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Risk Management Strategies for Sustainable Rental Real Estate Profitability

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Walden University
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Abstract

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MBA, University of Washington, 2013

BA, University of Washington, 2005

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

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Abstract

Some rental property owners lack risk management strategies that enable them to budget for sustainable profitability. This study provides rental property owners with risk management strategies for sustainable profitability to maintain business stability during market volatility and create stable, well-maintained housing for tenants. A mini ethnographic case study was conducted to determine the key risk management budgeting strategies rental property owners in the greater Seattle area have used to achieve sustainable profitability for at least 10 years. Enterprise risk management was applied to assess the role risk played in small rental property businesses and budgeting for sustainable profitability. Participant observation, interviews, and document review were conducted with rental property owners who had achieved sustainable profitability for at least 10 years. Data analysis software was leveraged to code the data and identify 4 key risk management budgeting strategies that contributed to sustainable profitability. The rental property owners included these 4 risk management budgeting strategies into their business: incorporating risk identification, response, and monitoring into firm strategy; cultivating a risk management network that effectively enabled them to mitigate risk; risk response to industry regulations; and creating a positive social change impact. Building on the results, 4 models of risk management budgeting were created for rental property owners searching for strategies to achieve sustainable profitability. The rental property owners in the study applied these 4 risk management budgeting strategies to achieve sustainable profitability and contribute to positive social change such as improving the well-being of tenants and communities.

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Dedication

I have two dedications to make, one to rental property owners and one to my family. In the last few years and especially the last few months, I have had the honor and privilege to meet many rental property owners. I have watched and listened to their stories. So many have sacrificed greatly for decades and painstakingly pulled their family out of poverty to achieve quiet success. However, they have not hoarded their success, but repeatedly shared it generously and silently with their communities. My peers: you had a long, arduous road but you made it. The American Dream is not dead, but alive in those who seize opportunity, work hard, and share generously. You represent the best of what this country can be. To you, I dedicate this study.

My parents are Drs. Gene and Patricia Fusch, who also pulled their family out of poverty through decades of incredible sacrifice and focus. They put food on my plate even when there was none on their own.   There are no Nobel prizes or medals of honor for them. There is only me. Mom and Dad: I stand in living testament to the power of parents' love for their child. No one agreed with you and no one helped you. You had no examples or mentors to follow. Yet you did not accept the status quo, you shattered it. For that and so much else, I thank you and dedicate this study to you.

To my husband, Dan: thank you for sharing in my dreams and vision for what the future can hold. Thank you for trusting me in the impossible. Thank you for teaching me how to live fully and be happy in the present. I love you and dedicate this study to you.

Acknowledgments

I deeply thank the participants of this study. You each deserve great recognition for your sacrifices and inner strength. In a hostile legislative market, you have kept your business honest and cared for your tenants despite the stereotypes and allegations waged against you as a group. I applaud your silent integrity and pursuit of a greater future for your family and communities.

I thank Walden University for their resources and faculty who were effective at training me to conduct high-level research. I thank the landlord organizations that were instrumental in enabling me to complete my fieldwork with access to their membership. I greatly appreciate their insight into how imperative this study is to the rental industry.

I infinitely thank my chair Dr. Janie Hall and committee member Dr. Janet Booker for their countless hours of critical review. They both have made me a better writer, researcher, and balanced individual. In my 19 years in academia, I have not encountered a better, more supportive mentor than Dr. Hall. Her critical eye, steadfast integrity, and out of the box thinking are an asset to every researcher.

Finally, I thank my best friend Dr. Lesley Moerschel for being my constant sounding board. I have several to thank for supporting me in many ways: (a) my running partner and friend Dr. April Hobbs; (b) my rowing crews; (c) my Flynn family, including Kevin, Sue, and Virginia; and especially (d) my Williams family, including Tim and Pat, for their enduring love and support. I thank my parents for teaching me focus, drive, and discontentment with the mediocre. I thank my husband for his daily moral reinforcement. A woman could not have better artillery support. I love you, Captain.

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Section 1: Foundation of the Study

In this study, I used enterprise risk management (ERM) to explore the risk management strategies some rental property owners use to budget for sustainable profitability. In Section 1, I introduce my research method as qualitative and research design as a mini ethnographic case study. I also list my research question. In addition to a discussion of the assumptions, limitations, and delimitations of this study, I provide an exhaustive and comprehensive analysis of the literature pertaining to my conceptual framework and study phenomenon.

Background of the Problem

Strategies for budgeting can contribute to real estate business practice. Budgeting strategies for sustainable profit can provide the rental owner with (a) the ability to mitigate market risks and seize opportunities, (b) well-maintained assets, and (c) sustainable revenue (Easthope, 2014; Fields & Uffer, 2014; Seemann, Renner, Drevs, & Dietrich, 2014). Scholars in America, Australia, and Europe have struggled to find a solution for rental owners to achieve sustainable profit without rapidly raising rents (Easthope, 2014; Fields & Uffer, 2014; Seemann et al., 2014). Raising rents has seemed the solution to offsetting costs, but it hinders sustainable profit through tenant turnover, gentrification, and legislation (Easthope, 2014; Fields & Uffer, 2014; Seemann et al., 2014). Rental owners need strategies for risk management budgeting to achieve sustainable profit.

In the greater Seattle area, rental owners have raised rents by 29% from 2011 to 2016 (City of Seattle, 2016). However, the City of Seattle Office of Housing (2018) reported 42% of the 13,643 rental units they surveyed were not creating enough revenue to cover costs. In this study, I used ERM as a conceptual framework to identify potential risks and solutions to operational challenges (see Bromiley, McShane, Nair, & Rustambekov, 2015) in the real estate industry. Enterprise risk management is a conceptual framework for managing uncertainty and the associated risks and opportunities to enhance firm value (Callahan & Soileau, 2017). Scholars have attempted to use ERM to produce strategies for business success (Bromiley et al., 2015; Callahan & Soileau, 2017; Gatzert & Martin, 2015). However, researchers on enterprise risk management have failed to address the specific business problem that some rental property owners lack strategies to budget for sustainable profit.

Problem Statement

Rental property owners are exploring ways to create a rental budget that leads to sustainable profit (Easthope, 2014; Fields & Uffer, 2014). The City of Seattle Office of Housing (2018) conducted a study of 13,643 rental units in their affordable housing program and found approximately 42% of the properties were not generating enough revenue to offset debt and operating costs while 25% did not have reserve funds to afford projected capital needs. However, average Seattle rents have increased by 29% from 2011 to 2016 (City of Seattle Office of Housing, 2018). The increase in rents and costs underscores the cost conflict over affordable housing among government, businesses, and tenants (Arias, Anderson, & Block, 2016; Palmer & Childs, 2014). The general business problem is rental property owners are failing to budget for sustainable profit. The specific business problem is some rental property owners lack risk management strategies that enable them to budget for achieving sustainable profitability.

Purpose Statement

The purpose of this qualitative, mini ethnographic case study was to explore the risk management strategies that enable rental property owners to budget for sustainable profitability. The targeted population consisted of 22 rental property owners in the greater Seattle area who have successfully used risk management strategies to budget for sustainable profitability. The implication for positive social change includes the potential for rental property owners to identify profitable opportunities that consider tenant and community well-being, such as capital improvements and housing maintenance. Moreover, property owners with risk management strategies and sustainable profit can maintain business stability during market fluctuations and provide tenants and the local community with stable, well-maintained housing (Easthope, 2014; Lind, 2015).

Nature of the Study

I derived the qualitative methodology of this study from the interpretivist and critical realist worldviews. Researchers use qualitative studies to define and interpret ambiguous situations nonnumerically (Yin, 2018). Mixed method and quantitative studies were not appropriate because quantitative and mixed method researchers study correlation or causation among variables (Evans & Porter, 2015). I was interested in exploring the perceptions and experiences that influence property owners’ decisions to use risk management processes to create sustainable budgeting strategies in their cultural context. I focused on the *what*, *how*, and *why* of risk management and strategic decisions for budgeting. Researchers use the qualitative method to explore meaning, insight, and discovery of new business opportunities or management decisions (Yin, 2018). Therefore, quantitative or mixed methods were not appropriate for this study.

The research design for this study was a mini ethnographic case study. Fusch, Fusch, and Ness (2017) argued a mini ethnographic case study is a beneficial design when the researcher is exploring human behavior and activity in a narrow area of inquiry. Phenomenology was not appropriate because it does not involve the deep immersion of the researcher into the lived experiences and subtle nuances reflected in social settings (Fusch, 2013; Fusch & Ness, 2017; McCurdy & Uldam, 2014). Thematic analysis was also not appropriate because thematic researchers record codes from spoken or written data and cannot capture meaning from experiences and nuances reflected in the social context (Ingold, 2014; Jarzabkowski, Bednarek, & Lê, 2014; McCurdy & Uldam, 2014). Scholars have successfully designed their business research with mini ethnographic case studies (Moore, 2011; Storesund & McMurray, 2009; Thompson, 2016). A mini ethnographic case study of rental property owners was an appropriate research design to explore risk management strategies that enable rental property owners to budget for achieving sustainable profitability.

Research Question

What risk management strategies do rental property owners use to budget for sustainable profitability?

Interview Questions

1. What strategies and processes have you used to budget for sustainable profitability?
2. How do you align your risk appetite with your business strategy?
3. How do you incorporate risks and opportunities into your budget?
4. What strategies contributed to unprofitable properties or time periods?
5. How does your budget reflect your business goals for sustainable profitability?
6. What other information could you add that might be applicable to the risk management processes and strategies rental property owners use to budget for sustainable profitability?

Conceptual Framework

The Committee of Sponsoring Organizations (COSO, 2017) coined ERM as a framework for business leaders to identify and leverage potential risks to achieving their business objectives. Business leaders apply ERM to aid in achieving their goals while managing uncertainty (COSO, 2017). Moreover, ERM is a conceptual and strategic process for management to use to identify potential positive or negative events that could affect the firm objectives and determine appropriate action based on management's risk appetite (Bogodistov & Wohlgemuth, 2017; Bromiley et al., 2015; Brustbauer, 2016; Callahan & Soileau, 2017; Cohen, Krishnamoorthy, & Wright, 2017; COSO, 2017; Eckles, Hoyt, & Miller, 2014; Fraser & Simkins, 2016). The key features of ERM include (a) align risk appetite and strategy, (b) enhance risk response decisions to operational surprises and losses, (c) identify and manage multiple and cross-enterprise risks, (d) seize opportunities, and (e) improve deployment of capital (Bogodistov & Wohlgemuth, 2017; Bromiley et al., 2015; Brustbauer, 2016; Callahan & Soileau, 2017; COSO, 2017; Fraser & Simkins, 2016; Gatzert & Martin, 2015). I used the ERM framework as an effective guiding lens for this study to understand the strategies and processes rental property owners use to budget for sustainable profitability in the rental real estate industry.

Operational Definitions

Enterprise risk management (ERM): ERM is a conceptual and strategic process for management to use to identify potential positive or negative events that could impact the firm objectives and determine appropriate action based on management's risk appetite (Callahan & Soileau, 2017; COSO, 2017; Fraser & Simkins, 2016; Hayne & Free, 2014).

Landlord and rental property owner: Throughout the fieldwork for my study, rental property owners often referred to themselves as landlords. In the rental real estate industry, academics and practitioners often refer to landlords to indicate (a) rental property owners who actively manage their own properties, (b) rental property owners who hire a property manager, and (c) property managers who do not own the property but are working for the property owner (Easthope, 2014; Fields & Uffer, 2014; Seemann et al., 2014). In this study, I use the term rental property owners to specifically focus on the population who own rental property. For the purposes of this study, the term landlord is interchangeable with rental property owners when study participants refer to the term in my field notes. The terms landlord or rental property owners are not synonymous with the short term stay industry, such as AirBnB and Vrbo. While the information in this study may be relevant to a short term stay host, the business structure, regulations, and operational models are different from rental property owners.

Participant observation: Participant observation is a fieldwork technique requiring researchers to participate in the lived experiences of the study population (Ingold, 2014; Jarzabkowski et al., 2014; McCurdy, & Uldam, 2014). Participant observation is fluid, continuous, and evolving (Ingold, 2014). Moreover, participant observation requires participating in the social context (Ingold, 2014; Jarzabkowski et al., 2014; McCurdy, & Uldam, 2014).

Sustainable profitability: I defined the term sustainable in this study as a long term, stable situation of at least 10 years. I did not use this term to refer to an environmental or social change position. However, I integrated several sources (Olson & Wu, 2017b; Olson & Wu, 2017c; Soomro & Lai, 2017; Wu & Olson, 2015) into this study that use the term sustainability with an environmental and social focus. I specified this focus when highlighting these sources. I defined profitability as positive business income after revenue minus expenses. Moreover, the income was an amount that can sustain the rental property business operations through the next financial cycle.

Assumptions, Limitations, and Delimitations

Ethnographic research involves significant assumptions, limitations, and delimitations where researchers risk excluding evidence that may lead to different results (Field-Springer & Stephens, 2017; Grant, 2014; Newsome, 2014; Wolgemuth, Hicks, & Agosto, 2017). Scholars have agreed that identifying and minimizing research assumptions, limitations, and delimitations are a critical component to rigorous research (Connelly, 2013; Fusch et al., 2017; Grant, 2014; Newsome, 2014).

Assumptions

Researchers rely on assumptions to conduct research, but assumptions are facts without verification that can hinder effective research (Grant, 2014). Scholars have agreed that observing lived experiences is an effective tool for understanding a phenomenon (Field-Springer & Stephens, 2017; Grant, 2014; Owton & Allen-Collinson, 2014). However, Grant (2014) addressed the meta-assumption of trusting in lived experiences as reality. An additional problem is the empathetic voice of the observer-participant researcher who is adding narrative and meaning based on observations (Grant, 2014). However, Grant (2014) argued the benefits of exploring the phenomena mitigate the risk. Additionally, ethnographic researchers assume the rapport and trust they build with study participants can result in deeper insight and exploration of the phenomena (Field-Springer & Stephens, 2017; Grant, 2014; Owton & Allen-Collinson, 2014). In this study, I assumed the target population for data collection, including rental property owners, were providing their honest perspective as they viewed their situation at the time. The benefit of a mini ethnography is to gain the insider's perspective (Fusch et al., 2017). However, the feelings or misgivings of the insider may not reflect reality (Grant, 2014). To ensure triangulation and research quality, I achieved data saturation through participant observation of multiple rental property owners. Moreover, holistic results from participant narratives and lived experiences can mitigate assumption risk (Grant, 2014).

Limitations

Connelly (2013) defined research limitations as weaknesses specific to the study problem and methodology. Limitations effect the internal validity of the study, including the rigor and reliability (Connelly, 2013). The limitations of the study also impact the external validity, including the generalizability of the results (Connelly, 2013). According to Connelly, authors should (a) acknowledge the limitations of their study, (b) identify the importance of the limitations and how the researcher minimized them, and (c) offer suggestions for overcoming the limitations for future research. It is important to note that the researcher can control or minimize some limitations, but only acknowledge others (Connelly, 2013). For example, Connelly listed several research limitations, including lack of available data lowering the significance of the results and researcher biases influencing study results. In my research, the limitations I encountered were time constraints, availability of data, and researcher biases. While acknowledgment of limitations is critical (Connelly, 2013), other scholars advocated the inclusion of additional data collection techniques to reduce study limitations (Fusch et al., 2017).

Delimitations

Research designs must have a scope because of limited time and resources to conduct the research (Fusch et al., 2017; Newsome, 2014). Scholars have argued that identifying and explaining research delimitations are critical components of rigorous research (Fusch et al., 2017; Newsome, 2014). Defining scope is essential when blending research designs and techniques (Fusch et al., 2017) and developing strategies to achieve substantive data within time thresholds (Newsome, 2014). The scope of my research was the lived experiences and perceptions of 20 rental property owners in the greater Seattle area who have successfully used risk management strategies to budget for sustainable profitability. I selected this geographic area because of the cost conflict over budgeting and rent prices between rental owners, tenants, and local legislation (Arias et al., 2016). Therefore, property owners outside the greater Seattle area were not within the scope. Additionally, property owners without a 10-year track record of successfully using risk management strategies to budget for sustainable profitability were also outside my scope.

Significance of the Study

The significance of this study is the findings could provide strategies for budgeting that can contribute to both real estate business practice and positive social change. Budgeting strategies for sustainable profit can provide (a) rental property owners with the ability to mitigate market risks and seize opportunities, (b) well-maintained homes for tenants, and (c) sustainable communities (Arnott & Shevyakhova, 2014; Autor, Palmer, & Pathak, 2014; Easthope, 2014; Fields & Uffer, 2014; Palmer & Childs, 2014; Seemann et al., 2014).

Contribution to Business Practice

Scholars in America, Australia, Germany, Sweden, and the United Kingdom have struggled with defining a solution for rental property owners to achieve sustainable profitability without rapidly raising rents (Canas, Ferreira, & Meidutè-Kavaliauskienè, 2015; Easthope, 2014; Fields & Uffer, 2014; Newell, Lee, & Kupke, 2015; Seemann et al., 2014). Rental property owners have raised rents as a solution to offset costs, but these owners have hindered sustainable profit through tenant turnover, gentrification, and local legislation (Easthope, 2014; Fields & Uffer, 2014; Newell et al., 2015; Seemann et al., 2014). Rental property owners must have risk management strategies for budgeting to achieve a sustainable profit (Arias et al., 2016; Lind, 2015).

Implications for Social Change

The topic of strategies for rental real estate budgeting goes beyond the workplace and into the very homes of the American people. Real estate investing addresses government regulations, capitalism, financial responsibility, social welfare, and human compassion (Arias et al., 2016; Easthope, 2014; Lind, 2015). Strategies for budgeting for sustainable profitability are critical for rental property owners to achieve positive social change. Rental property owners raise rents quickly and dramatically when encountering increased costs (Arias et al., 2016; Lind, 2015). However, rapidly rising rents draw the attention of local legislators over affordable housing (Arias et al., 2016; Lind, 2015). Communities can become torn by gentrification through either rent control legislation or unpredictable rent increases (Arias et al., 2016; Lind, 2015). The well-being of poor communities also declines when rental property owners finance rental repairs through rent raises or leave units in disrepair when the rental property owner cannot afford to maintain them (Arias et al., 2016; Lind, 2015). Rental property owners with strategies for sustainable profit can create sustainable community housing (Easthope, 2014; Lind, 2015).

Review of the Professional and Academic Literature

The purpose of this qualitative, mini ethnographic case study was to explore the risk management strategies that enable rental property owners to budget for sustainable profitability. Business leaders often lack risk management strategies to create sustainable profitability (Olson & Wu, 2015; Olson & Wu, 2017a). In this review of the literature, I outline the research on ERM and define how rental property owners may use the framework effectively in the rental real estate industry.

Enterprise risk management is a customizable framework for business owners to manage market uncertainty (Callahan & Soileau, 2017; Chappell, 2014; COSO, 2017; Fraser & Simkins, 2016; Hayne & Free, 2014). Enterprise risk management emerged in the mid-1990s (Musyoki & Komo, 2017) and became a framework business leaders could leverage to redefine and combine risk into the firm strategy for capturing value (Callahan & Soileau, 2017; Chappell, 2014; COSO, 2017; Fraser & Simkins, 2016; Hayne & Free, 2014). Moreover, business leaders can also customize ERM to make a positive social impact (Olson & Wu, 2017b; 2017c). Scholars have noted the benefits of ERM as a dynamic process for managing uncertainty (Bogodistov & Wohlgemuth, 2017; Dickinson, 2001). In a volatile market, a firm can have limited influence over the external political, economic, cultural, technological, environmental, and legal factors that could affect the business (Dickinson, 2001). A firm effectively using ERM is more resilient and adaptable to significant market changes (Bogodistov & Wohlgemuth, 2017; Dickinson, 2001). Another advantage of ERM is that it is highly customizable to the operational market and objectives of the firm (Choi, Ye, Zhao, & Luo, 2016). The key to ERM success is for firm leadership to align the risk policy with their risk appetite and integrate this alignment into its overall strategy (Dickinson, 2001).

