Title

End of the pandemic, but not renter distress

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RESEARCH BRIEF

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End of the pandemic, but not renter distress

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As the economy reopens, many tenants continue to struggle. California should act quickly to deliver assistance directly to renters.

Introduction

California is emerging from the COVID-19 pandemic. Vaccines have transformed the medical landscape. The state has officially reopened, and there are signs of a robust recovery, with the state in recent months adding hundreds of thousands of jobs. All of this is welcome: California is beginning to dig itself out of the deep economic hole it fell into during lockdown. Still, many Californians continue to struggle. The lost work and income that resulted from the response to COVID-19 can never be totally recovered.

Since the pandemic began, many observers have worried about the condition of the state's renters. Renters have, on average, lower incomes and net worths than homeowners. The state's low-income households, as well as its households of color, disproportionately rent their housing. As many of these households lost work or fell ill, advocates and policymakers worried that they would fall far behind in rent and thus become vulnerable to eviction, excessive debt, or both.

At different stages in the pandemic, the federal government and state and local jurisdictions have implemented policies designed to protect renters from eviction and help them pay rent. Income and rental assistance programs have helped many renters stay current on the rent, and eviction moratoria make it difficult for landlords to formally evict tenants. In Los Angeles County, renters are protected by county and state eviction moratoria through September 2021 and can also apply for rent relief from the state, county, and city of Los Angeles. However, eviction protections typically require the tenant to provide evidence that their inability to pay the rent is tied to COVID-19, which can be a challenging burden. Rental assistance programs do the same, and the assistance funds are often limited.

Monitoring the problems facing renters has been difficult because neither California nor the U.S. government regularly and comprehensively tracks rent payments. Researchers concerned about tenant precarity have, as a result, had no choice but to make estimates about how much rent has gone unpaid and the extent of back rent owed.

To help fill this knowledge gap, our joint team at UCLA and USC has conducted two surveys of renters in Los Angeles County. The first survey was carried out in July 2020, and asked 1,000 renter households about their ability to pay the rent from May through July — the early months of the COVID-19 crisis. We provided detailed results from that survey in an earlier report. The second survey was carried out in March 2021, and asked a new sample of 1,000 renters about their ability to pay rent in January, February, and March, as well as their experiences to date over the entirety of the pandemic itself.

This research brief summarizes the five most salient points we have gleaned from the two surveys. The results are preliminary, but we believe they provide important context as the state and local governments consider the next steps in rental assistance.

Some quick context before moving to the results: sampling renters is difficult in any circumstances and particularly hard during periods of economic stress. Our sampling approach sought to capture a representative sample of the county's renters. Still, we have some reason to think that those in our sample are slightly more advantaged than the county's actual universe of tenants. We also believe that the sample in our second survey is slightly more advantaged than the sample in the first. These biases are not ideal, but they suggest that the findings we report below may undercount the number of tenants in economic distress due to COVID-19.

Findings

1) Tenants had more trouble paying as the COVID-19 crisis progressed. Our initial survey showed that about 7% of tenants did not pay rent at all in at least one of three months (May–July 2020). This by itself represents a substantial increase in rental nonpayment over the pre-COVID baseline. The American Housing Survey, in both 2017 and 2019, suggests that in Los Angeles County rental nonpayment was closer to 2%. In our 2021 renter survey, the share of respondents who did not pay rent in at least one of three months (January–March 2021) was again about 7% of tenants, suggesting little change as the pandemic wore on. The share that owed something, however (that is, the share that was unable to pay in part for at least one month), almost doubled, from 17% to 31%. **Figure 1** illustrates these differences between survey waves. So while it is true that most tenants, over the course of the pandemic, managed to stay current on rent, it is also the case that difficulty with payment rose dramatically.

Overall, this difficulty was most prevalent among the lowest-income tenants. However, late payment and partial payment rose dramatically among the highest-income tenants between survey rounds, and higher-income tenants were disproportionately more likely to pay partial rent in the 2021 survey. **Figure 2** presents three forms of renter distress by income category.

