROM LANDLORDS WITH SEVERAL PROPERTIES;

While increases in regulations, taxes and fees affect everyone who owns rental property in Philadelphia, landlords who own one or two units (smaller landlords) feel disproportionately impacted since they cannot spread the financial burden over multiple properties the way larger landlords can. Small landlords feel the City should treat them differently.

"You are classified the same way whether you own one rental property or several. As smaller landlords, our budgets are more constrained. Fees and assessments should be adjusted accordingly."

The trash tax is used as an example:

"If you have one tenant in one unit you are charged the same fees for trash collection (\$300) as others who have multiple units in one property and many more renters. It is not fair."

3. INSTITUTE LANDLORD COOPERATION PROGRAMS AT THE WATER DEPARTMENT;

The Philadelphia Water Department does not make tenants responsible for their own water bills. The responsibility to pay the bill falls on the landlord.

"They don't make it possible for tenants to pay their own water bills. So we are held responsible for the bills but we have no control over a tenant's usage. The water department does not help us either – they refuse to cut water supply until the tenant pays, so the bills keep adding up; we have no control over the situation, but our financial liability keeps going up. I try to incorporate water in the rent, but it is hard to judge and manage."

Landlords note that issues with water bills cannot be resolved online but require phone calls and personal visits which take time and resources.

"I can't see water bills online; I've waited on the phone for an hour just to ask about the water bill."

4. MAKE IT EASIER TO BUY VACANT AND ABANDONED PROPERTIES;

There is interest in developing vacant lots and abandoned properties into affordable housing complexes, but some feel that the City does not adequately support this effort.

“Lots of vacant lots are available for \$25,000 – \$30,000, but most of them have liens on the property. The City moves very slowly; it does not help make the process of buying any of these easy, so would-be developers and landlords get disheartened. Developing these would help the neighborhood all around.”

5. STREAMLINE THE BUILDING PROCESS AND INCREASE L&I STAFF;

There is a perception that L&I is inefficient and that there are several loopholes in building and development regulations. This is exacerbated by the belief that the City is not always transparent, overworked, and overextended.

“If I was unscrupulous, I could get away with a lot more, cut corners and provide terrible housing and not be reported to L & I.”

6. HELP LANDLORDS BRING THEIR PROPERTIES UP TO CODE AND MAKE THEIR PROPERTIES ENERGY EFFICIENT;

Landlords suggest structuring the City’s support programs differently:

“The City provides loans at 4%, but you have to qualify for the 4%. All that the City does is direct you back to the same banks and underwriters that landlords would go to anyway; it is hard to qualify for a loan.”

A creative suggestion that one landlord had was for the City to form partnerships with retailers like Home Depot and Lowes, and through this partnership, help defray the cost of property renovation:

“When we upgrade we not only spend for the work but also lose income on the

property being upgraded as it cannot be rented at the same time. It could be great if we could pay in a staggered manner, or get some discounts from retailers, it would act as an incentive.”

7. MAKE TENANTS MORE ACCOUNTABLE; AND

Landlords and property managers feel that many tenants, especially young renters and students, are irresponsible. They believe these tenants do not pay rent on time, take care of the property, keep it clean, or remove trash.

“Is there a way to hold tenants responsible so landlords don’t end up paying the fines?”

8. HELP MAKE LOW-INCOME NEIGHBORHOODS SAFER, MORE DESIRABLE, AND ENCOURAGE INVESTMENT HERE.

Safety is a concern in many low-income neighborhoods. Landlords who own properties in these neighborhoods find it challenging to attract tenants who regularly pay rent and treat the property responsibly. While the housing is affordable for low-income tenants, landlords believe that without the City stepping in to improve safety, responsible tenants who could potentially improve the neighborhood are not going to want to move in. These types of tenants are desired because they tend to be more involved with in the community. Seeing abandoned and run-down properties in the neighborhood is a turnoff for these renters.

In addition to improving safety, landlords would like the City’s help in making low-income neighborhoods more visually appealing and more attractive to renters. Ensuring that the streets are clean, beautifying or greening the neighborhood, providing incentives for grocery stores to open in the area, and dealing with derelict buildings are some suggestions made to make the neighborhood desirable. Ensuring the timely delivery of trash collection, street sweeping, and snow removal services would also be beneficial.



Philadelphia City Planning Commission

1515 Arch Street, 13th Floor
Philadelphia, PA 19102
215.683.4615
www.philaplanning.org