Scholars have found ERM present and effective in small businesses and multiple industries (Brustbauer, 2016; Angeline & Teng, 2016; Lai & Shad, 2017). My specific business problem is some rental property owners lack risk management strategies that enable owners to budget for sustainable profitability. Researchers have argued the issue of rent control in Seattle has highlighted the uncertain regulatory environment rental property owners must navigate (Arias et al., 2016). Business models that consider stakeholder involvement and risk management are beneficial for small business owners seeking sustainable profitability (Angeline & Teng, 2016; Lai & Shad, 2017). In an uncertain regulatory environment, rental property owners can use the ERM framework to budget for sustainable profitability.

Review Organization Rationale

I have organized this review to employ a funnel approach with ERM. After discussing my research collection strategy, I start with an introduction to ERM with the main argument for why this conceptual framework aligns with my specific business problem. I give a background of the literature on ERM as it pertained to my research and differentiate the framework from similar approaches. In the second part of this review I consider the literature on integrating the ERM framework into firm strategy for (a) firm leadership to seize profit opportunities and mitigate risk, (b) moral responsibility and the triple bottom line, and (c) small businesses to adapt to changing regulatory landscapes. In my third subsection, I address how researchers have observed the application of ERM to small businesses. Finally, I narrow the discussion to the rental real estate industry and small business rental property owners. In my final subsection, I align ERM to my research objective and address the emerging issue of applying ERM to greater Seattle area rental property owners.

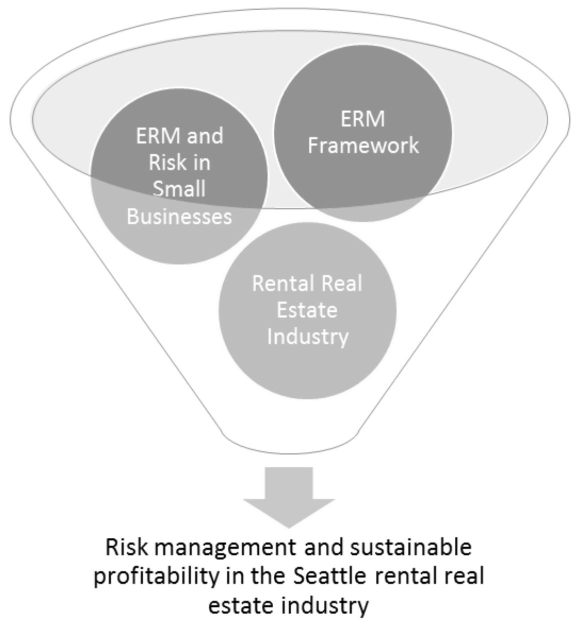

Figure 1. Literature review organization for risk management and sustainable profitability in the Seattle rental real estate industry.

Strategy for Searching the Literature

I applied a multilayered process over 3 years to find and evaluate the literature for my study. The first layer consisted of accessible peer-reviewed articles on *ERM*, the *rental real estate industry*, *rental property*, and *Seattle rent* through online databases. These databases included Business Source Complete, EBSCOhost, Google Scholar, ProQuest, and SAGE Journals. My search included articles and studies from national and international journals. In my second layer, I scanned and pursued additional sources through the literature reviews and bibliographies in the articles. I was also able to collect additional articles through mandatory reading and peer bibliographies during the coursework for my DBA program. In my third layer, I collected information and sources particularly on the greater Seattle area rental real estate industry from local newspapers and rental property owner organizations. I did not complete the multiple layers of this process consecutively but as a part of a continuous loop of my investigation.

Moreover, I determined my saturation point to be when (a) I had already explored the articles listed in the literary reviews and bibliographies of my sources, (b) I had great difficulty finding sources within my 5 year target range (2014-2019) relating directly to my topic, and (c) new articles echoed the insight and results I had already found. I used a total of 144 sources for this literature review. Approximately 85% of the total sources were peer-reviewed articles, and 92% of the sources were published within the 5-year range of 2014 to 2019 (see Table 1).

Table 1

Literature Review Source Content

Literature Review Content	*Number of sources*	*Percent of total sources*
Peer-Reviewed Articles	130	85%
Seminal Works	14	9%
Newspaper & Online Articles	9	6%
Total	153	100%
Number of sources older than 2014	11	7%
Number of sources in the 5 year range (2014-2019)	142	93%

Background on Enterprise Risk Management in the Literature

Scholars have argued that risk exists, is a critical component of the business world, and business leaders need to adopt risk management strategies (Wu, 2016). Scholars observed that the combination of (a) stakeholders' aversion to uncertainty, (b) increased globalization and competition, (c) marketplace volatility, and (d) compliance mandates like the Sarbanes-Oxley Act of 2002 have encouraged firms to seek out a new strategic management approach (Arnold, Benford, Canada, & Sutton, 2015; Musyoki & Komo, 2017). Rating agencies such as Standard & Poor have announced their increased focus on ERM in the rating process (Hoyt & Liebenberg, 2015). Zeghal and El Aoun (2016) explained the rapid development of sophisticated financial instruments also created a rise of a new spectrum of risks for companies and a need for risk management frameworks.

The leadership of COSO (2017) observed business leaders needed a codified framework that assisted them in managing uncertainty while achieving firm goals. COSO (2017) published a manual that outlined ERM for company leadership to customize risk identification and mediation according to the firm's business objectives. The ERM framework is a strategic process for leadership to use to ascertain possible positive or negative situations that could impact the business objectives and identify appropriate action based on the leadership's risk appetite (Callahan & Soileau, 2017; Chappell, 2014; COSO, 2017; Fraser & Simkins, 2016; Hayne & Free, 2014; Viscelli, Beasley, & Hermanson, 2016). The goal of COSO was for business leaders to use ERM to improve the likelihood that the business will complete its objectives (COSO, 2017; Viscelli et al., 2016). The major components of ERM enable management to (a) align risk appetite and strategy, (b) improve risk responses to operational surprises and losses, (c) detect and manage multiple and cross-enterprise risks, (d) capitalize on opportunities, and (e) enhance deployment of capital (Callahan & Soileau, 2017; Chappell, 2014;

COSO, 2017; Fraser & Simkins, 2016; Hayne & Free, 2014; Viscelli et al., 2016). However, COSO (2017) provided guiding principles for ERM rather than firm specifics.

There is some debate in academic scholarship on whether business leaders are finding measurable results using ERM. Scholars have criticized COSO's ERM framework for mixed results and vague direction in implementation (Gatzert & Martin, 2015; Marc, Sprčić, & Žagar, 2018; Musyoki & Komo, 2017; Schiller & Prpich, 2014; Zhao, Hwang, & Low, 2014). However, according to Callahan and Soileau (2017), individual firms need to incorporate ERM into company strategy based on the unique risks of their market. Mikes and Kaplan (2015) argued for the importance of specifically identifying the different types of risk which firm leadership may encounter. Scholars seem to agree ERM has been highly customizable based on the market and needs of the firm (Choi et al., 2016; Sprčić, Kožul, & Pecina, 2017).

Initial observations of enterprise risk management: Firm structure and risk analysis. Scholars observed how business leaders have added value, market resilience, and sustainable profitability to the firm through ERM integration (Callahan & Soileau, 2017; Dickinson, 2001; Hoyt & Liebenberg, 2015; Kline & Hutchins, 2017; Mensah & Gottwald, 2016; Nocco & Stulz, 2006). In addition to risk reduction (Al-Amri, & Davydov, 2016), researchers have observed the use of ERM in firms to produce strategies for generating value and business success (Ben-Amar, Boujenoui, & Zéghal, 2014; Bromiley et al., 2015; Callahan & Soileau, 2017; Cohen et al., 2017; Eckles et al., 2014; Gatzert & Martin, 2015; Grace, Leverty, Phillips, & Shimpi, 2015; Hoyt & Liebenberg, 2015). For example, Nocco and Stulz (2006) contributed to COSO's (2017) framework by advocating ERM adds value to a business through a decision-making system for optimizing risk. Nocco and Stulz (2006) argued a company should not pursue a profit opportunity without examining the associated risks, thus making risk optimization strategies a critical part of creating firm value.

The scholars (Nocco & Stulz, 2006) observed and examined the use of ERM in the real estate insurance industry and suggested two key practices to optimizing risk. Primarily, a firm must monitor risk (Bryant et al., 2014; Nocco & Stulz, 2006; Olson & Wu, 2015). Risk monitoring includes the identification, classification, and ongoing supervising of risk events. The type of risk can fluctuate, including market, credit, operational, strategic, and reputational risks (Bryant et al., 2014; Nocco & Stulz, 2006). For instance, risk may accompany major strategic or operational expansions (Mensah & Gottwald, 2016; Nocco & Stulz, 2006). Therefore, organizational leadership should monitor and analyze risk to ensure its value is still within their risk appetite (Nocco & Stulz, 2006).

The second major practice Nocco and Stulz (2006) recommended was not to rely on rating reporting agencies but for a firm to develop an economics-based analysis to identify risks that maximize value. Firms should manage risk from an economic value perspective rather than accounting-based decisions (Nocco & Stulz, 2006). Enterprise risk management does not remove risk, but organizational leaders who learn to understand and manage risk gain firm value and sustainable profitability (Dickinson, 2001; Mensah & Gottwald, 2016; Nocco & Stulz, 2006).

Researchers have also observed the use of ERM in firms to generate market resilience, adaptability, and sustainable profitability. Bogodistov and Wohlgemuth (2017) and Dickinson (2001) observed a firm was more resilient and able to adapt to major environmental changes by using ERM to target appropriate risks. In a volatile environment, a firm can have limited control over the external political, economic, cultural, technological, environmental, and legal factors that could impact the business (Dickinson, 2001; Lukianchuk, 2015; Mensah & Gottwald, 2016). Moreover, researchers highlight the importance of retaining competitive advantage and protecting the attributes of the firm that ensure its survival and market success (Anju & Uma, 2017; Bogodistov & Wohlgemuth, 2017).

For example, Bogodistov and Wohlgemuth (2017) contributed to ERM research by providing strategic and operational tactics for managing risk uncertainty, specifically which risks businesses should focus on and how to mitigate them. Bogodistov and Wohlgemuth (2017) introduced a resource-based view and dynamic capability perspective to ERM utilization. The resource-based view is a framework to help set priorities in risk management, for businesses must choose from an unlimited number of risks on which to focus (Bogodistov & Wohlgemuth, 2017). Fraser and Simkins (2016) identified several challenges that lead to ineffective results using ERM including selecting too many risks and not using timeframes. According to Bogodistov and Wohlgemuth, the resources in a business that are valuable, rare, inimitable, and nonsubstitutable help the firm achieve competitive advantage. Therefore, the business should prioritize and focus on risks that impact these resources and thereby further the survival of the business (Bogodistov & Wohlgemuth, 2017; Shad & Lai, 2015).

For effective risk management, firms need to develop capabilities to avoid, mitigate, transfer, or accept risks that impact the firm's survival (Bogodistov & Wohlgemuth, 2017; Nair, Rustambekov, McShane, & Fainshmidt, 2014). Business leaders using dynamic capability with ERM can focus on the tools businesses need to prepare or recover from unforeseen events that are a low probability but high impact (Bogodistov & Wohlgemuth, 2017; Nair et al., 2014). Therefore, ERM is one technique to managing uncertainty while completing the firm's objectives (Chappell, 2014; Mohd-Sanusi, Motjaba-Nia, Roosle, Sari, & Harjitok, 2017). However, business leaders must redefine, reorganize, and reintegrate risk into the firm's market strategy to obtain the benefits of ERM (Simona-Iulia, 2014).

Alternative Frameworks and Approaches to Risk Management

Scholars have found the use of mature risk management systems prepare a company for ethical behavior and increase firm value (Callahan & Soileau, 2017; Kline & Hutchins, 2017). Hayne and Free (2014) identified ERM as one of the largest organizational shifts of the post-2000 era. Choi et al. (2016) analyzed the plethora of scholarship on ERM and observed a significant boost in scholarly publications on ERM post-2010, which coincides with increased oversight and regulations on risk management. In addition to market risk and volatility, firm leadership must navigate the increasingly complex regulatory environment from government legislation, globalization, technological innovation, and economic shifts (Jiang, Aldewereld, Dignum, Wang, & Baida, 2015).

As pressure from regulators increases in the post-2000 era, businesses must not only adopt but cultivate mature compliance measures (Anju & Uma, 2017; Jiang et al., 2015; Kline & Hutchins, 2017; Viscelli et al., 2016). In their research, Hayne & Free (2014) and Mohd-Sanusi et al. (2017) identified the COSO ERM framework as the version managers and researchers predominantly recognized and applied. Hayne and Free (2014) labeled COSO as a disruptor, creator, and builder. The ERM framework filled the gap left by internal control systems failures and became integral to firm creation and preservation of value (Hayne & Free, 2014).

However, several scholars have proposed alternative compliance and risk management frameworks. Usnick, Usnick, Usnick, and Usnick (2014) suggested compliance scoping with an explanation of the various components, but they limited their application to government agencies. Hedley and Girgenti (2016) presented a comprehensive risk and compliance management framework. The scholars emphasized the importance of top management leadership, an effective compliance department and committee, due diligence, risk assessment, and dissemination of expectations throughout organizational employees (Hedley & Girgenti, 2016). Hedley and Girgenti coined their system as the governance, risk, and compliance (GRC) framework as well as identified three major lines of defense. The first line of defense involved key personnel from management to compliance officers (a) identifying risk, (b) implementing systems, and (c) building an organizational culture of integrity (Hedley & Girgenti, 2016). The second line of defense is the design, implementation, and control of compliance risks (Hedley & Girgenti, 2016). The third line of defense is the internal audit function to test and assess the effectiveness of systems to manage risk (Hedley & Girgenti, 2016). While a separate framework, Hedley and Girgenti built GRC from the components and gaps in other risk management frameworks.

Post-2000 regulation era businesses need a compliance and risk framework that scholars have empirically tested to be adjustable to a wide variety of industries and firm sizes (Choi et al., 2016). While detailed and comprehensive, Hedley and Girgenti's GRC framework is not thoroughly tested or observed in the scholarly literature. Scholars have addressed the GRC framework in the information technology industry but not as extensively in other industries (Nicho, Khan, & Rahman, 2017; Papazafeiropoulou & Spanaki, 2016; Spanaki & Papazafeiropoulou, 2016; Vunk, Mayer, & Matulevičius, 2017). Moreover, scholars have not applied the GRC framework to entrepreneurships and small businesses which also need compliance and risk frameworks.

While coined after ERM, the International Organization for Standardization (ISO) developed the ISO 31000:2009 framework to accompany existing risk management systems in firms (Olechowski, Oehmen, Seering, & Ben-Daya, 2016). Similar to ERM, the ISO 31000:2009 involves the integration of risk throughout the organization (de Oliveira, Marins, Rocha, & Salomon, 2017; Ibáñez, Bernal, de Diego, & Sánchez, 2016; Olechowski et al., 2016). Fraser and Simkins (2016) recommended integrating the ISO 31000:2009 framework with ERM because of the focus of both approaches on holistic management of uncertainty and redefining risk to include positive as well as negative outcomes. Several scholars have observed the successful combination of the ISO 31000:2009 philosophy with industry and business-specific techniques to manage risk (de Oliveira et al., 2017; Ibáñez et al., 2016). However, scholars have critiqued the ISO 31000:2009 framework for the vague application, absence of a mathematical base, and lack of measurable effectiveness (Olechowski et al., 2016). According to Olechowski et al. (2016), the ISO 31000:2009 framework is preferable to a single rigid standard for risk management. In contrast to ERM, the ISO 31000:2009 framework does not emphasize alignment of risk into firm strategy and is limited on how to manage complex risks (Haywood, Forsyth, de Lange, & Trotter, 2017).

Simona-Iulia argued ERM is a holistic approach to risk management, requiring a redefinition, reorganization, and reintegration of risk into firm strategy. Simona-Iulia (2014) contrasted traditional and ERM, identifying key differences in risk category, organization of risk, and risk strategy. Business leaders must manage complex, volatile, and uncertain risks in a global marketplace (Dickinson, 2001; Lukianchuk, 2015; Mensah & Gottwald, 2016; Simona-Iulia, 2014). However, Zungu, Sibanda, & Rajaram (2018) conducted a quantitative study finding business leaders using ERM are more effective and efficient at managing risks than when using traditional risk management. Simona-Iulia (2014) also offered a persuasive case for ERM as an integrative, thorough, and strategic framework for turning risks into opportunities.

Traditional versus enterprise: Redefining risk as an opportunity for profit. Ogutu, Bennett, and Olawoyin (2018) argued traditional risk management is about maximizing resources to eliminate risk whereas ERM involves accepting and monitoring risk to achieve profitability. In contrast to traditional definitions of risk, not all risk is negative but can be redefined as uncertainty (Ogutu et al., 2018; Wu, Olson, & Luo, 2014). Uncertainty can create opportunities to make a profit (Annamalah, Raman, Marthandan, & Logeswaran, 2018; Wu et al., 2014). In traditional risk management, business leaders viewed risk as the potential negative influences on the firm whether market, credit, or accidental (Annamalah et al., 2018; Simona-Iulia, 2014). In ERM, business leaders view risk as an opportunity to capture value and can include strategic, operational, financial, and accidental influences (Annamalah et al., 2018; Simona-Iulia, 2014; Sprčić et al., 2017). In traditional risk management, the procedural processes focus on the downside of risk, compliance, and prevention (Arnold et al., 2015). As a firm adopts ERM, the risk management process focuses on upside risks, and there is a strategic concentration on the opportunity side of risk identification and response (Arnold et al., 2015; Ogutu et al., 2018).

Traditional versus enterprise: Reorganizing and centralizing risk in the firm. Traditional risk management and ERM also differ in the centralization of risk within the organization (Gatzert & Martin, 2015; Ogutu et al., 2018; Simona-Iulia, 2014; Viscelli et al., 2016). Traditional risk management maintains decentralization of risk where business units operate in silos and lack coordination with other units (Gatzert & Martin, 2015; Simona-Iulia, 2014). The silo approach is an ineffective way to manage business level risks because of lack of coordination between departments and duplication of risk management expenditures (Hoyt & Liebenberg, 2015; Mensah & Gottwald, 2016; Shad & Lai, 2015). Arnold et al. (2015) found firms that quantify risks in autonomous units may inhibit the company from acting strategically and create greater risk. Rather than a decentralized risk culture, Arnold et al. encouraged a risk management approach that combines and centralizes information across an organization, thus boosting risk identification and holistic risk response.

Enterprise risk management is centralized and organized from the top down starting with the vision of the firm's leadership (Beasley, Branson, & Pagach, 2015; Gatzert & Martin, 2015; Krause & Tse, 2016; Mensah & Gottwald, 2016; Ogutu et al., 2018; Simona-Iulia, 2014). Farrell and Gallagher (2015) observed a top-down method which distributed a culture of ERM throughout the company contributed to an advanced implementation of ERM and rise in firm value. Moreover, Hoyt and Liebenberg (2011) discovered in an examination of 275 insurance companies that there was a positive and statistically significant association between firm value and implementation of ERM. The benefit of ERM and a centralized risk management strategy is reducing earnings volatility, which involves aggregating risk across the firm (Hoyt & Liebenberg, 2011; Ogutu et al., 2018). Also, ERM may decrease the costs of regulatory inspections and external capital by simplifying the firm's risk profile (Hoyt & Liebenberg, 2011).