2) Eviction threats and initiations appear to have risen alongside nonpayment. An eviction moratorium is still in

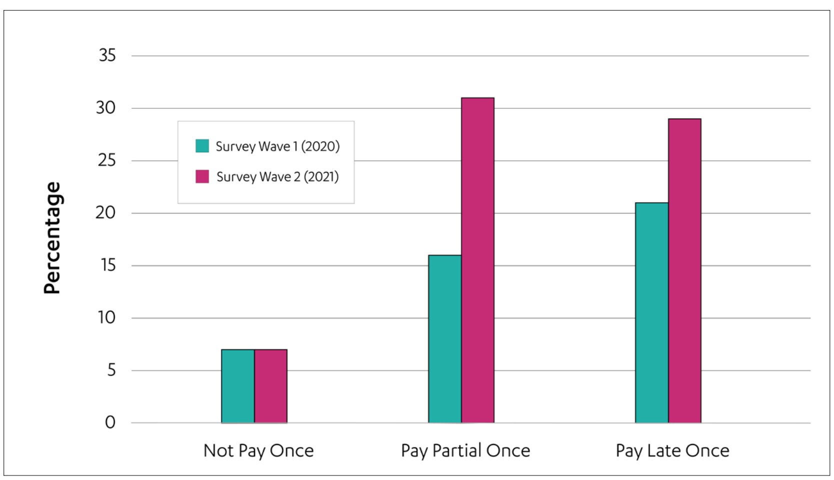

Figure 1.

Share of Households by Form of Renter Distress

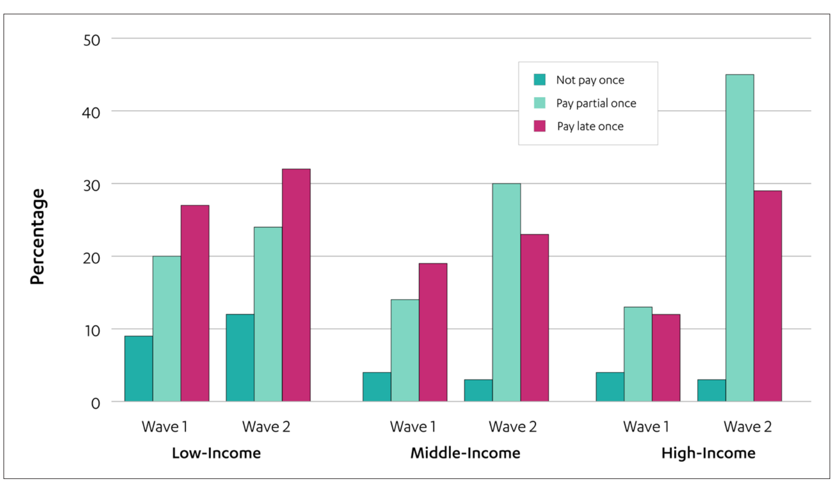

Figure 2.

Renter Distress by Household Income

effect in Los Angeles County. Even with that moratorium, however, tenants can still be threatened with evictions, and can have evictions initiated against them (a court just won't act on them until the moratorium ends). Landlords can also, of course, attempt to remove tenants illegally. **Figure 3** reports, for the households who paid rent partially, not at all, or late at least once during the three-month period we asked about, the share who reported being threatened with eviction or having an eviction initiated against them. In our 2020 survey, just over 15% of tenants who were behind on rent reported being threatened with an eviction, and 6% reported an eviction being initiated. Our 2021 survey suggests that things got worse. In 2021, 25% of tenants who were behind were threatened with an eviction, and about 18% had an eviction initiated. (A note of caution is in order here: while it makes sense that eviction threats would rise as the pandemic drags on, but the eviction question changed slightly from round 1 to round 2, and compared to round 2, in round 1, many more tenants responded "don't know" to questions about eviction).

3) Consumer debt among tenants remains high, as renters resort to loans to help make rent. Our 2020 survey showed that before the COVID-19 pandemic, only about 6% of Los Angeles tenants used a credit card to pay their rent. In the first months of the COVID-19 emergency, however, more than 25% of respondents reported using credit cards or emergency loans to help pay rent. Our 2021 survey showed that this reliance on debt grew as the pandemic proceeded. More than half of our respondents report they use credit cards or emergency loans more in general during COVID-19 (i.e., for rent, but also for other expenses). If we look in particular at households who report being behind in some way on rent — paying late, partially, or not at all for one of the three months in question — we see a substantial and growing reliance on unconventional sources to pay the rent.