A firm's risk strategy must be a top-down process that is determined and spread by the organization's leadership (Dickinson, 2001; Meidell & Kaarbøe, 2017; Viscelli, Hermanson, & Beasley, 2017). However, corporate leadership has a limited understanding of the theory or application of ERM to value chain activities even when leaders have adopted the ERM movement (Arnold et al., 2015; Fraser & Simkins, 2016). Dickinson (2001) observed a corporation's risk policy must be aligned with the leaderships' risk appetite and integrated into its overall strategy. Lundqvist (2014) identified four components for ERM implementation. According to Lundqvist, these components included (a) general internal environment and objective setting, (b) general control activities and information and communication, (c) holistic organization of risk management, and (d) specific risk identification and risk assessment activities. Lundqvist argued all four components and their subcategories must be present for the firm to have well-implemented ERM.

Traditional versus enterprise: Reintegrating risk into firm strategy. Lastly, traditional risk management is limited by approaching risk from a reactive, retrospective perspective (Simona-Iulia, 2014). Enterprise risk management requires holistic integration into firm objectives and strategy (Ben-Amar et al., 2014; Dickinson, 2001; Ogutu et al., 2018; Simona-Iulia, 2014; Teoh, Lee, & Muthuveloo, 2017; Viscelli et al., 2016). Arnold et al. (2015) found the spread of risk management approaches has resulted in a false sense of control in firms. Firms cannot delegate risk management to one position and expect the benefits of ERM (Arnold et al., 2015). Meidell and Kaarbøe (2017) examined how to integrate ERM into a business and uncovered a multiphase process for ERM adoption, development, and integration. Meidell and Kaarbøe described the multiphase process to include management creating a place in the organizational strategy for ERM, employees and decision makers adopting ERM skills, and the spread of ERM practices to all business areas. Firm leadership can improve their firm's risk identification and responsiveness to threats and opportunities to firm strategy through an integrative risk management system that monitors internal and external environmental changes (Arnold et al., 2015; Ogutu et al., 2018; Rogers & Ethridge, 2016; Viscelli et al., 2016).

Measuring Risk Success

At this point, I have defined ERM, outlined initial approaches and additions to ERM strategy, and contrasted ERM with other risk management approaches. In this section, I will address the measurable gains scholars have found in companies that have successfully implemented ERM. Some scholars have focused on successful implementation of ERM through risk officers, boards, and departments (Beasley et al., 2015; Cohen et al., 2017; Mohd-Sanusi et al., 2017; Rogers & Ethridge, 2016; Viscelli et al., 2017). However, ERM does not require the establishment of a risk management team (COSO, 2017). Other scholars have focused on how ERM affects the stock market value of a firm (Agustina & Baroroh, 2016; Hoyt & Liebenberg, 2011; McShane, Nair, & Rustambekov, 2011; Sprčić, Žagar, Šević, & Marc, 2016). Yet these studies on firm market value do not apply to ERM in nonpublic companies. Dickinson (2001) argued business leaders could only effectively measure ERM through the firm’s objectives. Specifically, the degree of risk is the extent to which the actual outcomes from the firm’s activities differ from or fail to meet, the corporate objectives (Dickinson, 2001; Mandru, 2016). In addition to firm value, scholars have identified multiple benefits from the holistic use of ERM, including improved decision-making, increased strategic flexibility, and higher performance (Arnold et al., 2015; Callahan & Soileau, 2017; Florio & Leoni, 2017).

Improved decision-making. Scholars have argued ERM has received the most concern for improving business owner decision-making (Bryant et al., 2014; Hoyt & Liebenberg, 2015; Mensah & Gottwald, 2016). In their study of Italian firms, Florio and Leoni (2017) observed ERM might improve management decision-making processes to select the best investment opportunities. In a literature review, Shad and Lai (2015) found business leaders that implemented ERM could improve managerial decision-making. Farrell and Gallagher (2015) found in a survey of companies that mature levels of ERM indicated higher firm value. The scholars attributed top-down leadership engagement and resulting ERM culture as a contributing factor (Farrell & Gallagher, 2015). Lastly, Olson and Wu (2017d) have examined the use of ERM in multinational and national companies. In multiple publications (Olson & Wu, 2017d; Wu, Chen, & Olson, 2014; Wu et al., 2014), Olson and Wu suggested the need for ERM in strategic decision analysis.

Increased strategic flexibility and higher performance. Scholars have found a significant positive link between the mature use of ERM, strategic flexibility, and operational performance (Ahmed & Manab, 2016; Callahan & Soileau, 2017; Farrell & Gallagher, 2015; Haywood et al., 2017; Krause & Tse, 2016; Li, 2018; Mensah & Gottwald, 2016; Soltanizadeh, Abdul Rasid, Mottaghi Golshan, & Wan Ismail, 2016; Teoh et al., 2017; Viscelli et al., 2016). Ahmed and Manab (2016) defined firm performance as the ability of the firm to achieve objectives using available resources in an efficient and effective way. Teoh et al. (2017) found ERM enhanced the strategic agility and flexibility of firms to changing external environments. Arnold et al. (2015)

surveyed 155 chief audit executives and conducted a cross-sectional field study of six companies using ERM. The scholars found higher levels of ERM activity were associated with increased strategic flexibility and supply chain performance (Arnold et al., 2015). Moreover, Arnold et al. (2015) observed ERM increases the strength of the relationship between firm flexibility and performance. Florio and Leoni (2017) also linked advanced levels of ERM implementation to higher performance, including financial performance and market evaluation.

One caveat: Full integration of enterprise risk management. Multiple scholars have emphasized that a firm cannot use a superficial version of ERM but must integrate the approach thoroughly to achieve the benefits (Anju & Uma, 2017; Callahan & Soileau, 2017; Farrell & Gallagher, 2015; Florio & Leoni, 2017). Business leaders can use an integrated approach of ERM as a guide to diagnose risk and evaluate risk management strategies to affect firm exposure to risk (Anju & Uma, 2017). However, Florio and Leoni (2017) argued firms must have a more sophisticated implementation of ERM. The researchers discovered firms with no or rudimentary adoption of ERM were less profitable and less appreciated by investors (Florio & Leoni, 2017). Improved firm performance relates to the adoption of the ERM model in its entirety, including (a) matching the risk strategy with the stakeholders' risk appetite, (b) redefining risk as opportunity, (c) reorganizing risk procedures throughout the firm, and (d) integrating the risk approach into firm strategy (Arnold et al., 2015; O'Har, Senesi, & Molenaar, 2017; Simona-Iulia, 2014). The ERM framework can also aid firm leadership in compliance and positive social change initiatives beyond adding to firm value, decision-making, strategic flexibility, and performance.

Research on Enterprise Risk Management and Positive Social Change

Company leaders may use risk management frameworks for firm leadership to comply with national and local level compliance regulations as well as grow the triple bottom line. Archambeault and Webber (2015) described the separation of business and ethics as one of the worst problems in society. Ruggie (2014) observed the lack of a global government and the growing trend of weak corporate governance intensified by problem diversity, opposing interests, and market uncertainty. Other researchers have reaffirmed the concern for declining corporate governance as profits and globalization rise (Beramendi & Wibbels, 2015; Hansen, 2014; Harris, 2015; Liu, Lu, & Ma, 2015; Oliva, 2016; Sklair, 2016).

Other scholars (Florio & Leoni, 2017; Zeghal & El Aoun, 2016) determined regulators have emphasized risk management strategies after the financial scandals and global financial crisis. The development of Sarbanes-Oxley and Dodd-Frank Wall Street Reform were regulator efforts to compel corporations to improve their risk management systems (Arnold et al., 2015; Florio & Leoni, 2017; Meidell & Kaarbøe, 2017; Zeghal & El Aoun, 2016). Other governments are also regulating risk management systems on a global scale, including Italy and Singapore (Florio & Leoni, 2017; Zhao et al., 2014). Better risk management systems are becoming a global mandate to force corporate governance on companies (Florio & Leoni, 2017; Zhao et al., 2014).

While expansion can create opportunities for firms (Belderbos, Tong, & Wu, 2014), companies take risks that impact stakeholders (Bruno & Shin, 2014; O'Har et al., 2017; Wu et al., 2014). Schneider and Scherer (2015) suggested company leadership should incorporate local communities in risk assessment to (a) prevent the effect of ethical violations on stakeholders, (b) boost the company's support for social welfare, and (c) continue the reputational legitimacy of the firm. Bruno and Shin (2014) observed a quantitative link between corporate governance, ownership structure, and risk-taking. Claessens and Yurtoglu (2013) advocated firm leadership should include corporate governance into the firm's strategy to reduce financial crises. Additionally, Claessens and Yurtoglu suggested corporate governance relates to higher returns on equity and enhanced efficiency. Schneider and Scherer (2015) argued company leadership must stop relying on regulatory compliance and instead evaluate the ethics of their operations. Ethical violations can threaten the legitimacy of the firm and potentially influence the firm's survival (Kline & Hutchins, 2017; Schneider & Scherer, 2015).

The triple bottom line. Business leaders can leverage ERM to enhance the triple bottom line (Olson & Wu, 2017c; 2017d). Research is minimal on the association of ERM with positive social change. However, Choi et al. (2016) found the scholars Wu and Olson provided the most extensive publications on the topic. Olson and Wu (2017c) emphasized environmental sustainability as a major responsibility for managers to operate profitably. The scholars criticized traditional cost-benefit analyses as short-term and ineffective, applying ERM to the production of food, energy, and global supply chains to create long-term benefits (Olson & Wu, 2017c; 2017d). While regulators are increasing oversight to organizational operations, firms have a moral obligation and value opportunity to prevent events that lead to environmental degradation and bankruptcy (Olson & Wu, 2017c; 2017d). Olson and Wu effectively linked moral responsibility with the implementation of ERM practices for firms to seize market opportunities that create value long-term.

Wu, Chen, and Olson (2014) suggested the use of ERM to identify and respond to risks that affect the triple bottom line. The researchers (Wu et al., 2014) analyzed the influence of ERM in business intelligence to evaluate risks that influence stakeholders. Several product lines have the parallel objectives of social good and firm profit, including the development of antiviral agents by pharmaceutical companies, antiterrorist measures by transportation firms, and safety policies in manufacturing companies (Wu et al., 2014). The researchers also observed ERM as beneficial for data mining tools to enhance fraud detection in corporate finance as well as power outages in the energy industry (Wu et al., 2014). Additionally, ERM can be integrated into emergency management to assist corporations in managing natural disasters that threaten both operations and society (Wu & Olson, 2015). While Wu et al. (2014) evaluated business intelligence as an effective field to use ERM for risk response to combining social impact with firm value, they pointed out the flexibility of ERM for different industries.

Enterprise Risk Management in Small Businesses

The ERM framework is an effective way for big and small businesses to meet compliance regulations and enhance performance (Angeline & Teng, 2016; Callahan & Soileau, 2017; Viscelli et al., 2016). Researchers have observed the use of ERM to increase firm value in big businesses which can afford separate risk officer or committees (Callahan & Soileau, 2017; Li, 2018; Mensah & Gottwald, 2016; Viscelli et al., 2016). However, entrepreneurs and small businesses may not have the resources or capacity for advanced quantitative techniques, hiring a chief risk officer, or acquiring risk assessment task force (Bhattacharya, 2018; Mafrolla & Matozza, 2014; Mafrolla, Matozza, & D'Amico, 2016). Yet small businesses can still benefit from integrating ERM into their firm strategy (Mafrolla et al., 2016). Scholars have identified the flexibility and adaptability of ERM can add value to entrepreneurships and small business firms (Abd Razak, Ab Rahman, & Borhan, 2016; Bhattacharya, 2018; Brustbauer, 2016; Angeline & Teng, 2016; Gorzeń-Mitka, 2015; Lai & Shad, 2017; Soomro & Lai, 2017).

The needs of the small business. There is an array of scholarly research regarding how entrepreneurs and small businesses manage uncertainty. Bryant et al. (2014) pointed out business leaders must focus on preparation for uncertainties rather than trying to remove uncertainty from the business. Atsan (2016) argued entrepreneurs and small businesses fail or succeed based on internal and external risks. However, Altman, Sabato, and Wilson (2010) attributed small business failure to a lack of planning. Albort-Morant and Oghazi (2016) observed entrepreneurs encounter uncertainty and make mistakes because they lack the critical information they need to manage their companies. The key risks for small businesses include fluctuations and uncertainty in interest rates, raw material prices, e-business and technology, supply chains, employees, and growth (Falkner & Hiebl, 2015). Small business owners need frameworks to plan for risk and uncertainty to achieve sustainable profitability (Angeline & Teng, 2016; Gorzeń-Mitka, 2015; Lai & Shad, 2017; Soomro & Lai, 2017).

The regulatory field for small business. Kitching, Hart, & Wilson (2015) argued compliance is not always a negative force but can provide dynamic opportunities for small businesses. Scholars have observed that business owners often see compliance as a burden and constraint on a company, especially small firms that lack resources (Falkner & Hiebl, 2015; Kitching et al., 2015; Legg, Olsen, Laird, & Hasle, 2015). While small businesses have a simpler internal structure than large companies, they are more flexible and adaptable to market changes (Falkner & Hiebl, 2015). Small businesses are the core of economic growth and competitiveness nationally and internationally (Bhattacharya, 2018; Falkner & Hiebl, 2015; Mills & McCarthy, 2014). Small business owners employ half of America's private sector workforce but have been slow to recover from the Great Recession, credit crises, and new regulations (Mills & McCarthy, 2014). Kitching et al. (2015) theorized that regulations could create market opportunities for small firms by influencing the implementation of business activities that enhance efficiency or competitive advantage. Kitching et al. argued for changes in business owners' perception of compliance from burden to opportunity and frameworks or programs that enable a business to meet regulatory policy objectives and open up new market opportunities for small businesses.

Application of enterprise risk management to small businesses. The research on ERM in small businesses is minimal (Mafrolla & Matozza, 2014; Mafrolla et al., 2016). Viscelli et al. (2016) argued scholars lag the business world in embracing ERM.

According to Mafrolla et al. (2016), the lack of research reflects that regulatory agencies do not compel small businesses to adopt ERM and the financial confidentiality of private firms requires researchers to conduct primary data collection to access financials. While some scholars have studied the role of ERM in small businesses, there are a limited amount of these studies and they are focused on nonwestern markets, such as Austria and Malaysia (Angeline & Teng, 2016; Bhattacharya, 2018; Brustbauer, 2016; Lai & Shad, 2017; Soomro & Lai, 2017). Nonetheless, scholars have identified a need for compliance frameworks in small businesses (Kitching et al., 2015). Several researchers have found benefits of ERM in small businesses including performance and profit (Angeline & Teng, 2016; Lai & Shad, 2017).

Brustbauer (2016) addressed the different approach small to medium-sized businesses must take to ERM as the management style is different from large companies. Brustbauer observed that small businesses are often owned and operated by one person or small management team assuming the risks of the enterprise. Moreover, small businesses often operate with few resources and risks are based on the entrepreneur's perceptions and ability to manage them (Bhattacharya, 2018; Brustbauer, 2016; Falkner & Hiebl, 2015; Gorzeń-Mitka, 2015). The researcher (Brustbauer, 2016) presented a unique approach to ERM by exploring and developing a structural model for risk management in small to middle sized companies. Brustbauer focused on the business owner's risk identification, assessment, and monitoring in 311 entrepreneurships (Brustbauer, 2016). The small businesses used either an active or passive ERM approach to risk (Brustbauer, 2016; Falkner & Hiebl, 2015). While a small firm's approach to ERM is less sophisticated than larger firms, small firm leadership can implement ERM (Beasley et al., 2015; Bhattacharya, 2018; Brustbauer, 2016; Mafrolla et al., 2016).

Fraser and Simkins (2016) argued ERM is a simple, focused approach that the small business owner can use to get back to the basics of firm risk and good management. According to Fraser and Simkins, the key questions of ERM include: (a) What is the business owner trying to accomplish in a certain amount of time? (b) What types of risk might affect these firm goals and objectives? (c) How much of an effect will these risks have and how likely are they to happen? (d) What can the business owner do to optimize opportunities and manage potential downsides? (e) What resources can the business owner apply to manage risk? (f) How well do employees understand and apply the firm objectives and risk strategy? Sax and Torp (2015) argued employee responsiveness and involvement is a critical element to successful ERM integration. Additionally, Lukianchuk (2015) observed managers in small businesses using ERM should focus on risks that affect the safeguarding of resources, operational objectives, and strategic objectives. Therefore, small business owners can address the key questions of ERM without the complex frameworks and statistical analyses of larger businesses (Fraser & Simkins, 2016).

Some small business leaders are clear about the significance of ERM in obtaining sustainable profitability in their business (Angeline & Teng, 2016; Zhao, Hwang, & Low, 2015). For example, Angeline and Teng (2016) conducted empirical research to determine the extent of ERM usage in 214 small to medium businesses in Malaysia and the resulting impact on sales performance. The scholars found risk management is critical to small and medium businesses as a way to reduce exposure to business loss (Angeline & Teng, 2016). The researchers focused on several key elements of ERM, including (a) risk appetite, (b) control environment, (c) evaluating the risk management framework, and (d) control activities (Angeline & Teng, 2016). The researchers suggested that the control environment has a positive, substantial impact on sales performance (Angeline & Teng, 2016). In the surveys, 80% of the business leaders responded favorably to creating a culture and policy of ERM in their business (Angeline & Teng, 2016). Zhao et al. (2015) also found improved decision-making was the top influential driver for small business owners adopting ERM.

Lai and Shad (2017) also found a positive connection between firm implementation of ERM and sustainable profitability. The researchers conducted several regression models to examine the impact of ERM on company performance through (a) net operating profit after tax, (b) weighted average cost of capital, and (c) return on invested capital (Lai & Shad, 2017; Shad & Lai, 2015). Firms that implemented ERM showed a reduced weighted average cost of capital and an increase in net operating profit after tax and return on invested capital (Lai & Shad, 2017). Shad and Lai (2015) also utilized a simplified ERM model to identify, integrate, and track risk that small business owners could implement.

Positive social change and enterprise risk management in small businesses. Rather than view sustainability as necessary for compliance to legislative requirements, scholars have argued for integration of sustainability into firm objectives and activities to add value (Saardchom, 2013; Shad, Lai, Fatt, Klemeš, & Bokhari, 2019; Soomro & Lai, 2017). Small businesses that do not learn to recognize and manage risk can cause environmental damage and other social problems (Falkner & Hiebl, 2015; Gorzeń-Mitka, 2015; Saardchom, 2013). An element of my research is to determine how positive social change can interplay with risk management strategies for sustainable profit. However, research on positive social change and ERM implementation in small businesses is an emerging area (Saardchom, 2013; Soomro & Lai, 2017). It is important to note that throughout my study I use the term sustainability as a synonym for long term profit (see Operational Definitions section) while Soomro and Lai (2017) and Saardchom (2013) use the term to refer to environmental and social concerns. Saardchom argued firm leadership should consider sustainability risk as a category of risk alongside financial, operational, and strategic risks in company strategy. Soomro and Lai (2017) conceptualized a new framework by blending ERM with sustainability management. Soomro and Lai (2017) titled their blended framework as enterprise sustainability risk management (ESRM) and argued this new framework would lead to corporate sustainability performance. Soomro and Lai developed the ESRM framework to fulfill the need for firms to view sustainability as an opportunity for the strategic management agenda rather than an area of risk.

Soomro and Lai posited the combined ESRM would enable firms to achieve economic goals while managing sustainability and business risks. The scholars combined the key principles of ERM and sustainability management to create ESRM (Soomro & Lai, 2017). Enterprise risk management involves structure, governance, and process while sustainability management includes employee relations, customer relations, environmental relations, and community relations (Soomro & Lai, 2017). The scholars argued ESRM creates value for a firm by factoring in environmental and stakeholder concerns into a risk management framework (Soomro & Lai, 2017). However, while I find this environmental and stakeholder focus beneficial, the original framework of ERM already encapsulates these concerns in monitoring risk.

The Potential of Enterprise Risk Management for Rental Property Owners

One industry that has experienced a significant impact on shifting regulations in the post-2000 era is the rental real estate industry. While there are federal laws to guide the industry, there is significant variance at the state, county, and city level for rental real estate regulations (Amodu, 2018; Hatch, 2017). Researchers have observed the tumultuous relationship between property owners, tenants, and legislators (Arnott & Shevyakhova, 2014; Autor et al., 2014; Lind, 2015; Palmer & Childs, 2014). Legislators have argued that without their oversight, rental property owners will become slumlords, hiking up impossible to pay rents and leaving buildings to degrade (Arnott & Shevyakhova, 2014; Autor et al., 2014; Lind, 2015; Palmer & Childs, 2014; Vols & Belloir, 2019). Property owners argue that they will go out of business without raising rents to cover operating costs (Arnott & Shevyakhova, 2014; Autor et al., 2014; Lind, 2015; Palmer & Childs, 2014). Rental property owners with mortgages are highly incentivized to ensure rent flow and establish long term tenants (Fereidouni & Tajaddini, 2017). However, tenants have argued for long term residence, well-maintained housing, and affordable rents (Easthope, 2014; Lind, 2015). The fragile relationship among rental property owners, tenants, and legislators has led to legislative interference in favor of both sides, from rent control initiatives in New York to rent control bans in Washington State (Arias et al., 2016; Arnott & Shevyakhova, 2014; Autor et al., 2014; Lind, 2015; Palmer & Childs, 2014).

Researchers on the rental real estate industry have argued for a framework property owners can use to manage risk, market uncertainty, and stakeholder concerns (Arias et al., 2016; Arnott & Shevyakhova, 2014; Autor et al., 2014; Easthope, 2014; Lind, 2015; Palmer & Childs, 2014). However, researchers have yet to apply ERM to small business rental property owners. Moreover, a shifting and uncertain regulatory environment can complicate compliance (Mills & McCarthy, 2014). Based on post-Great Recession events in the rental real estate industry, I argue there is a need for rental property owners to implement ERM into their risk strategy. Particularly in the greater Seattle area where the regulatory environment is rapidly changing, and the market is volatile.

Affordable housing and rent control. The issue of rent control and affordable housing is both a historical and global phenomenon (Arias et al., 2016; Lind, 2015). In the rental real estate industry, when property owners encounter increased costs, they may raise rents quickly and dramatically (Arias et al., 2016; Asquith, 2019; Lind, 2015). Moreover, low rental unit inventory and high tenant demand drives market prices up (Diamond, McQuade, & Qian, 2019). Rapidly rising rents create concerns in local governments over affordable housing and inventory (Arias et al., 2016; Asquith, 2019; Lind, 2015). However, an ongoing example of the debate of rent control is in Seattle, Washington (Arias et al., 2016). Rent control has become a recent issue in Seattle because average rents have increased by 29% from 2011 to 2016 (City of Seattle, 2016). As a result, the Seattle City Council has attempted to invoke rent control legislation to achieve affordable housing (Arias et al., 2016). While there are varying degrees of rent control, the legislation would control the rent prices which rental owners can charge tenants (Arias et al., 2016; Asquith, 2019; Lind, 2015). Additionally, rent prices become based on government oversight and not what the market will allow (Arias et al., 2016; Asquith, 2019; Lind, 2015).

There are several issues with this regulatory approach to affordable housing from a business and social well-being perspective. Asquith (2019) argued rent control incentivizes rental property owners to withdraw from the rental market and thus reduce housing inventory, which is the opposite of what legislators want. Moreover, Roth (2019) argued vacant units from rental property owners who do not sell or rent their units increase crime rates and are associated with negative outcomes for communities. Diamond et al. (2019) conducted the Stanford Study where the researchers studied San Francisco rent control and found rental property owners reduced housing supply by 15% after selling their rentals to buyers repurposing the buildings. The loss in rental housing increased market rents by 5.1% because of low inventory and high demand for units (Diamond et al., 2019). Rent control and related regulations undermine the goal legislators intended (Diamond et al., 2019). Thus, legislatively set rent prices create an uncertain regulatory market for which rental property owners need risk management strategies to budget for sustainable profitability.

Rent control in academic literature. Scholarly research has demonstrated the harmful effects of rent control to housing, tenants, and communities (Arias et al., 2016; Arnott & Shevyakhova, 2014; Asquith, 2019; Autor et al., 2014; Lind, 2015; Palmer & Childs, 2014). Scholars have conducted extensive historical and post-2000 era analyses of rent control in western countries and cities (Arias et al., 2016; Arnott & Shevyakhova, 2014; Autor et al., 2014; Lind, 2015; Palmer & Childs, 2014). Rent control legislation is increasing in western nations as legislators grapple with affordable housing while the cost of living continues to rise (Lind, 2015). For example, Lind (2015) observed rent control made housing affordable for low-income tenants but reduced the rental owners' incentive to maintain or upgrade the property. Lind determined that, without the ability to raise rents, property owners do not have the incentive to budget for maintenance or upgrade housing.

Arias et al. (2016) argued rent control destroys businesses and communities. The scholars considered a historical look at rent control in New York City and San Francisco (Arias et al., 2016). Because rental owners are primarily concerned with profit, they will not want to build or invest in assets for which they cannot control pricing (Arias et al., 2016). The researchers argued this leads to abandonment, low construction rates, gentrification, and declining communities (Arias et al., 2016). Fields and Uffer (2014) also found that rent control in New York and Berlin encouraged deteriorating properties, which contributed to declining neighborhoods. Therefore, rather than creating affordable housing, the long-term effects of rent control make it difficult for prospective tenants to find housing with decent living conditions (Arias et al., 2016). Asquith (2019) argued rental property owners are more likely to leave the market than operate with the rise in regulations, thus lowering inventory and affordable housing. Rent control and related regulations hinder rental property owners from budgeting for sustainable profitability (Arias et al., 2016; Asquith, 2019).

Rent control and regulations in Seattle, Washington. Rental property owners are significantly hindered from budgeting for sustainable profitability in a tumultuous regulatory environment. The Seattle City Council has been unable to implement rent control legislation because it remains unconstitutional in the Revised Code of Washington (Rosenberg, 2017; Norimine, 2018). However, the conflict between the interests of the city and the laws of the state have created an intense regulatory environment for Seattle rental property owners (Rosenberg, 2017; Norimine, 2018). While the Seattle City Council cannot legalize rent control, the city leaders have implemented constant additions of new regulations that are varying degrees of rent control.

For example, in 2016, the Seattle City Council voted in a new law to reduce discrimination (Beekman, 2016). The new First in Time ordinance required Seattle rental property owners to accept qualified rental applicants on a first-come, first served basis (Beekman, 2016). Seattle is the only US city with this legislation, and the council designed it to prevent rental owner discrimination against non-white races (Beekman, 2016). In this case, the council's concerns may be warranted based on empirical results in the scholarly literature supporting rental property owner discrimination (Feldman & Weseley, 2013; Galster, MacDonald, & Nelson, 2018; Hanson & Santas, 2014; Murchie

& Pang, 2018). Scholars have demonstrated that landlord preference can still occur through applicant names although there are laws prohibiting racial discrimination for applicant tenants (Feldman & Weseley, 2013; Galster et al., 2018). Moreover, African-Americans psychologically are still a disadvantaged and least favored group for housing (Feldman & Weseley, 2013). However, rental owners have argued the new legislation has (a) required them to spend additional resources to be in compliance (b) prevented the selection of the best tenant for the property, and (c) denied them the ability to make judgment calls that protect persons and property (Beekman, 2016). In 2018, rental property owners succeeded in their lawsuit against Seattle to strike down First in Time ordinance (Beekman, 2016). The judge defined the law as violating the rights of property ownership, due-process, and free-speech rights of rental owners (Beekman, 2016). To complicate matters, the Seattle City Council intends to appeal the decision (Beekman, 2016), creating a confusing regulatory environment for rental property owners.

The constant shift in regulations creates time and resource burdens on the small business rental property owner. Greif (2018) cautioned legislators from undermining tenant access to stable and decent housing through an excessive regulatory environment. In 2017, the Seattle City Council voted on new requirements to the city's Rental Agreement Regulation Ordinance, including requiring landlords to give payment plans and setting limits on security deposits, pet deposits, and move-in fees (Seattle Department of Construction & Inspections, 2017). While large corporations often establish a compliance department (Moyers, 2016; Scallon et al., 2016), the small business rental property owner must absorb the changes without adding additional costs. Rental property owners need risk management strategies for ensuring sustainable profitability in a tumultuous, uncertain regulatory environment.

Enterprise risk management for Seattle market uncertainty. The integration of the ERM framework into firm strategy is critical for (a) firm leadership to seize profit opportunities and mitigate risk (Callahan & Soileau, 2017), (b) moral responsibility and the triple bottom line (Wu, Chen, & Olson, 2014), and (c) small businesses to adapt to changing regulatory landscapes (Angeline & Teng, 2016). Rental real estate owners can use ERM to identify and mitigate market risks associated with rapid raises in rent. To use the ERM framework, business leaders must consider (a) the stakeholders' risk appetite, (b) risk as a market opportunity, (b) organization of risk throughout the company, and (d) integration of risk into firm strategy (Abd Razak et al., 2016; Callahan & Soileau, 2017; Simona-Iulia, 2014). Moreover, using ERM strategies, rental owners can seize compliance regulations as opportunities for budgeting for sustainable profitability. Compliance with regulations not only lowers violation fees but rental owners can also market compliance with potential tenants as a positive place to live (Easthope, 2014; Wrigley & Crawford, 2017).

Positive social change and rental property owners. Rental property owners without risk management strategies to budget for sustainable profitability are negatively impacting positive social change. In the post-2000 era, positive social change is a critical concern (Ambrose, 2015; Bebchuk & Hamdani, 2006; Girgenti, 2016; Jiang et al., 2015; Moyers, 2016; Scallon et al., 2016). As business leaders expand their markets and seek out competitive advantage, rental property owners can overlook ethics and social well-being (Easthope, 2014; Polletta et al., 2017). Positive social change must be a collaboration at the individual change agent level, the organizational level, the community level, and the legislator level (Aguilera, Rupp, Williams, & Ganapathi, 2007; Ambrose, 2015; Polletta et al., 2017; Wrigley & Crawford, 2017). Moreover, a business must collaborate with stakeholders to create mutually beneficial relationships that aid in sustainable profitability (Alberti & Garrido, 2017; Ambrose, 2015; Polletta et al., 2017).

Scholars have investigated what tenants and rental property owners look for in each other (Greif, 2018; Seemann et al., 2014). For example, Seemann et al. (2014) found prospective tenants valued symbolic traits in the landlord, such as honesty, integrity, and unselfishness, as well as rental price and housing comfort (Seemann et al., 2014). Other scholars have observed rental property owners prefer tenants that are not disruptive to the community and keep units in good condition (Greif, 2018). Both Greif (2018) and Aubry et al. (2015) argued legislators need to consider not just the tenant perspective but also consider and be responsive to the property owner need for quality tenants. This research underscores the relationship between the property manager and tenant as a major indicator of rental housing desirability as well as tenant and property owner characteristics (Seemann et al., 2014).

While the rental property owner-tenant relationship is critical for a successful business, rental property owners must still manage financial constraints with positive social change. Polletta et al. (2017) found in a qualitative study that rental property owners in Boston find value and perceive themselves to be responsible for healthy and safe tenant housing. However, rental property owners are struggling to maintain and improve housing while managing destructive tenant behavior, financial constraints, and compliance enforcement (Ambrose, 2015; Polletta et al., 2017). The City of Seattle Office of Housing (2018) echoed Polletta et al.'s (2017) results with a survey revealing 42% of 13,643 rental units could not cover operational or repair costs. Rental property owners lack risk management strategies that enable owners to budget for achieving sustainable profitability.

Researchers have also found racial, age, and incarceration discrimination in rental property owner screening practices (Cole, Powell, & Sanderson, 2016; Feldman & Weseley, 2013; Galster et al., 2018). However, Galster et al. (2018) found these discriminatory practices represented the rental property owners' profit-driven preferences. Rental property owners preferred tenant ethnicities that are socially perceived to have a higher income and dependability than other applicant ethnicities (Galster et al., 2018). Cole et al. (2016) also found a rental property owner preference for tenants over age 25, for the rental property owners perceived this demographic might cause less damage and cost to a property than younger renters. Furst and Evans (2017) as well as Evans, Blount-Hill, and Cubellis (2018) found convicted felons often received rejections or acceptance to rent from a property owner based on their stigmatized status. However, Evans (2016) suggested the main concern of rental property owners was the convicted felons' ability to pay rent rather than their criminal history. In the rental real estate industry, positive social change is not a consumer problem, business problem, or even a legislative problem. It should be a collaborative goal for businesses and stakeholders to achieve mutually beneficial solutions (Easthope, 2014; Mackenzie, Mwamba, & Mphande, 2017; Polletta et al., 2017).

Rental property owners rapidly raising rents to offset operating costs can injure long-term profit as well as tenant security (Ástmarsson, Jensen, & Maslesa, 2013; Easthope, 2014). Rental real estate involves the homes of people, where tenants rest from the world, the resources individuals can access, and neighborhood identity (Easthope, 2014; Mackenzie et al., 2017). However, Morris, Hulse, and Pawson (2017) found some long-term tenants experience anxiety and fear in insecure rental housing. Williams and Needham (2016) argued rising rent prices could force tenants out of their homes and create vacancy costs for rental property owners. Risk management strategies can aid business leaders in budgeting for sustainable profitability (Bromiley et al., 2015; Callahan & Soileau, 2017; Dyer et al., 2016).

Summary of the Literature Review

Enterprise risk management is a strategic system to facilitate risk understanding and exploitation (Arnold et al., 2015). Risk management is an effective system to protect shareholder value and comply with legislator regulations, but ERM is a holistic framework for seizing opportunities that create firm value (Callahan & Soileau, 2017; Meidell & Kaarbøe, 2017). The mature adoption and integration of ERM can lead to improved performance through better decision-making and increased strategic flexibility (Callahan & Soileau, 2017; Meidell & Kaarbøe, 2017). However, firm leadership must effectively integrate ERM and avoid a superficial application of the framework to meet regulatory policies or satisfy stakeholders (Callahan & Soileau, 2017; Dickinson, 2001;

Meidell & Kaarbøe, 2017). Successful implementation of ERM involves the firm leadership (a) measuring the risk strategy against the stakeholders' risk appetite, (b) redefining risk as opportunity, (c) reorganizing risk throughout the organization, and (c) reintegrate risk into firm strategy (Abd Razak et al., 2016; Callahan & Soileau, 2017; Simona-Iulia, 2014). Additionally, entrepreneurs can align profit-making activities with positive social change initiatives to fill market niches and obtain social support (Haugh & Talwar, 2016; Rey-Martí, Ribeiro-Soriano, & Sánchez-García, 2016).

Researchers have also found the successful implementation of ERM in small businesses can increase the value and performance of the firm (Abd Razak et al., 2016; Brustbauer, 2016; Angeline & Teng, 2016; Lai & Shad, 2017; Soomro & Lai, 2017). In the rental real estate industry, ERM may present an effective framework for managing the increasing regulatory and market uncertainties. In the greater Seattle area, rental property owners are navigating a volatile market of rent control compliance initiatives and rising operating costs (Arias et al., 2016; City of Seattle, 2016; Rosenberg, 2017; Norimine, 2018). The ERM framework may be beneficial for greater Seattle area property owners to mitigate market risk and turn operational challenges into opportunities.

Transition

In Section 1, I introduced my research objectives based on the specific business problem in the rental real estate industry: Some rental property owners lack strategies to budget for sustainable profit. I presented a literature review encapsulating the background of the problem, my conceptual framework for addressing the problem, and linked the subject matter to positive social change.

In Section 2, I elaborated on my research strategy, including explanations of my research method and design, data collection method, study population, ethical considerations, and data analysis plan. I also included the key elements of a rigorous study, such as validity and reliability, and aligned them with my research strategy. I discussed the results of my data collection and evaluation in Section 3. Additionally, I included an evaluation of the study results to offer recommendations for professional business practice, positive social change, and future academic research.

Section 2: The Project

In this section, I explain my research strategy for analyzing the specific business problem I specified in Section 1. My research question was: What risk management strategies do rental property owners use to budget for sustainable profitability? My research method was a qualitative study and my research design was a mini ethnographic case study. I address the approach for both the method and design as well as explain my data collection methods of participant observation and semistructured interviews. I outline the requirements for the participant population for my study and how I used the purposeful sampling method. Additionally, I consider the ethical factors for my study involving human subjects, including issues of informed consent, researcher bias, and securing sensitive data. After describing my data collection strategy, I introduce the data analysis method I use in Section 3 to organize and examine research data.

Purpose Statement

The purpose of this qualitative, mini ethnographic case study was to examine the risk management strategies that enable rental property owners to budget for sustainable profit. The targeted population consisted of 20 rental owners in the greater Seattle area who have successfully maintained a sustainable profit for over 10 years. Hennink, Kaiser, and Marconi (2017) argued 16 to 25 in-depth interviews are necessary to reach data saturation. The implication for positive social change included the potential for rental property owners to identify profitable opportunities that consider tenant and community well-being, such as capital improvements and housing maintenance. Moreover, property owners with risk management strategies and sustainable profit can maintain business stability during market fluctuations and provide tenants and the local community with stable, well-maintained housing (Easthope, 2014; Lind, 2015).

Role of the Researcher

The researcher plays a significant role in the data collection process (Fusch & Ness, 2015). The researcher is the instrument of data collection in qualitative research because humans can interact with environmental stimuli, integrate information at multiple levels holistically, and interpret unusual data (Sanjari, Bahramnezhad, Fomani, Shoghi, & Cheraghi, 2014). However, the cultural and personal lens of the researcher contains biases, values, and beliefs that can affect the interpretation and saturation of the data (Fusch & Ness, 2015; Sanjari et al., 2014). The interpretation of the data must reflect the participants and environment, not the personal lens of the researcher (Fusch & Ness, 2015).

Researchers who use participant observation as a data collection technique are recording their perceptions of the environmental setting and activities (Jarzabkowski et al., 2014; McCurdy & Uldam, 2014). As a participant observer, the researcher gains a unique understanding of the phenomenon of study because the researcher is living the characteristics and activities of the study participants (Jarzabkowski et al., 2014; McCurdy & Uldam, 2014). In my fieldwork, I interacted with rental property owners as a member of this participant group. I did not know the participants personally before data collection; however, I have operated my rental real estate business in the same geographic area as my study participants. I implemented internal procedures, including reflexivity and emotional intelligence, as well as external procedures, such as informed consent forms and interview protocols. By implementing procedures, I intended to mitigate my biases and avoid my personal lens impacting the interpretation and saturation of data.