As **Figure 4** below shows, in round 2, over 40% of this group of troubled renters has used a credit card to help with rent (more than double the share in round 1); almost 50% have turned to friends and family; (2) and nearly 60% have dipped

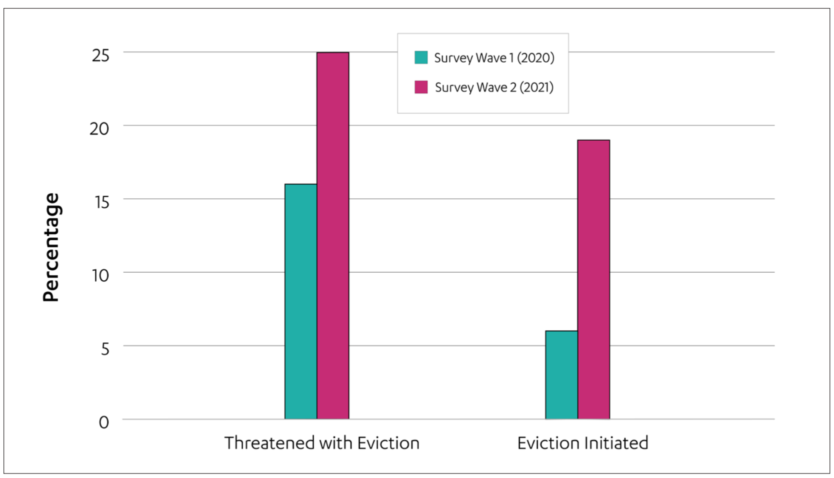

Figure 3.

Eviction Threat and Initiation Among Households With Problems Making Rent

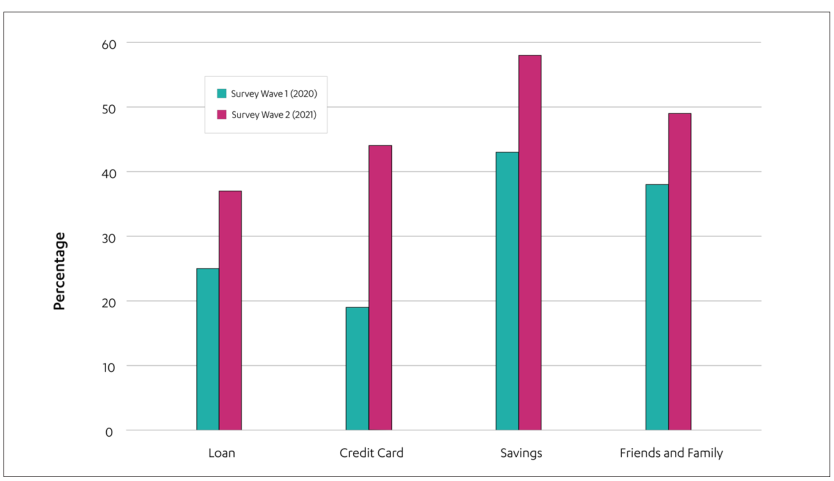

Figure 4.

Share of Households Relying on Alternate Methods to Make Rent

The median amount of rent owed, among tenants who owe something, is $2,800, and our sample of 1,000 renters reports owing over $1.5 million in total. Extrapolated out to the county, this suggests upwards of $3 billion in tenant debt.

into their savings. Perhaps most troubling, nearly 40% report taking out an emergency or payday loan. Moreover, the share of troubled renters grew from 32% of tenants in round 1 to 45% in round 2. So the ranks of distressed tenants expanded, and their distress became more pronounced.

4) Throughout the entire pandemic, almost half of the tenant households we surveyed struggled to pay during the pandemic. As a result, tenant debt is high. In addition to asking detailed questions about three specific months of rent, our 2021 survey asked tenants about their overall experience since the COVID-19 emergency began in March 2020. Specifically, we asked tenants if they had been unable to pay rent, in part or in full, in *any* month since the pandemic began, and how many months of back rent they owed. While there was some discrepancy in how respondents answered these questions, 49% of respondents indicated that they owed their landlord money.[1] Of this group, 20% report owing less than a month's rent to their landlord. About 15%, however, owe six months of back rent or more. The median amount of rent owed, among tenants who owe something, is $2,800, and our sample of 1,000 renters reports owing over $1.5 million in total. Extrapolated out to the county, this suggests upwards of $3 billion in tenant debt. As **Table 1** shows, the rent owed varies across individual households by race and ethnicity, but Black and Asian households who are behind appear to be *further* behind — owing a larger multiple of their monthly rent.