Internal Procedures: Reflexivity and Emotional Intelligence

Researchers can manage feelings in qualitative research through reflexivity (Berger, 2015; Collins & Cooper, 2014; Gilmore & Kenny, 2015; Sanjari et al., 2014). According to Collins and Cooper (2014), self-aware and forthright researchers can give the study readership perspective on the research. Berger (2015) advocated reflexivity is a major tool for achieving credibility, trustworthiness, and nonexploitive methods in qualitative research. Novice researchers who use ethnographic data collection techniques must adopt a reflexive and emotional intelligence framework (Berger, 2015; Collins & Cooper, 2014; Gilmore & Kenny, 2015). Researchers using emotional intelligence engage in (a) thorough self-awareness of identity and impact on participants, (b) self-regulation to listen and learn, (c) empathy for participants' vulnerability, and (d) awareness of power dynamics of the study and ensuring a safe environment for participants to share information (Collins & Cooper, 2014). Moreover, researchers using ethnographic methods have the unique benefit of being an insider and understanding the perspective of the study population (Berger, 2015). However, the insider perspective can be a drawback if the researcher is not self-aware (Berger, 2015). Therefore, Berger (2015) recommended a three-part log of each encounter, including (a) what happened, (b) what the researcher interprets it to mean, and (c) what the researcher felt and thought about the experience.

External Procedures: Informed Consent and Interview Protocol

Other scholars (Sanjari et al., 2014) have also expressed the need for researchers to develop interpersonal skills. Sanjari et al., (2014) argued ethnographers must immerse themselves in the culture as an expert insider, live among the study population, but remember their ethical role as research instruments. Researchers must clarify in their research the ethical issues of participant anonymity, confidentiality, and informed consent (Sanjari et al., 2014). Researchers use informed consent to specify how they collect, use, and protect the data (Sanjari et al., 2014). Ethnographic researchers engaged in prolonged interaction with study participants may require ongoing negotiation on what information is permitted as data (Sanjari et al., 2014).

The *Belmont Report* (U.S. Department of Health and Human Services [HHS], 1979) specified that researchers must take into consideration (a) respect for a person's autonomy, (b) beneficence that maximizes the benefits and minimizes the harm to participants, and (c) justice so that the study participants benefit from the research. The report also stressed informed consent and evaluation of risks and benefits (HHS, 1979). Therefore, an informed consent form and protocol were critical components to my research. I reviewed a comprehensive informed consent form before starting my fieldwork with each participant, explaining my research goals, confidentiality, and the role of study participants.

Regarding interviews, a protocol is necessary to maximize data collection and avoid the gathering of confidential information unnecessary for the study (Sanjari et al., 2014). Scholars (Castillo-Montoya, 2016; Kallio, Pietilä, Johnson, & Kangasniemi,

2016) have argued for multiple phases of the interview process. First, scholars (Castillo-Montoya, 2016; Kallio et al., 2016) emphasized alignment of interview questions with the research questions. Researchers also need to develop interview questions with follow-up scripts that are different from the research questions and that encourage conversation and follow any social rules (Castillo-Montoya, 2016; Kallio et al., 2016). Finally, researchers must pursue feedback from colleagues on the viability of the questions and practice the interview questions through a pilot interview (Castillo-Montoya, 2016; Kallio et al., 2016). Researchers applying a well-developed interview protocol can keep the research in line with objectives, increase the quality and reliability of the data, and support flexibility in the field (Castillo-Montoya, 2016; Kallio et al., 2016).

Participants

The research question of my study was: What risk management strategies do rental property owners use to budget for sustainable profitability? Scholars have argued the study population must reflect the research question (Gentles, Charles, Ploeg, & McKibbon, 2015; Morse, 2015a; Morse, 2015b; Palinkas et al., 2015). Therefore, the rental property owners I studied must have had risk management strategies they used to budget for sustainable profit. Moreover, the study population must have been knowledgeable, have had expert information, and represented the larger population of interest (Gentles et al., 2015). The eligibility criteria for my study participants included rental property owners who (a) operate in the greater Seattle area, (b) are employed at least half-time in the strategy and operations of their rental business, (c) apply risk management strategies to their operations and strategy, and (d) have 10 years of business profit.

Gaining Access to Participants

Access in qualitative research involves researchers obtaining permission from an organization or individuals to collect information and interview people on the phenomenon under study (Cunliffe & Alcadipani, 2016). Researchers gaining access is not a linear process but a dynamic, multilevel process of reaching out continuously to make connections, recruit study participants, and maintain access (Cunliffe & Alcadipani, 2016; Kondowe & Booyens, 2014; Peticca-Harris, deGama, & Elias, 2016). Peticca-Harris et al. (2016) observed the use of the funnel approach where researchers narrow down potential participants from a broad group. Scholars (Le Dantec & Fox, 2015; Peticca-Harris et al., 2016) have highlighted the important role of gatekeepers and informants in gaining access to study participants, particularly in ethnographic studies. Cunliffe and Alcadipani (2016) emphasized the importance of gatekeepers as the ones who know who you want to know. Le Dantec and Fox (2015) used organizations as gatekeepers and gained access to study participants by attending meetings and gatherings. Through their attendance and participation, Le Dantec and Fox (2015) built trust among potential study participants. However, Kondowe and Booyens (2014) initiated contact with their study participants who met their criteria through cold calling business listings and used their time on the business sites to build trust and involvement. Finally, Cunliffe and Alcadipani (2016) observed the researcher could leverage personal and professional relationships to gain access to study participants.

I leveraged organization gatekeepers and professional relationships to access study participants. As a rental property owner in the greater Seattle area, I have membership in and access to rental property organizations that strongly encourage the interaction, collaboration, and reciprocity of rental property owners. I used authority figures in these networking organizations to connect me to study participants who met my criteria and attended organizational meetings to build relationships with potential participants. Finally, I leveraged the professional relationships I have built through my business to gain access to study participants who met my research criteria.

Developing a Working Relationship

Cunliffe and Alcadipani (2016) emphasized the importance of researchers developing trust with study participants. Researchers establishing trust were able to have open conversations with participants about the expectations of the study and informed consent (Cunliffe & Alcadipani, 2016). Moreover, Le Dantec and Fox (2015) argued researchers must establish presence first to build the trust necessary for discussing study procedures and informed consent. The frequent choice of researchers using ethnographic methods is to discuss informed consent in person with study participants (Le Dantec & Fox, 2015; Peticca-Harris et al., 2016). Therefore, after I determined which property owners met my criteria, I developed a working relationship and trust with my study participants through in-person interactions, discussions of study procedures, and gaining informed consent. I used rental property organizational meetings and gathering platforms to maintain in-person interaction and familiarity while in the early stages of gaining access.

Research Method and Design

My research method and design were my strategy and lens for how I collected information and attempted to understand the phenomenon. My research questions was: What risk management strategies do rental property owners use to budget for sustainable profitability? In this subsection, I explained the applicability of a qualitative research method and a mini ethnographic design to answering my research question.

Research Method

The underlying research method guides a researcher's study focus, data collection methods, and communication of findings (Yin, 2018). The research methods most appropriate for scholarly research include quantitative, qualitative, and mixed methods. Quantitative research tests the efficacy of an approach through correlation or causation of the study variables (Evans & Porter, 2015; Manganelli, Morano, & Tajani, 2014; Newell et al., 2015). Quantitative designs can include a quasi-experimental audit study where the researcher collects data in a real-world context and thereby increases the generalizability of the results (Evans & Porter, 2015). Researchers can also employ correlation models to determine the interdependence of multiple variables and infer a cause-effect relationship (Manganelli et al., 2014).

Qualitative research explores meaning, insight, and discovery of new business opportunities or management decisions, rather than quantitatively testing the efficacy of a particular approach (Storesund, & McMurray, 2009; Thompson, 2016; Yin, 2018). Qualitative research is also effective when a researcher is asking a how question and is studying human phenomena in its cultural context (Yin, 2018).

In mixed methods research, the researcher uses both quantitative and qualitative methods in a single research study (Cortimiglia, Ghezzi, & Frank, 2016; Shannon-Baker, 2016). Mixed methods research provides a more complex understanding of the phenomena than one research method alone (Shannon-Baker, 2016). Cortimiglia et al. (2016) used qualitative methods to expand and explain quantitative methods. Other scholars have argued a mixed methods approach increases triangulation and therefore the accuracy of the study (Hussein, 2015).

A mixed method approach was not appropriate for this study because a researcher should select a research method that aligns the study purpose with the data collection and analysis techniques (Fusch et al., 2017). In my study, I sought to understand how rental property owners' budget for sustainable profit. I explored the perceptions and experiences of property owners' sustainable budgeting strategies in the cultural context. Fusch, Fusch, Booker, and Fusch (2016) argued for the consideration of cultural forces in modern business research as a critical component for understanding organizational success. Therefore, the qualitative method was the most appropriate approach to my study.

Research Design

Fusch et al. (2017) argued that researchers should choose the research design and data collection method that best matches the research questions and time allotted for the study. My doctoral research question was how do rental real estate business owners in the greater Seattle area budget for sustainable profit? I was particularly interested in the rental owner use of risk management strategies for sustainable profit budgeting.

Jarzabkowski et al. (2014) discussed practical guidance for researchers on how to present ethnographic data in a meaningful way for scholarly research and how to effectively write ethnographic textual results. The scholars differentiate ethnographic data from other qualitative methods in two ways (Jarzabkowski et al., 2014). First, ethnographic data is not limited to researcher-participant dialogues, but also contains the observations and experiences of the researcher in specific social settings (Guang, Trotter, & Yu, 2015; Jarzabkowski et al., 2014; Vesa & Vaara, 2014). Second, ethnographies are an art as well as science for depicting those observations and experiences into codified results (Ingold, 2014; Jarzabkowski et al., 2014; Vesa & Vaara, 2014). The dilemma for the ethnographer is extracting meaning and evidence from field notes to create the experience of deep immersion for readers who were not there (Jarzabkowski et al., 2014; Vesa & Vaara, 2014). The purpose of ethnography is to tell a powerful, insider story that immerses the readers in the field so they can witness the phenomena themselves and understand the study results (Ingold, 2014; Jarzabkowski et al., 2014; McCurdy & Uldam, 2014).

Other research designs, such as grounded theory, may involve a well-rounded perspective of the phenomenon, but lack the deep immersion of ethnography (Fusch et al., 2017; Ingold, 2014; Jarzabkowski et al., 2014). Moreover, the theory is the outcome of grounded theory research and therefore not appropriate for a study that begins with a theoretical application to the phenomenon (Cho & Lee, 2014; Corley, 2015; Glaser & Strauss, 2014). Thematic analysis was also not appropriate for this study, for researchers applying the approach are coding spoken and written ideas (Hennink et al., 2017; Liñán

& Fayolle, 2015; Vaismoradi, Jones, Turunen, & Snelgrove, 2016). Coding alone cannot capture meaning from experiences and subtle nuances reflected in individual or environmental settings (Ingold, 2014; Jarzabkowski et al., 2014; La Rocca, Hoholm, & Mørk, 2017; McCurdy & Uldam, 2014).

Researchers who apply phenomenology as a research design are concerned with a holistic understanding of lived experiences to achieve a deeper understanding of the phenomenon (Gill, 2014; Gill, 2015; Hamilton, Cruz, & Jack, 2017). Similar to ethnography, researchers may use narratives in a phenomenological design to make sense of life experiences (Gill, 2014; Gill, 2015; Hamilton et al., 2017). However, phenomenology does not involve the (a) relation of lived experiences to a cultural group, (b) deep immersion of the researcher, and (c) the researcher-participant component of ethnography (Ingold, 2014; Jarzabkowski et al., 2014; La Rocca et al., 2017; McCurdy & Uldam, 2014). Ethnography is a more appropriate research design than phenomenology for this study because it facilitates immersion into the unique setting of the phenomenon and enables the researcher to achieve the insider perspective (Gill, 2014; Ingold, 2014; Jarzabkowski et al., 2014; McCurdy & Uldam, 2014).

A case study design is effective for how and why research questions as well as exploratory research problems (Yin, 2018). Fusch et al. (2017) recommended a blended mini-ethnographic case study design for students with limited funds or time because of the flexibility in data collection. Student-researchers can choose a variety of direct observation, interviews, focus groups, ethnography, and journaling methods depending on the funds and timeframe of the study (Fusch et al., 2017; Guang et al., 2015; La Rocca et al., 2017). The exploration of human behavior and activity, holistic analysis, and participant observation enabled me to explore the unique risks of rental businesses and how rental owners' budget for sustainable profit.

Saturation

Morse (2015b) described the purpose of saturation is to understand the main characteristics of the components of the phenomena a researcher is studying. Researchers reach data saturation and gain a stronger understanding of a phenomenon when data in the components build and overlap (Hancock, Amankwaa, Revell, & Mueller, 2016; Morse, 2015b). Researchers must ensure comprehensive coverage of the scope of the data, the area of the component under study, and the depth of the component (Morse, 2015b). Additionally, a researcher must find replication in the data (Morse, 2015b). Therefore, I ensured data saturation in my study through (a) data that represented the population and scope of the study, (b) rich samples with information that covered the depth of the research question, and (c) theme replication.

Population and Sampling

A key factor in exploring and understanding complex phenomena is sampling the appropriate data (Morse, 2015a; Morse, 2015b). Gentles et al. (2015) explained sampling as selecting a representative portion of a population of interest to the researcher to understand the general characteristics of that population. Gentles et al. (2015) isolated purposeful sampling as the most suitable and commonly used sampling method for case studies and ethnographies. Researchers who conduct purposeful sampling explicitly select individuals for data that provide knowledge and information about the larger culture or population of interest (Gentles et al., 2015). Through purposeful sampling, I selected the data criteria and size that best represented my research objectives and the phenomenon under study (Gentles et al., 2015; Palinkas et al., 2015; Robinson, 2014).

Sampling Method

Palinkas et al. (2015) differentiated several types of purposeful sampling, including the researcher selecting data that is (a) extreme, deviant, or outlier from the norm to understand unusual manifestations of the population, (b) variated to understand unique or diverse conditions in the population, or (c) homogeneous and mixed to reduce variation and simplify the analysis. The scholars explained purposefully sampling a homogeneous group enables the researcher to target a narrow area of interest (Palinkas et al., 2015). Researchers must carefully select each data set according to the research objectives and clarify the reason a participant is qualified to address the research questions (Palinkas et al., 2015). Additionally, researchers can differentiate purposeful sampling from convenience sampling by linking data collection to the research objectives (Palinkas et al., 2015). Therefore, my selection criteria for study participants was a homogeneous group of rental owners who (a) have a record of sustainable profit in the industry, (b) operate in the greater Seattle area, and (c) use specific risk management strategies to seize opportunities and mitigate market risks. The selection criteria match my research objectives and purposefully target the individuals who are uniquely able to answer my research question.

Sampling Size

Boddy (2016) argued sample size must be small enough to achieve meaningful, information-rich data. Researchers should also explain the reasoning behind the sample size and how the chosen size will achieve data saturation (Boddy, 2016). In a literature review and study of 25 in-depth interviews, Hennink et al. (2017) determined the two different parts to saturation are code saturation and meaning saturation. The scholars determined that researchers need only nine interviews to reach code saturation, but 16 to 24 interviews were critical to reaching meaning saturation (Hennink et al., 2017). Researchers need meaning saturation to fully understand the richness of the data and issues in the codebook (Hennink et al., 2017). However, meaning saturation requires more data than code saturation to grasp the complexities of the phenomenon (Hennink et al., 2017). The scholars argued sample adequacy that enabled the researcher to achieve deep, meaningful data was more important than sample size (Hennink et al., 2017; Malterud, Siersma, & Guassora, 2016).

I purposefully sampled 22 rental real estate owners in the greater Seattle area, so I could select the individuals who had experience with my research topic on successful strategies for sustainable profit. I conducted interviews and participant observation over a two month period. Several participants were actively partnered with their spouse in the operations of their rental property business. Since each spouse would serve a different role in the business, I frequently conducted my fieldwork with both spouses to get a holistic picture of their success strategies. However, while the spouses may have had different roles in the business, their overall strategy and perspective had to be the same to operate their business efficiently. I sampled 22 participants, but in reality I sampled 16 perspectives because 12 participants were married business partners (see Table 2). I was able to achieve data saturation with these numbers and, whether 16 perspectives or 22 participants, both amounts matched Hennink et al.'s (2017) paradigm.

Table 2

Sample Size of Study Participants

Participant Status	*Number of Participants*	*Number of Perspectives*
Single or participated in the study without spouse	10	10
Married business partners	12	6
Total	22	16

Sampling Criteria and Interview Setting

Researchers can survey the population that best represents the research objective (Hancock et al., 2016; Malterud et al., 2016; Morse, 2015b; Robinson, 2014). The more information on the overall population each sample holds, the fewer samples the researcher needs to reach data saturation (Malterud et al., 2016). Researchers can save time and resources to study fewer, richer samples of data (Malterud et al., 2016). Therefore, I used inclusion criteria to select participants and the interview setting for this study.

Inclusion criteria. Inclusion criteria are the attributes a participant must have to qualify for the study (Robinson, 2014). The research objectives for this study concerned the risk management strategies Seattle area rental property owners use to budget for sustainable profit. Study participants must have (a) owned greater Seattle area rental properties, (b) been employed at least half-time in the strategy and operations of their rental business, and (c) have a record of sustainable profit over ten years. These inclusion criteria reflected my research objectives and purposefully included participants who were uniquely able to answer my research question.

Interview setting. Researchers are uniquely able to use ethnographic research to immerse into the culture and setting of the study participants (Field-Springer & Stephens, 2017; Fusch et al., 2017; Ingold, 2014; Jarzabkowski et al., 2014; McCurdy & Uldam, 2014). Researcher-participant data provides rich and thick descriptions of the phenomenon through environmental and contextual exposure (Field-Springer & Stephens, 2017; Ingold, 2014; Jarzabkowski et al., 2014; McCurdy & Uldam, 2014). Additionally, by sharing the experiences of research participants, researchers can transform an objective study into lived experiences that help the researchers gain the insider's perspective (Field-Springer & Stephens, 2017; Ingold, 2014; Jarzabkowski et al., 2014). In this research study, I engaged and interacted with the study participants at their place of business, including office settings, rental properties, and social organizations with other rental property owners. I measured nuances, perceptions, and practices by participating in and observing the participants in their customary environment. Moreover, education through exposure was a key component of ethnographic research that enabled me to gain a thorough and unique understanding of the budgeting strategies Seattle area rental property owners use for sustainable profit.

Ethical Research

The target population I observed was rental real estate property owners in the greater Seattle area. My target population did not contain any of the Walden IRB's listed vulnerable populations. Moreover, the potential benefits to the participants and the larger body of rental property owners seemed to outweigh the potential risk of harm to the study participants. All participants who met the inclusion criteria were treated equally with respect and dignity regardless of age, gender, religious beliefs, political affiliation, or other factors (Bender, Cyr, Arbuckle, & Ferris, 2017; Greenwood, 2016; Petrova, Dewing, & Camilleri, 2016). The HHS (1979) developed the *Belmont Report* to specify the ethical principles and boundaries for biomedical and behavioral research involving human subjects. The HHS specified the researcher must ensure the voluntary and informed consent of human subjects in the design, collection, and reporting of data. Additionally, the HHS identified the critical components for informed consent are (a) information disclosure, (b) participant comprehension, and (c) participant voluntariness.

Information Disclosure

The information component includes the necessary items for disclosure to study participants to ensure they have sufficient information (HHS, 1979). The informational items include the reasonable data a volunteer should know, the range of risk, and voluntary nature of participation (HHS, 1979; Petrova, et al., 2016). Wallace and Sheldon (2015) argued researchers are often conducting their study out of self-interest and need to declare the interests and any conflicts. In my informed consent form, I identified my self-interested goals of the study are to complete my degree and add to the body of knowledge on the rental real estate industry. Wallace and Sheldon (2015) also suggested explaining relevant employment to the study. For example, it was important to inform my study participants that I also own a rental real estate business and may be a possible competitor.

There are several ethical challenges in studies with voluntary participants, including confidentiality, privacy, and management of personal information (Bender et al., 2017; Petrova et al., 2016). Researchers can reveal personal identity either directly through the inclusion of biographical information and direct quotes or indirectly through detailed descriptions of the environment (Petrova et al., 2016). However, the protection of personal identity is a key component to building trust with study participants and avoiding negative consequences for their participation (Bender et al., 2017; Petrova et al., 2016; Wolf et al., 2015). Researchers can be open and transparent about confidentiality during the recruitment of study participants and throughout the study (Bender et al., 2017; Petrova et al., 2016). The use of codes in place of names and gender pronouns is an effective strategy to disguise participants that are otherwise recognizable in a close-knit industry (Petrova et al., 2016; Wolf et al., 2015). In my informal consent form, I explained that I will not share the identities of individual participants or any details that might identify them in this study. Moreover, I did not use the personal information of study participants outside this research study. I took several steps to ensure information privacy and security for study participants. I (a) kept the collection of personal information to a minimum, (b) used codes in place of names and gender pronouns, and (c) will store data in a password-protected, secure folder for five years. Additionally, I verified with a third-party reader that the descriptions and codes in the study do not reveal confidential information to ensure the adequacy of my protection measures.

Participant Comprehension

The HHS (1979) also required participants comprehend the informed consent. Researchers must provide organized information in a way subjects can understand and have time to make an informed decision about participation in the study (Bender et al., 2017; HHS, 1979; Petrova et al., 2016). Researchers have an obligation to determine if the subjects have comprehended the information (Bender et al., 2017; HHS, 1979; Petrova et al., 2016). One way researchers can verify comprehension and informed consent is written approval letters (Petrova et al., 2016; Wallace & Sheldon, 2015). Researchers can also use ongoing disclosure and revisit the consent information throughout the study (Bender et al., 2017; Grady, 2015; Greenwood, 2016; Petrova et al., 2016). In my study, I used ongoing email and phone calls to disclose information and obtain a signed consent form.

Participant Voluntariness

Researchers can increase the quality of the study by developing the interview setting as a safe ethical space where the participants and researcher can interact (Bender et al., 2017; Greenwood, 2016; Petrova et al., 2016). The HHS identified the component of voluntariness requires the subjects to enter into the study of their own volition and not by coercion or influence (HHS, 1979). Rental property owners own and lead their businesses, so I did not have the authority and could not coerce or influence their participation. The informed consent form should explain how the researcher will ensure confidentiality and that the participants can withdraw from the study at any time (Bender et al., 2017; Petrova et al., 2016; Sil & Das, 2017; Thorpe, 2014). In this research study, participants could terminate their involvement in the study at any time through verbal or written request. I would cease data collection and delete any coded records or information on that participant by request.

Additionally, researchers should define financial incentive or compensation for participant time and resources (Abshire et al., 2017; Robinson et al., 2015; Sil & Das, 2017). In this research study, I did not offer financial incentives for participation. I obtained permission to collect data through receiving approval from Walden University's IRB. The Walden University IRB approval number for this research study was 01-16-19-0639848.

Data Collection Instruments

In my research, I was the primary data collection instrument. In qualitative research, researchers are the instrument of data collection because humans can interact with the study environment, integrate data on multiple levels, and decipher unusual information (Fusch & Ness, 2015; Hoover & Morrow, 2015; Sanjari et al., 2014). Bourke (2014) described researchers as primary instruments critical for qualitative research and gaining an understanding of the problem through lived experiences. Researchers as primary data collection instruments prevent the particulars of lived experiences from being lost in abstraction (Bourke, 2014).

Secondary Data Collection Techniques

I used the mini ethnographic case study techniques of participant observation and semistructured interviews as my secondary data collection instruments. Ethnographic techniques can reveal critical insight into business interactions and relationships through multi-site observations, analytical interviews, and immersion into the social context (Guang et al., 2015; La Rocca et al., 2017). Participant observation in business research is an inquiry into socially shared, local knowledge that impacts business processes and practices (Vesa & Vaara, 2014). Scholars have highlighted participant observation and interviews as an effective way to capture the lived experiences of the phenomenon (Fusch et al., 2017; Jarzabkowski et al., 2014; McCurdy & Uldam, 2014). Participant observation is a data collection technique of ethnography that requires simultaneous involvement in activities while observing the activities objectively (Ingold, 2014). When interacting with the subjects, the researcher is attentionally and intentionally living with others (Ingold, 2014). Ethnographers (Ingold, 2014) described participant observation as observing from the inside with the goal of learning. Participant observation is also undergoing an education of self-development while at the same time objectively observing and recording one's surroundings. According to Ingold, the final product of participant observation is not a self-reflection, but an objective truth a researcher achieves through exposure to the culture. Participant observers extract meaning and evidence from field notes to create the experience of deep immersion for readers who were not there (Jarzabkowski et al., 2014). Field notes are the raw data that detail the ethnographer's lived experience, such as the atmosphere in a room, which interview transcripts or video recordings cannot capture (Jarzabkowski et al., 2014). The participant observation protocol for this study is in Appendix A.

Researchers can pair semistructured interviews with participant observation (McIntosh & Morse, 2015). Semistructured interviews are also a critical technique for comparing study participant responses and gaining reliable information (McIntosh & Morse, 2015). Participant answers are comparable data when researchers ask all participants the same questions (McIntosh & Morse, 2015). Additionally, semistructured interviews are ideal for research flexibility and reciprocity between researchers and study participants (Barrett & Twycross, 2018; Castillo-Montoya, 2016; Kallio et al., 2016). Semistructured interviews are scheduled sessions where study participants are asked the same list of questions in the same order (McIntosh & Morse, 2015). However, researchers formulate open-ended questions to generate discussion (Barrett & Twycross, 2018; McIntosh & Morse, 2015). Researchers who use semistructured interviews adapt follow-up questions and probes to the participant responses to glean unique information about the phenomenon of study (Barrett & Twycross, 2018; Kallio et al., 2016; McIntosh & Morse, 2015). Scholars have argued researchers should develop an interview protocol for semistructured interviews (Barrett & Twycross, 2018; Castillo-Montoya, 2016; Kallio et al., 2016; McIntosh & Morse, 2015). The interview protocol for this study is in Appendix A.

Data Collection Instrument Validity and Reliability

Validity is present in a data collection instrument when researchers achieve the results that represent what they intended to measure (Bastos, Duquia, González-Chica, Mesa, & Bonamigo, 2014). Additionally, a data collection instrument is reliable when researchers are consistently able to achieve the same results on repeated applications to the same study population (Bastos et al., 2014). I increased the reliability and validity of my data collection through data triangulation and saturation. Researchers have used triangulation to test the validity and reliability of a study through the convergence of data from different sources (Carter, Bryant-Lukosius, DiCenso, Blythe, & Neville, 2014). Triangulation is the use of multiple methods or data in qualitative research to achieve a more reliable and comprehensive understanding of the subject of study (Carter et al., 2014). Moreover, Morse (2015a) discussed triangulation increases the reliability of the study by determining if the researcher gets the same results after using multiple methods or data sources. Fusch and Ness (2015) also highlighted the importance of data triangulation, such as multiple methods and data collection techniques to achieve data saturation. Therefore, I used the data collection techniques of participant observation and semistructured interviews to enhance the validity and reliability of my study. Moreover, I used participant observation and semistructured interview protocols (see Appendix A) to improve the reliability and validity of the data collection instruments.

Data Collection Technique

My research question was: What risk management strategies do rental property owners use to budget for sustainable profitability? I used participant observation and semistructured interviews as my data collection techniques. Scholars have argued site visits and semistructured interviews are effective ways to explore the lived experiences of study participants and unique information on the phenomenon (Fusch et al., 2017; Jarzabkowski et al., 2014; McCurdy & Uldam, 2014).

Data Collection Protocols

I recorded data on field notes as I observed the phenomenon. Scholars have recommended researchers use data collection protocols to guide interactions (Barrett &

Twycross, 2018; Castillo-Montoya, 2016; Kallio et al., 2016; McIntosh & Morse, 2015). My data collection protocols for participant observation and semistructured interviews are in Appendix A. Both protocols categorize questions and observations into categories that relate to my research question, including data related to budgeting, risk management, and strategy. Scholars have argued the fieldwork questions should reflect the research question (Barrett & Twycross, 2018; Castillo-Montoya, 2016; Kallio et al., 2016; McIntosh & Morse, 2015). In both protocols, I included separate spaces to record observations and observer reflections. Scholars have emphasized researchers should strive for reflexive and emotionally intelligent fieldwork by distinguishing observations from researcher reflections (Berger, 2015; Collins & Cooper, 2014; Gilmore & Kenny, 2015).

Advantages and Disadvantages of Data Collection Techniques

I used two mini ethnographic case study data collection techniques in my research: participant observation and semistructured interviews. Both techniques have advantages, but I also chose each technique to offset the disadvantages of the other. See Table 3 for a compare and contrast layout.

Table 3

Advantages and Disadvantages of Data Collection Techniques

Collection Technique	Advantages	Disadvantages
Participant Observation	1. Deep, rich understanding of the phenomenon in context over long term observations	1. Time consuming for the researcher to conduct fieldwork
	2. Multiple sites of interaction with participants increases data saturation	2. Significant cost and involvement of the researcher to reach sites
	3. Researcher-participant role gleans lived experiences	3. Possible researcher bias in interpretation of data
Semistructured Interviews	1. Fast to conduct	1. Only a snapshot in time
	2. Control of interview environment	2. Information linked to only one environment
	3. Yields comparable data	3. Limited access to spontaneous data

Through fieldwork, Guang et al. (2015) determined participant observation provided a deeper, richer understanding of subject attitudes compared with the environmental context. The researcher can use participant observation to determine the legitimacy and context of human perceptions through immersion in the environment, while interviews and questionnaires can have limited context (Guang et al., 2015). Moreover, La Rocca et al. (2017) highlighted three major benefits to participant observation research. First, researchers who use participant observation can carry out observation at multiple sites of interaction (La Rocca et al., 2017). While an interview or questionnaire is a snapshot at one particular point, researchers who visit the study subjects at various points and locations in the study setting can provide a more holistic view of business interaction (La Rocca et al., 2017). Second, participant observation researchers acknowledge that organizational roles are not fixed but examine a fluid and variable mix of individuals interacting in formal and informal settings (La Rocca et al., 2017). Third, researchers who apply participant observation investigate the routines, patterns, and mundane activities of business phenomena (La Rocca et al., 2017). La Rocca et al. argued the determination of continuity in everyday practices in interaction could create a better understanding of how to replicate effective business practices. The scholars (La Rocca et al., 2017) advocated the participant observation techniques of multi-site observations, shadowing, and analytical interviewing will glean a richer understanding of interaction processes and business phenomena.

There is also a critical reflexive element to participant observation. Vesa and Vaara (2014) argued participant observation is critical for researchers to play the role of a member of the organization to gain a better understanding of lived experiences and a holistic picture of the phenomenon. Participant observers extract conclusions and meaning from field notes to create the experience of deep immersion for readers who were not there (Jarzabkowski et al., 2014). Field notes are the raw data that describe the ethnographer's lived experience, such as the ambiance in a room, which interview transcripts cannot capture (Jarzabkowski et al., 2014). However, participant observation can also allow of researcher bias to obstruct study results (Fusch & Ness, 2015; Sanjari et al., 2014). The interpretation of the fieldwork notes must reflect the participants and context, not the personal lens of researchers (Fusch & Ness, 2015). Moreover, participant observation is a time consuming and expensive process requiring long term immersion and engagement in the field to gain saturated data (Fusch & Ness, 2015; Jarzabkowski et al., 2014; Marion, Eddleston, Friar, & Deeds, 2015).

To offset the disadvantages of participant observation and glean comparable data, I used semistructured interviews in my data collection. Semistructured interviews are ideal for flexibility in research and developing reciprocity between interviewers and study participants (Barrett & Twycross, 2018; Castillo-Montoya, 2016; Kallio et al., 2016). When research participants are asked the same list of questions in the same order, semistructured interviews are critical for gaining consistent, comparable, and reliable information (McIntosh & Morse, 2015). Moreover, researchers can adapt questions and create follow-up questions to generate discussion and glean unique information about the phenomenon of study (Barrett & Twycross, 2018; Kallio et al., 2016; McIntosh & Morse, 2015). Researchers can control the environment of semistructured interviews to match the research objectives (Barrett & Twycross, 2018; Kallio et al., 2016; McIntosh & Morse, 2015). However, researchers using semistructured interviews lack the benefit of participant observers to glean data from the spontaneous events in the everyday lives of study participants (Marion et al., 2015). Therefore, I used participant observation and semistructured interviews to balance some of the disadvantages while gleaning the advantages of each technique.

A Note on Member Checking and Ethical Research

I did not use member checking in my research. Researchers using member checking return either the interview transcript or completed analysis to study participants as a way to check the data for accuracy (Birt, Scott, Cavers, Campbell, & Walter, 2016; Morse, 2015a; Varpio, Ajjawi, Monrouxe, O'Brien, & Rees, 2017). However, Morse (2015a) provided an effective and strong argument against member checking. According to Morse, member checking unnecessarily complicates a novice researcher’s ethics and data analysis. Morse criticized scholarship for not determining how this strategy ensures quality inquiry. Moreover, Morse discounts member checking completely, arguing it has little value for determining validity or reliability. A study analysis can be a synthesis of interviews representing the larger picture and may not reflect individual opinions (Birt et al., 2016; Morse, 2015a; Varpio et al., 2017). Therefore, the researcher is in a difficult position to make revisions based on contrasting opinions and discard analyses that represent a larger picture of the phenomenon (Birt et al., 2016; Morse, 2015a; Varpio et al., 2017). Birt et al. (2016) and Varpio et al. (2017) added the ethical concern of sharing data with multiple participants that may violate the confidentiality of other participants. Moreover, researchers attempting to avoid personal biases from influencing the data may incur an ethical violation in allowing a few participant voices to control the narrative (Birt et al., 2016; Varpio et al., 2017). Additionally, scholars have argued researchers with expertise in theory and research methods should be the reviewer and evaluator of the analysis, not the study participants (Birt et al., 2016; Morse, 2015a; Varpio et al., 2017).

Data Organization Technique

I used data collection protocols to record data from participant observation and semistructured interviews. The participant observation and semistructured interview protocols for this study are in Appendix A. Scholars have argued research protocols are an effective technique to increase the validity of the study (Castillo-Montoya, 2016; Kallio et al., 2016; McIntosh & Morse, 2015). Research protocols contain participant information, observations, and researcher reflections (Castillo-Montoya, 2016; Kallio et al., 2016; McIntosh & Morse, 2015). I recorded data on hard copy as I conducted fieldwork and then transfered the data to an electronic password-encrypted folder on my computer. I shredded the hard copies after the transfer and will delete all electronic data after five years.

Additionally, I used the qualitative data analysis software ATLAS.ti 8 as a visual tool to organize and code my data. Researchers have used ATLAS.ti as a tool to create codes from the data and visually organize similarities, differences, and themes in the data (Paulus & Lester, 2016; Paulus, Woods, Atkins, & Macklin, 2017; Stuckey, 2015). Moreover, scholars have argued qualitative data analysis software increases the transparency of the researcher's thought process and enables the readers to evaluate the quality, trustworthiness, and robustness of the research methods (Ang, Embi, & Md Yunus, 2016; Paulus & Lester, 2016; Paulus et al., 2017). Researchers using ethnographic and case study methods have also analyzed their data using ATLAS.ti to increase the trustworthiness, transparency, and replication of the results (Abramson & Dohan, 2015; Ang et al., 2016; Paulus et al., 2014). Therefore, the ATLAS.ti software has been be a critical tool to organize and analyze my data.

Data Analysis

I used methodological triangulation for my data analysis process. The two data collection methods for my study are participant observation and semistructured interviews. Lodhi (2016) argued methodological triangulation could validate data through cross verification of two or more methods, such as interviews and observations. Methodological triangulation is appropriate for mini ethnographic case studies where researchers use multiple data collection techniques to aid triangulation and gain a rich understanding of the phenomenon (Fusch & Ness, 2015; Fusch & Ness, 2017; Lodhi, 2016). Moreover, Graue (2015) argued multiple methods might increase confidence in the results and expand the opportunity of researchers to learn more perspectives on the phenomenon.

Data Analysis Process

Graue (2015) explained the data analysis process as the description, categorization, and interconnection of the phenomenon. In the field, I recorded interview and participant observation data on paper as each interaction with the study population occurred. I used participant observation and semistructured interview protocols (see Appendix A) to record the data. Scholars have argued for researchers to use protocols for recording data in the field (Castillo-Montoya, 2016; Kallio et al., 2016; McIntosh & Morse, 2015). After I returned from the field, I typed and uploaded the data into the qualitative data analysis software program ATLAS.ti 8 for coding. Researchers can organize, code, and analyze all the data to gain a representative picture of the phenomenon with ATLAS.ti 8 (Abramson & Dohan, 2015; Ang et al., 2016; Pauluskins et al., 2014). Additionally, researchers must use selective data reduction to identify data commonalities that relate to the research objective for data analysis (Graue, 2015; Göttfert, 2015; Mayer, 2015). I combined data from both methods of participant observation and semistructured interviews to identify commonalities for the coding categories of strategy, risk management, and budgeting.

Coding Alignment

Researchers must compare and align the data with other studies and a conceptual framework (Graue, 2015). The coding categories of strategy, risk management, and budgeting align with my research objective of determining the risk management strategies Seattle area rental property owners use to budget for sustainable profitability. Scholars have voiced concerns about rental property owner strategies and budgeting for sustainable profitability (Easthope, 2014; Fields & Uffer, 2014; Seemann et al., 2014). I continued to research the literature and incorporate research findings as I conducted fieldwork and data analysis. I incorporated research from new studies that provided additional insight into the phenomenon and the data I have collected. Moreover, the coding categories of strategy and risk management align with my conceptual framework of ERM. Business owners who use ERM could align their risk appetite and business operations with their business strategy (Bogodistov & Wohlgemuth, 2017; Bromiley et al., 2015; Brustbauer, 2016; Callahan & Soileau, 2017; COSO, 2017; Fraser & Simkins, 2016; Gatzert & Martin, 2015). Scholars (Graue, 2015; Göttfert, 2015; Mayer, 2015; Tumele, 2015) have argued the data analysis process begins with the researcher describing the phenomenon but ends with the researcher explaining the results with reliability and validity.

Reliability and Validity

Reliability

Research reliability is a key component to study rigor and trustworthiness for business research (De Massis & Kotlar, 2014; Welch & Piekkari, 2017; Yin, 2018). Researchers use dependability to demonstrate the accuracy of the research findings if other researchers duplicate the study (De Massis & Kotlar, 2014; Morse, 2015a; Welch & Piekkari, 2017; Yin, 2018). Researchers must minimize errors and biases while providing enough information for the reader to agree or disagree with the study conclusions (De Massis & Kotlar, 2014; Yin, 2018). Tumele (2015) described data collection protocols as critical to ensuring dependability in the data collection and analysis process. De Massis and Kotlar (2014) also advocated for researchers to establish and communicate data collection protocols, techniques for data analysis, and a database for case study research. Therefore, I maintained data collection protocols, including a semistructured interview protocol and a participant observation protocol (see Appendix A). I used ATLAS.ti 8 for data organization, analysis, and storage. Scholars have argued ATLAS.ti 8 is beneficial for ethnographic and case study research to increase the transparency, trustworthiness, and replication of results (Abramson & Dohan, 2015; Ang et al., 2016; Paulus et al., 2014).