5) Most tenants got some help, primarily from the federal government. About 68% of all respondents received federal aid. About 15% report getting local aid (there is overlap between those groups). About 18% report receiving no assistance, most of whom also report no trouble paying. The federal CARES Act provided many Americans with enhanced unemployment benefits and direct assistance. Stimulus payments to households resumed in December 2020 and late March/April 2021, so our round 2 respondents would have benefited from the former payments, yet probably not the latter.

Figure 5 examines respondents from round 2 who lost employment during the pandemic. We see that two forms of assistance — unemployment benefits and stimulus checks — are associated with a lower likelihood of problems paying rent (paying late, partially, or not at all). Two other forms of assistance — getting rental help from a city or nonprofit — are associated with a *higher* likelihood of rental payment problems. The most likely explanation for this finding is that the latter programs were often aimed at people already

1 The discrepancy appears to arise because a number of respondents did not answer the first question, about whether they had missed a payment, but did answer the second question about months of back rent they owed.

	Total Back Rent Owed	Back Rent for the Median Household	Back Rent as a Percent of Median Monthly Rent
Race/Ethnicity			
White	$482,000	$3,000	120%
Black	$270,000	$3,200	190%
Hispanic/Latino	$510,000	$1,725	100%
Asian	$238,000	$3,200	200%
Household Income			
Less than $50,000	$545,832	$2,000	100%
$50,000 to $100,000	$432,227	$2,800	120%
Above $100,000	$628,179	$3,200	200%

Table 1.

Back Rent Owed by Race/Ethnicity and Household Income

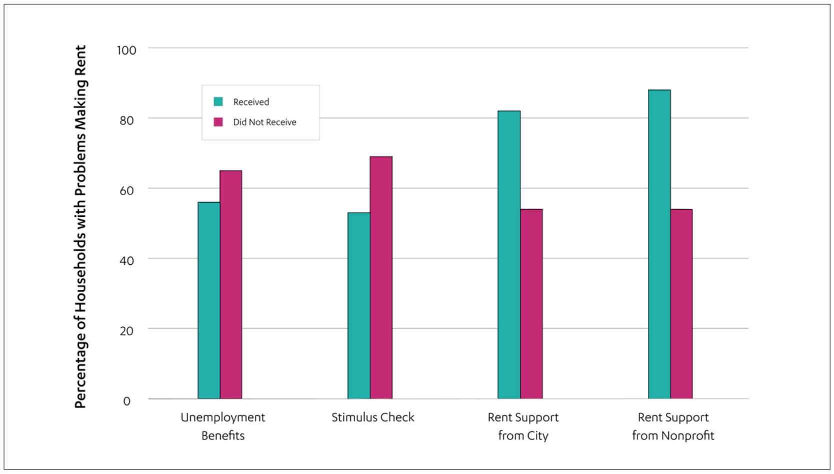

Figure 5.

Renter Distress Among Households who Lost Employment, by Form of Assistance (Second Round of Survey)

behind on rent, or likely to become so, while the former two were distributed without regard to whether people were having trouble paying for housing.

Conclusion and Recommendations

The reopening of California's economy is a huge boost for the state's residents, and its renters are no exception. Many of the problems facing tenants can be traced directly to work or wages lost during the pandemic shutdown, so reopening should bring some needed economic relief. Our research, however, suggests that while most tenants in Los Angeles County weathered the storm, many are emerging from the COVID-19 emergency in a financial hole, and one that they may struggle to climb out of on their own.

What should be done? California has, appropriately, extended its eviction moratorium through September 2021. It has also committed to helping renters pay the back rent they owe, although as of this writing, some details of how it will do so remain vague. The existing rental assistance programs in California, at both the state and city levels, generally require that both landlords and tenants agree to participate. Once both parties have enrolled in the program and confirmed an amount the tenant owes to the landlord, the state (or city) pays the landlord on the tenant's behalf.

From one perspective, designing an assistance program in this way is understandable. The public often worries about fraud in assistance programs, and California elected officials may be particularly attuned to such concerns after rampant fraud disrupted the distribution of unemployment assistance during the pandemic — up to 30% of the unemployment funds that the state paid were fraudulent. By requiring participation from both tenants and landlords, public officials can verify that an actual debt is owed, and prevent landlords or tenants from falsely claiming funds they don't need.

Fraud is bad, and the state should protect taxpayer dollars. At the same time, however, requiring the consent of both tenants and landlords is an approach that has real costs. In cities with rent control (and many of California's renters live in such cities), a landlord might strategically choose not to participate in a relief program, if such participation prevents that landlord from eventually being able to evict a longtime rent-controlled tenant and raise rents dramatically. A still larger problem is that, as our data show, many tenants owe money to people or institutions *other* than their landlords, and they may be in that position precisely because they were deeply concerned about their housing security.

Consider the situation facing people who lost work or income during the pandemic. If they couldn't meet all their expenses, and were unsure of the form rental assistance would take, or how long an eviction moratorium would last, they might rationally choose to prioritize paying their rent. A credit card or emergency loan has high interest rates, but owing money to a credit card company or payday lender will not get your family evicted. Falling behind on rent will. Going into debt to pay rent might make sense.

The current approach to renter assistance fails to help tenants who may well have been the people most concerned, and most proactive, about staying current on rent.

The current approach to renter assistance fails to help these tenants — who may well have been the people most concerned, and most proactive, about staying current on rent. A program where the state or city pays a landlord only helps tenants who owe money to a landlord. Tenants who prioritized paying their landlords, and who as a result went into other forms of (likely higher-interest) debt, are left high and dry.

The commonsense solution to this problem is one that economists usually advocate when people are in financial trouble: just give people money. Distributing money to tenants who are financially distressed would allow them to pay whoever they owe money to, be it a landlord, another creditor, or even a family member. It wouldn't penalize people who sacrificed other priorities to stay current on rent, or people who have truculent landlords who refuse to participate.

Would an approach like this open the door to many more fraudulent claims? Not necessarily. The state could still ask for some evidence that a renter lost a job or income, and/or it could ask for evidence of *any* debt, which anyone with a credit card or payday loan is likely to have.

Lawmakers might still worry, of course, that tenants behind on rent would get cash but not spend it to pay the rent they owe, and use it instead to buy other things. This scenario is most likely if renters believe the eviction moratorium will go on indefinitely, or be made permanent. There is little reason to think renters will assume as much, and results from the first wave of our survey suggest that tenants who get assistance put it toward rent even when moratoria are active. Nevertheless, if the state is concerned that tenants will use the money for expenditures other than rent, it can address that concern by setting a credible sunset date for the eviction moratorium, once renter assistance has started to flow (it will be very important to first ensure that the assistance is successfully reaching renters, and only then sunset the moratorium).

As a final point, it's worth remembering that the fraud in California's unemployment program was an outlier. The pandemic overwhelmed the state's unemployment assistance program, and a team of professional scam artists, most from outside the U.S., used stolen identities to capitalize on the resulting confusion and illegally claimed billions of dollars while state officials ignored what in retrospect were large warning signs. All these circumstances were highly unusual, and we should hesitate to make projections about renter assistance based on them.

A better benchmark for potential fraud in a renter assistance program comes from what we know about fraud in other redistribution programs. The federal General Accounting Office estimates that U.S. social service programs have a roughly 5% rate of "improper payment" — people getting money they shouldn't. Most improper payment, moreover, isn't fraud. A lot of it is the result of administrative error. The rate of actual fraud is thus well below 5%.

All else equal, of course, the optimal level of improper payment is zero. But all else isn't equal. Erring strongly on the side of stringency risks depriving assistance to some people who desperately need it. California officials need to weigh the costs of a small number of unscrupulous people getting some money they shouldn't, against the costs of a large number of people suffering in debt, or being evicted, as a result of circumstances beyond their control. Since eviction and housing precarity end up costing the public sector substantially more money downstream (in court costs, shelter and assistance costs, and so on), to say nothing of the human misery they entail, the state may want to tolerate some improper payment to make sure people who need help get it.

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