Validity

Researchers who conduct a valid study must demonstrate their research is credible, confirmable, saturated, and transferable (De Massis & Kotlar, 2014; Noble & Smith, 2015; Yin, 2018). De Massis and Kotlar (2014) and Tumele (2015) argued researchers must use methodological triangulation to demonstrate a valid study.

Credibility and confirmability. Researchers (De Massis & Kotlar, 2014; Yin, 2018) using methodological triangulation analyze the phenomenon from several perspectives and can confirm results with multiple methods. Yin (2018) described case study design as involving multiple data collection sources and thus strengthening the research study by creating converging lines of inquiry. Yin argued the conclusions of a case study are likely to be more convincing, credible, and accurate if the researcher draws from multiple sources of evidence that converge and have similar findings. If a researcher uses one method, it may be expedient, but the researcher risks distorted data and unconfirmed results (Heesen, Bright, & Zucker, 2016). In my research, I collected data through two methods, including participant observation and semistructured interviews.

Data saturation. In addition to study credibility and confirmability, scholars have highlighted the use of methodological triangulation to achieve data saturation study through the convergence of data from different sources (Carter et al., 2014; Fusch & Ness, 2015; Fusch & Ness, 2017; Graue, 2015; Hennink et al., 2017; Lodhi, 2016). Researchers achieve data saturation and a detailed picture of the phenomenon when data overlap (Hancock et al., 2016; Morse, 2015b). Scholars have argued researchers must conduct comprehensive coverage of the data scope, gain rich and thick data, and find data replication (Bastos et al., 2014; Boddy, 2016; Hennink et al., 2017; Malterud et al., 2016; Morse, 2015b). Therefore, I ensured data saturation in my study through (a) methodological triangulation, (b) rich samples with information that covered the scope and depth of the data, and (c) data replication.

Transferability. For research transferability, researchers must provide enough information-rich data and explanation of study techniques to replicate the study (De Massis & Kotlar, 2014; Noble & Smith, 2015; Yin, 2018). Scholars have argued researchers must keep meticulous records, account for researcher biases, and include rich descriptions of fieldwork in the study (Noble & Smith, 2015; Yin, 2018). Researchers can minimize biases in research through reflexivity and emotional intelligence (Berger, 2015; Collins & Cooper, 2014; Gilmore & Kenny, 2015). Berger (2015) argued researchers separate objective observations from subjective interpretations when documenting data in research protocols. Therefore, I increased the transferability of my research findings through meticulous documentation of information-rich data, reflexivity, and data collection protocols (see Appendix A).

Transition and Summary

In Section 2, I described my study strategy, including my research method and design, data collection method, ethical approach to living persons, and data analysis method. I conducted a qualitative, mini ethnographic case study to explore what risk management strategies rental property owners use to budget for sustainable profitability. I used purposeful sampling to collect data on rental property owners in the greater Seattle area that have a track record of sustainable profitability. I used data collection protocols for participant observation and semistructured interviews. In this section, I also addressed how I collected, secured, and stored data to comply with ethical standards. Finally, I used ATLAS.ti 8 to organize and evaluate my data to ensure rigorous research.

In Section 3, I evaluated the data collected through participant observation and semistructured interviews. I applied ERM to conceptualize some of the strategies rental property owners use to budget for sustainable profitability. I leveraged my study results to discuss recommendations for professional practice, positive social change, and future research.

Section 3: Application to Professional Practice and Implications for Change

Introduction

The purpose of this qualitative, mini ethnographic case study was to explore the risk management strategies that enable rental property owners to budget for sustainable profitability. I collected the data from rental property owners operating in the greater Seattle area who work at least part time operating their business and have a record of at least 10 years of sustainable profitability. My findings showed risk management strategies that rental property owners could use to budget for sustainable profitability. The study participants addressed four major risk management budgeting strategies that have contributed to their sustainable profitability: (a) integrating risk identification, response, and monitoring into their firm strategy; (b) cultivating a risk management network that effectively enabled them to mitigate risk; (c) developing a risk response to industry regulations; and (d) creating a positive social change impact. I transferred the study participants' risk management techniques and budgeting strategies into four practical application models to achieve sustainable profitability and offered several recommendations for future research.

Code Names and Geographical Areas of Operation

My study population represented rental property owners throughout the greater Seattle area. I used their code names to identify at least one of their operational areas (see Figure 2). For example, Mr. and Mrs. Everett have operated in the city of Everett while Mr. and Mrs. Olympia have operated in the city of Olympia. Several participants have operated in Seattle, so I codified them as one of the neighborhoods in which they have operated (see Figure 2).

It is critical to note that each code name represents a large region where many rental property owners operate. Moreover, most of my participants operated in more than one city or Seattle neighborhood. If it seemed remotely possible to identify a participant, I coded them as a geographical location where they have operated between 2009 and 2019 but have sold the property. Therefore, the use of geographic code names did not violate the confidentiality of study participants. Additionally, these code names are a useful tool to identify the geographic coverage of the participants as well as the specific city regulations they have encountered that have shaped their budgeting strategies and risk management techniques.

Figure 2. Geographical locations of study participants. The images represent (a) the coverage of participants in the greater Seattle area, (b) the cluster of participants on a national scale, and (c) a snapshot of the neighborhood locations where the seven

participants located within the City of Seattle have operated. I created these images using ATLAS.ti 8 software.

Presentation of the Findings

My research question was: What risk management strategies do rental property owners use to budget for sustainable profitability? I applied the ERM framework to investigate the strategies the study participants leveraged to mitigate risk and achieve sustainable profitability. The study participants were not deliberately using the ERM framework to manage their risk. However, much of their strategies reflected the ERM framework and benefits. After I returned from the field and reviewed my notes, I noticed several key trends in how rental property owners mitigated risk in their business operations and budgeted for sustainable profit. I have compiled three data sources, including interviews, participant observations, and document reviews in the following results. The study participants addressed four major risk management budgeting strategies that have contributed to their sustainable profitability: (a) integrating risk identification, response, and monitoring into their business strategy; (b) cultivating a risk management network that effectively enabled them to mitigate risk; (c) developing a risk response to industry regulations; and (d) creating a positive social change impact.

Budget Strategy 1: Include Risk in Business Strategy

The study participants showed strong tendencies to plan in their businesses to mediate risk, whether that planning included saving funds, pursuing training, or leveraging assets. Altman et al. (2010) attributed small business failure to a lack of planning. Florio and Leoni (2017) observed business leaders could leverage the ERM to improve management decision-making processes to select the best investment opportunities. The rental property owners had clear goals for where they wanted to go and how they would use their businesses to get there. The study participants knew risk was the critical component that would either help them achieve their goal or prevent that goal. The study participants emphasized the uncertainty in their businesses and how the techniques they used has either leveraged or mitigated risk. Bryant et al. (2014) pointed out business leaders must focus on preparation for uncertainties rather than trying to remove uncertainty from the business. Risk opportunity and risk concerns were always a preferred topic at rental property owner networking and training events. The rental property owners were highly astute and adept at identifying and analyzing both their business and market risk.

Simona-Iulia (2014) argued business leaders could leverage the ERM framework to integrate risk planning and response within the business objectives and strategy. Successful implementation of ERM involves the firm leadership (a) measure the risk strategy against the stakeholders' risk appetite; (b) redefine risk as opportunity; (c) reorganize risk throughout the organization; and (c) reintegrate risk into firm strategy (Abd Razak et al., 2016; Callahan & Soileau, 2017; Mishra, Rolland, Satpathy, & Moore, 2019; Simona-Iulia, 2014). The mature adoption and integration of ERM can lead to improved business performance through better decision-making and increased strategic flexibility (Callahan & Soileau, 2017; Meidell & Kaarbøe, 2017). The study participants were not intentionally using ERM, but they effectively integrated risk throughout their decision-making. The study participants' risk assessments, decision making, and strategic flexibility contributed to their sustainable profitability.

The spectrum of business objectives and risk appetite. In my fieldwork, I found two ends of a spectrum on business strategy regarding business goal and risk tolerance (see Figure 3). Most of the study participants focused their business goal and budgeting strategies toward one end of the spectrum. The spectrum consisted of their risk appetite, including risk reduction on one side, and leveraging risk to seize market opportunities on the other side (see Figure 3).

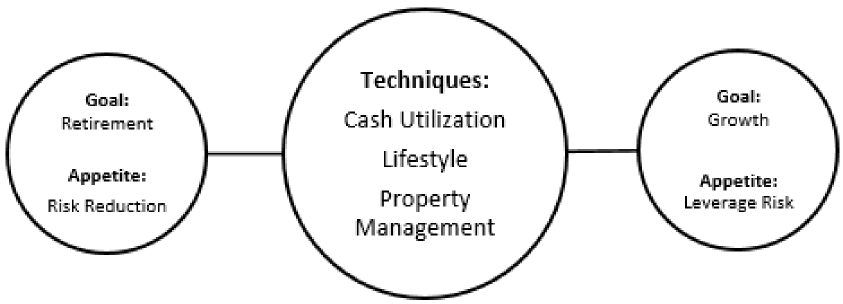

Figure 3. The spectrum of rental property owner goals, risk appetite, and techniques to achieve business goals.

The participants' risk appetite reflected their business goals of either maintaining their assets into retirement or acquiring assets to scale their business. The rental property owners who were no longer considering growth through acquisitions were focusing their operations on risk reduction. These fiscally conservative-minded rental property owners were often older, intending to retire, and concerned with paying down the mortgages on their properties. For example, Mrs. Madison has operated her rental property business for 45 years in Seattle. She has paid the mortgages of all her units before the maturation dates. Mrs. Madison emphasized, "I planned this so that everything is paid off and done. . . . This is my retirement plan. I've put 45 years of sweat and being a landlord" (personal communication, January 29, 2019). The primary goal of the rental property owners favoring risk reduction was to have cash flowing properties with no debt and an emergency fund to afford any crisis. In this way, the rental property owners could retire on consistent and stable income with low risk.

On the other end of the spectrum, I observed rental property owners focused on acquiring more properties and willing to manage more business uncertainty. “When I young, I took so much risk” (Mrs. Sandpoint, personal communication, March 15, 2019). In an ERM approach, not all risk is negative but can be redefined as uncertainty (Ogutu et al., 2018; Wu et al., 2014). Market and business uncertainty can create opportunities to make a profit (Annamalah et al., 2018; Wu et al., 2014). As business leaders implement ERM, they focus their risk management process on upside risks (Arnold et al., 2015; Ogutu et al., 2018). Business leaders focus their strategic concentration on the opportunity side of risk identification and response (Arnold et al., 2015; Ogutu et al., 2018). The study participants focused on business growth through acquisition viewed risk and uncertainty as opportunity to increase revenue.

These market opportunity-minded rental property owners were often not planning to retire for several decades. Therefore, the study participants planned their cash utilization, lifestyle, and property management around their goals of business expansion and higher revenue streams. For example, Mr. and Mrs. Everett have been investing in rental real estate since 2004 and actively searching for opportunities to grow their business. “Paying off loans is not the most efficient use of [our] money, it will stop [our] growth” (Mr. Everett, personal communication, January 21, 2019). The rental property owners toward this end of the spectrum were willing to pursue risk and uncertainty to achieve the financial benefits.

The study participants on both sides of the spectrum aligned their business techniques with their risk appetite and business objectives. Brustbauer (2016) argued small business owners applying ERM would (a) identify which risks to protect the business from and which risks to view as an opportunity, (b) integrate their risk response into the actions of the business, and (c) monitor the progress of their risk response. Additionally, Brustbauer emphasized the COSO ERM framework is critical for small business owners to recognize and be able to pursue opportunities but also anticipate and be able to protect against harmful risks.

However, small businesses often operate with few resources and risks are based on the owner's perceptions and ability to manage them (Bhattacharya, 2018; Brustbauer, 2016; Falkner & Hiebl, 2015; Gorzeń-Mitka, 2015). In COSO's (2018) ERM framework, a business owner should identify risks, assess and prioritize the risks, and implement risk responses. Among the study participants, I identified three key areas of opportunity pursuit and risk response. The study participants were clear on the connection between their business objectives and risk appetite. Moreover, they adapted their business and personal operations to meet their business objectives at the level of their risk appetite. These three key areas of business and personal operations included (a) cash utilization, (b) lifestyle, and (c) property management techniques.

Cash utilization: Investing for retirement versus business growth. Rental property owners utilized cash capital as a vital component to operational strategy. "It's a capital intensive business . . . you have to have capital" (Mr. and Mrs. Everett, personal communication, January 21, 2019). Cash sources mostly included income from a conventional job that at least one spouse would work and cash flow revenue from rental properties. The study participants used their cash based on whether their business goal was upcoming retirement or growth (see Figure 4).

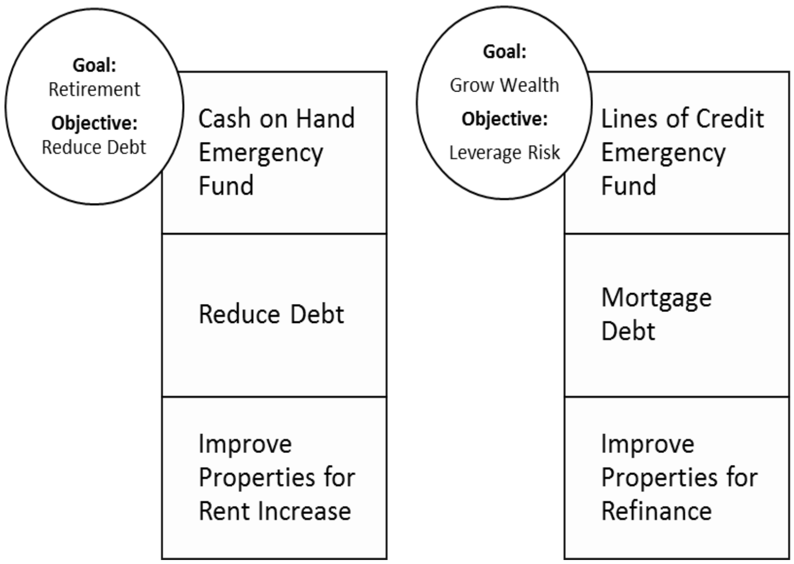

Figure 4. Cash utilization techniques by business goal and objective.

Cash utilization for rental property owners focused on risk reduction. The rental property owners with the goal of upcoming retirement had the objective to reduce their risk through (a) keeping cash on hand for an emergency fund, (b) reduce any debt, and (c) improve their properties to increase rent (see Figure 4). The study participants planning for their upcoming retirement were more often setting aside funds to use in the event of an emergency so as not to disrupt their retirement income. Although extensive insurance can cover large expenses, there are out of pocket expenses at the time of an emergency and before the insurance claim reimburses the property owner (Mr. Bellevue, personal communication, January 20, 2019). "[I]t's never a bad idea to have cash. You're never losing money by saving money…for me, [liquid] cash makes sense, but I am not in an acquisition phase" (Mr. Mill Creek, personal communication, February 12, 2019). The study participants that did not save a cash emergency fund had substantial monthly cash flow from their properties to offset emergency expenses. Mr. and Mrs. Tacoma (personal communication, January 21, 2019) operated on a basic concept for their budget. With an Excel spreadsheet, Mr. Tacoma has kept meticulous financial records of his personal and business accounts. He has budgeted a year ahead leaving space in the budget to cover repairs, capital costs, and vacancies. When cash flow came in from their rental properties, Mr. and Mrs. Tacoma would use it to pay any expenses for the month before using the rest to pay down mortgage debt.

Mortgage debt is a monthly expense and liability that reduces the revenue a rental property owner can generate from a property. Mr. and Mrs. Kent's financial goal has been to retire. "I want my husband to be able to retire" (Mr. and Mrs. Kent, personal communication, February 9, 2019). They actively focus on debt reduction to increase the monthly cash flow from their properties. After acquiring a property, Mr. and Mrs. Kent would have the mortgage paid off in 5 years. Mr. and Mrs. Kent own three of their properties without mortgages and are targeting their last debt before they retire. In contrast, Mr. Eastlake's debt strategy has been to reduce slowly the mortgages on his properties over time. "You're working for the bank for 25 years, and until you get that mortgage paid off you won't see much…You have to be willing to put in the time" (Mr.

Eastlake, personal communication, February, 14 2019). Debt reduction was a critical technique for reducing risk among rental property owners focused on retirement.

The third cash utilization technique rental property owners use to reduce their risk is to reinvest in their properties through repairs, capital improvements, and upgrades. "These properties are an asset. When you own an asset, you take care of it. Think of it as a business; you want people to get in and out of it" (Mr. Mill Creek, personal communication, February 12, 2019). Mrs. Sandpoint (personal communication, March 15, 2019) has invested in improving her rental properties and could raise rent to generate more monthly revenue as the neighborhoods improved over time. Study participants on both ends of the goals and risk appetite spectrum placed a strong emphasis on maintaining and improving their properties, but for different reasons. The rental property owners focused on retirement reinvested cash to improve their properties to generate more monthly cash flow reflected in higher rents for higher quality units. The rental property owners focused on growth reinvested cash to improve their properties to generate higher rents, but also to increase the asset equity for a refinance.

Cash utilization for rental property owners focused on leveraging risk. Rental property owners focused on growing their wealth and business leveraged debt as a key technique for sustainable profitability. The study participants' most common pattern was to acquire property using a conventional mortgage, repair and upgrade the property over time, and wait for investment opportunities. When the study participants had achieved an increase in equity on their property and found market opportunities, they would pull cash out of the property through a refinance and reinvest the cash in the purchase of a new rental property on a conventional mortgage. However, debt limits the cash flow revenue of a rental property and increases the risk that the rental property owner may not be able to afford the payments in the event of a job loss, unexpected expenses, vacancy, unprofitable property, and more. Therefore, the rental property owner has to consider carefully the amount of debt to leverage. “We’re very conservative; we don’t bite off more [debt] than we can chew” (Mrs. Sandpoint, personal communication, March 15, 2019). Mr. and Mrs. Everett (personal communication, January 21, 2019) emphasized: “It’s balancing [being] fiscal conservative and [using] risk leverage.”

In the problem statement of this study, I reported City of Seattle Office of Housing (2018) statistics found approximately 42% of 13,643 rental units in their affordable housing program were not generating enough revenue to offset debt and operating costs. The participants of this study have been profitable for at least 10 years and utilized debt cautiously within their financial model of what they could afford. They did not purchase rental properties that could not generate enough revenue to offset debt and operating costs. For example, Mr. and Mrs. Kitsap (personal communication, January 27, 2019) focused on minimizing negative risk by mindfully purchasing rental properties. They utilized specific numbers and formulas to evaluate potential rental properties. Their process was to (a) evaluate the property, (b) research purchase options, and (c) drive the purchase to completion.

The Kitsaps consistently use formulas for profit, which they call “a box of what makes money and everything has to fit in that box. Always have an out. [For example,] if a flip is not selling, rent it until you can sell, so it is self-sustaining.” The Kitsap’s formulas streamline their purchasing decisions and keep their business acquisitions manageable. “When I do my numbers it’s the worst-case scenario.” The Kitsaps have planned potential losses into their formulas so they can seize market opportunities while minimizing negative risk. “Stay in your damn box. Don’t deviate, no exceptions or [you] lose money” (Mr. and Mrs. Kitsap, personal communication, January 27, 2019). Mr. Bellevue (personal communication, January 26, 2019) argued: “I want to know how much money this month and next month and so on.” Rental property owners that know their numbers, budget, and financial formula have greater control to make decisions that lead to sustainable profitability.

The City of Seattle Office of Housing (2018) survey also found that 25% of rental property owners did not have reserve funds to afford projected capital needs. In my fieldwork, I found the reason why may be because some rental property owners focused on growth do not want their cash in a bank account. Mr. and Mrs. Tacoma (personal communication, January 21, 2019) argued every dollar could be put to work to make more either through investing in property or paying down debt on their properties. “Money in the bank is worthless; money put to work is wise” (Mr. and Mrs. Tacoma, personal communication, January 21, 2019). These property owners maintained a large home equity line of credit at a low variable interest rate if they could not pay their expenses in a given month with their cash flow. Several other study participants focused on the growth side of the spectrum also utilized lines of credit, including home equity, credit cards, and retirement accounts. Mr. Bellevue (personal communication, January 26, 2010) “hate[s] to have money just sitting” because it could be earning profit through purchasing or rehabbing properties. While the study participants have utilized this technique to achieve sustainable profitability by investing every dollar they earn into an opportunity, they are increasing the risk that they will not have enough funds to cover their expenses. These rental property owners offset this risk through careful budgeting of their cash flow and do not deviate from the financial models that have worked for them in achieving sustainable profitability.

Lifestyle: Hard work mindset, mindful spending, and planning. The study participants' lifestyles were critical components to achieving sustainable profitability. Arnold et al. (2015) found firms that quantify risks in autonomous units may inhibit the company from acting strategically and create greater risk. Rather than decentralizing risk, Arnold et al. encouraged an ERM approach that combines and centralizes information across a business, thereby boosting risk identification and holistic risk response. The study participants decentralized risk in their businesses, but also combined their businesses with their lifestyles to mitigate risk and seize opportunities for sustainable profitability.

In the rental real estate industry, there is a minimal divide between personal and business risk for small scale rental property owners. The study participants operated their properties as sole proprietorships or limited liability companies. In these business structures, the study participants were effectively able to transfer cash and debt between their personal and business budgets. For example, study participants would use the income from their conventional jobs for down payments to acquire new properties or to pay down mortgages on properties. "I worked three jobs to pay the mortgage…my mind was always turning, and I was always keeping my eyes open for opportunity…I don't have a cushy, comfy lifestyle. I work every day. I jump on opportunities. I am always on it…planning, doing. This is a 24/7 job" (Mrs. Sandpoint, personal communication, March 15, 2019). The study participants also set their business goals based on their life goals. If they wanted to retire, they focused their business on that goal. If they wanted to grow wealth, they focused their business on that goal. The study participants' lifestyles included hard work mindsets and mindful spending as key techniques to leverage their time and money to achieve their goals (see Figure 5). Additionally, the study participants had a plan for how they were going to apply their time and money, mitigate risk, and achieve sustainable profitability (see Figure 5).

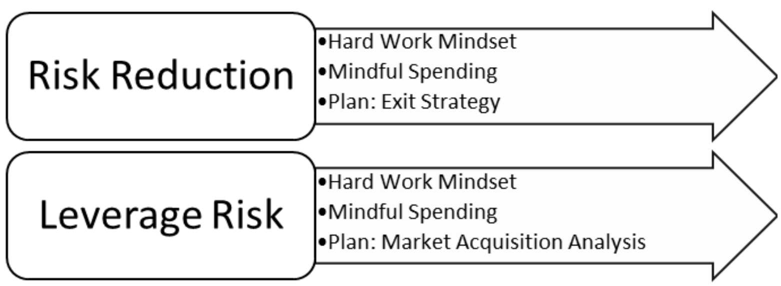

Figure 5. Lifestyle techniques by business goal and objective.

Hard work mindset. The study participants had independent, business owner mindsets. Mr. Mill Creek (personal communication, February 12, 2019) started his rental property business after decades of working conventional jobs. In his conventional job, he got tired of working hard for someone else. "Someone else's name was on the building" (Mr. Mill Creek, personal communication, February 12, 2019). Mrs. Madison (personal communication, February 19, 2019) argued she was not temperamentally suited to work for others. Mrs. Sandpoint (personal communication, March 15, 2019) came to America with a mindset that wealth was not negative and that you can make money through property. All of the study participants argued hard work was key to their sustainable profitability.

Mr. Montlake (personal communication, March 5, 2019) cited his family's lifestyle as an element of their business success. "Discipline and the right approach to people and work ethic is probably what sets us apart from other people in the business. We do everything ourselves from the most menial to the most complex…I take it seriously. This is how I feed my family". The study participants also engaged in hard work and active management of their properties as a way to reduce the risk of a problem occurring and growing without their knowledge. Ms. Seattle (personal communication, February 8, 2019) aligned her hard work mentality with her goals: "1500 units was never my goal…[I] have to hustle at the small level to keep units occupied because it hurts more than the large [corporations in the rental industry]." The study participants listed multiple ways they spent their day, including working a conventional job, conducting repairs or updates to a property, screening and managing tenants, budgeting, market analysis, networking, attending industry training sessions, and other administrative elements of the business. According to Mr. Tacoma (personal communication, January 21, 2019), "it had to be us who made it happen." Patience was also an important element of the hard working mindset. "When we started we didn't have anything…We searched until we go the best price…[it was] a lot of nights and weekends" (Mr. and Mrs. Olympia, personal communication, January 23, 2019). According to Mr. and Mrs. Everett (personal communication, January 21, 2019), "Patience is rewarded in this industry…know your market." The study participants were cautious and deliberate on every acquisition, avoiding the temptation to grow faster than they could afford in their budgets.

Mindful spending. In addition to a hard working mindset, all the study participants emphasized mindful spending as a critical component in achieving their business goal and sustainable profitability. According to Ms. Seattle (personal communication, February 8, 2019), "Every $100 or $200 spent is another day I have to work at the end toward retirement...Every time I spent money, I haven't done without; spending is always weighed and measured." However, "…you can't be frugal and own rentals because you have to spend money. You can be cost-conscious" (Ms. Seattle, personal communication, February 8, 2019). The study participants were highly conscious of the balance between spending on property improvements and saving for their goals regardless of their risk appetite.

The rental property owners combined this cost-conscious mindset between their business and personal lifestyle. For example, Ms. Seattle had an eviction in 2016. A charity had paid most of the tenants' rent. However, when Ms. Seattle walked into her rental after the eviction, she was shocked. "I walked into the living room, and there were smartphones and a 60-inch flat screen. And I had a small tube. Why did they have this and I didn't? And I thought…because I own the building. I spend my money on improving the property" (Ms. Seattle, personal communication, February 8, 2019). Mr. and Mrs. Tacoma (personal communication, January 21, 2019) lived a minimal lifestyle to be able to invest in rental properties in neighborhoods where resident incomes were multiple times more than the Tacoma's earned.

Ms. Sandpoint (personal communication, March 15, 2019) argued: "I didn't have anyone to impress…if I could save 50 cents I would walk to work…I've never been to a Starbucks in all the years I have been here…total deprivation…all I did was work, work, work to pay the mortgage…I even stayed in a friend's basement room for a couple hundred dollars [a month]. I was also going to night school to get a job that would make me more money…I brought in roommates to afford mortgage…We're very conservative; we don't bite off more [debt] than we can chew, we work hard and delay gratification, we're frugal." Several of the study participants adopted a deprivation budgeting strategy and funneled most of their income into their investments, while other study participants made selective lifestyle sacrifices to funnel their income into their properties. However, the cost-conscious, mindful spending mindset was present in every study participant.

Planning: Exit strategy vs. market acquisition analysis. The study participants shifted in their lifestyle focus on the third technique for utilizing lifestyle to achieve their goal and objective. The study participants focused on retirement were concerned with developing their exit strategy while the study participants focused on growing wealth were concerned with developing analytical skills to analyze the market. While the Tacoma's (personal communication, January 21, 2019) operated with a higher risk appetite when they were younger, they have been working toward an exit strategy. "We set long-term goals but short-term tasks that work toward those long term goals" (personal communication, January 21, 2019). Mr. Mill Creek (personal communication, February 12, 2019) has stopped acquiring properties and has been implementing his exit strategy. His 2019 strategy has been to sell the least profitable properties and obtaining cash for his retirement. “You have to have an exit strategy” (Mr. Mill Creek, personal communication, January 21, 2019). Whether holding or selling properties, an exit plan and strategy was a critical component for the study participants focused on retirement. These participants were consistently weighing and analyzing their options based on the financials, market conditions, and developing regulatory environment. Their intention to live a retired lifestyle has influenced their business planning and risk appetite.

In contrast, the study participants focused on growing their wealth were utilizing their skills to analyze the market for acquisitions. For example, Mr. Bellevue (personal communication, January 26, 2019) has had a planning and preparation mindset. He recognized the signs and markers of the Great Recession and created a business plan two years prior, thus utilizing the economic event to expand his business and profit. Mr. Bellevue purchased at discount properties dropping in value as the market declined during the Great Recession. Whatever the market event, Mr. Bellevue has a tactic to make a profit. If the market is up, he will refinance his properties and pull cash out to rehab and increase the value of his properties. If the market is down, he will buy and add more properties to his portfolio. Additionally, Mr. and Mrs. Everett (personal communication, January 21, 2019) plan their acquisitions carefully with the type of tenant they want in mind. When the Everett’s have bought properties in distress with deferred maintenance, they improve and upgrade the units. “We know who the tenants are [that we want] and the market we are after” (Mr. and Mrs. Everett, personal communication, January 21, 2019). The Everett's have only had one eviction in the 15 years of their rental property business. The market analysis and acquisition skills have enabled the growth-minded study participants to seize opportunities and mitigate risk to achieve sustainable profitability.

In summary, rental property owners can leverage their lifestyle for sustainable profitability. Business leaders can leverage the ERM framework to decentralize risk in the business and boost risk identification and holistic risk response (Arnold et al., 2015; Ogutu et al., 2018; Simona-Iulia, 2014). The study participants used risk management to combine their capital and skills between their businesses and lifestyles. The study participants integrated risk throughout their business in alignment with their business goals and operational techniques. However, they also used a risk management approach that combined their capital and skills between their businesses and lifestyles. A hard working mindset to put the time in, control of their financial numbers to put the money in, and developing the plan to put their skills in the business are critical components to develop sustainable profitability.

Property management: Active management, tenant relationships, and asset protection. The study participants engaged in property management to budget for sustainable profitability. The budgeting techniques were the same whether the study participant focused on risk reduction or leveraging risk. The study participants used active management, tenant relationships, and asset protection to mitigate risk and seize opportunity (see Figure 6).

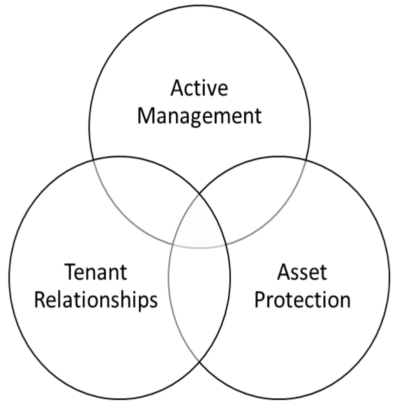

Figure 6. The property management budgeting techniques for mitigating risk, seizing opportunity, and achieving sustainable profitability.

Active management. The 22 study participants actively managed their properties. Several had onsite managers or repairmen to direct the daily operations of the property and meet tenant needs. However, Mrs. Madison (personal communication, February 19, 2019) emphasized "I supervise property managers because they often don't have training…[and] it's a thin margin business." Therefore, the study participants were not only active in the planning and direction of their business, but they also chose to be actively involved in the daily operations of their properties. Mr. Eastlake (personal communication, February 14, 2019) showed me his tenant sheets that detailed the tenant, rent price, unit details, the length of time the tenant had been in the unit, and other information he felt was relevant to operating his property. Mr. Eastlake knew his tenants and his units very well, being able to describe both in detail. Looking at his tenant sheets, Mr. Eastlake has rented to the same tenants for decades, several that have lived in his properties since the 1980s. While building maintenance and neighbor relations are critical parts of the business, the study participants focused on tenants as the key area to achieve sustainable profitability while actively managing their businesses.

Tenant relationships. Tenants are one of the highest risks in the rental real estate business (Mr. and Mrs. Everett, personal communication, January 28, 2019). Sanderson (2019) argued her research of almost 5,000 tenant interviews that tenants were more likely to renew their lease and refer the rental property owner based on (a) clear and simple business, (b) relationship management, (c) perceived value for money, and (d) property management service. The participants of my study strongly emphasized there was a link between their sustainable profitability, long term tenants, and building tenant relationships.

Evictions and turnover are expensive for the rental property owner (Mr. Montlake, personal communication, January 31, 2019). The study participants were very specific that they wanted tenants to stay for as long as possible, even decades as long as they followed the lease. “This is a people business, and we are in a business partnership with our tenants. [The] first thing I do when a tenant calls is say thank you for calling…[We] jump on what the tenant needs not wants” (Mr. and Mrs. Ballard, personal communication, February 12, 2019). Mrs. Madison (personal communication, February 19, 2019) has had long term tenants that have stayed in her properties for 30 to 40 years. “I tell my tenants don’t hide problems from me; I want to know so I can fix it…Someone’s home is the outward picture of who they are. I want my tenants to be happy and stay. Turnover is expensive” (Mrs. Madison, personal communication, February 19, 2019). Turnover is a major concern for rental property owners because of the negative impact on profit, including the costs of preparing a unit, searching for a new tenant, and no rental income while the unit is vacant (Gibler, Tyvimaa, & Kananen, 2014). The study participants aimed to build strong relationships with tenants to encourage them to stay for as long as possible to prevent costs associated with turnover.

Mr. Montlake (personal communication, March 15, 2019) described customer service as his family's unique value proposition. "We want to be person to person. Our phones are on [and] we're ready to solve all sorts of problems. . . . Taking care of people is a part of doing business. . . . We've done two evictions in 30 years – both were inherited tenants when we bought the property. We [put in] a lot of money on both those situations just to get them out" (Mr. Montlake, personal communication, March 15, 2019). All the study participants had experienced positive relationships with long term tenants and very few evictions. No study participant had more than two evictions in over 10 years of sustainable profitability. Garboden and Rosen (2019) found in a survey of 127 rental property owners that these rental property owners avoided evictions because of the high cost to remove the tenant. Therefore, there was a connection between long term, stable tenants and sustainable profitability. However, I was inclined to investigate how a rental property owner can achieve long term, stable tenants to reduce operating risk.

The study participants repeatedly emphasized their secret to long term, stable tenants were (a) effective tenant selection and (b) clear expectations. Negative tenant behavior is a significant challenge for rental property owners trying to create a healthy housing environment (Polletta et al., 2017). According to Mrs. Madision (personal communication, February 19, 2010), "You pick them right in the first place…We are not in the eviction business; we are in the housing business. We want them to stay forever and be nice." Mrs. Madison has been selective even when renewing a lease. Before renewing a lease, she takes tenants to lunch and asks how the tenants have been doing. Mrs. Madison has focused on building positive relationships with her tenants. She has provided value to her tenants through “the little things,” including chocolate for Christmas and salt for snow in the winter. Mrs. Madison also leverages these relationships to build a referral business. Rather than advertise a vacant unit for rent, she has already reduced her vacancy risk by vetting a new tenant she found from the previous tenant’s referral.

Mr. and Mrs. Auburn (personal communication, February 16, 2019) emphasized the need for thorough screening in the tenant application process. For example, the Auburns have required potential tenants to permit them to contact their former landlord. The Auburns would contact the former landlord, but instead of pursuing specific details, Mrs. Auburn only asks: “would you rent to this person again?” Additionally, the Auburns have instructed potential tenants to fill out the application form completely, and they place incomplete forms at the bottom of the pile of applications. “We will not rent to family or friends, this is a business, and we want to keep that separate. That said, we’ve developed friendships with our tenants” (Mr. and Mrs. Auburn, personal communication, February 16, 2019). Mr. Mill Creek (personal communication, February 12, 2019) attributed his success with risk to being objective. “Take the emotion out of it because it is a business… I’m in the business to find housing for people who need housing. I’m in business to make a profit. This business is to find affordable housing and exceptional value” (Mr. Mill Creek, personal communication, February 12, 2019). These study participants have mitigated their risk by encouraging long term tenancy and positive relationships with their tenants as well as an objective approach to their business.

The tenants' treatment of the property and general housekeeping skills are also an area of risk (Zuberi & Dehm, 2019). Ms. Seattle (personal communication, February 8, 2019) described a lot of instruction is needed sometimes for tenants. For example, Ms. Seattle had a tenant family that would relocate the washer and dryer units out of the house to the backyard for use and then return them to the house after use. "I get interesting tenants, but if they pay their rent and follow the rules, it's okay…I have mutually respectful relationships with my tenants…[sometimes] life happens. I get that, so we try to work it out" (Ms. Seattle, personal communication, February 8, 2019). Most the study participants operated single family houses. Immergluck (2018) argued single family rentals offer the opportunity for tenants with children to experience the benefits of living in a house. However, at times cultural differences can complicate the relationship when some cultures do not view a contract as legally binding, and Ms. Seattle has to educate her tenants on how to follow the lease to reduce her risk of costly repairs. All the study participants had concerns about the risk of expensive damage caused by tenants. To reduce the risk of major expenses that would prevent sustainable profitability, all the study participants had some form of asset protection.

Asset protection. Rental property owners can reduce the risk of major and unexpected expenses to their properties through asset protection. Asset protection is a business expense that depends on the rental property owner's risk tolerance and budget. In the rental real estate industry, there are several forms of asset protection, including (a) business structure, (b) insurance policies, (c) lawyers, and (d) a legal defense fund. I found no pattern among the study participants as to whether their chosen asset protection technique matched their goal. The study participants determined their asset protection technique by their risk tolerance, the amount they were willing to afford, advice and experiences, and personal preference. However, all the study participants had some form of asset protection. Some study participants held their properties in at least one limited liability company while others kept them in the less costly sole proprietorship. All the study participants had insurance on their properties, but several carried additional insurance, such as earthquake insurance or an umbrella policy. A small amount of the study participants, particularly those operating within the City of Seattle, had lawyers for advice and put aside cash for a legal defense fund. The rental property owners operating in areas with more regulations tended to have more concern for asset protection, but all the study participants considered some form of asset protection vital for sustainable profitability.

Conclusions on the spectrum of business objectives and risk appetite. In summary, small business owners can address the key questions of ERM without the complex frameworks and statistical analyses of larger businesses (Fraser & Simkins, 2016). Fraser and Simkins identified the key questions of ERM that small business owners should ask include: (a) what is the business owner trying to accomplish in a certain amount of time? (b) What types of risk might affect these firm goals and objectives? (c) How much of an effect will these risks have and how likely are they to happen? (d) What can the business owner do to optimize opportunities and manage potential downsides? (e) What resources can the business owner apply to manage risk? (f) How well do employees understand and apply the firm objectives and risk strategy? The participants of this study asked these questions and aligned their operational techniques with their risk appetite. However, the study participants also aligned their risk appetite and risk response with their business goal and strategy.

Regarding which end of the spectrum a rental property owner could pursue, one could argue property owners who are starting could aim to grow wealth and leverage risk only to focus on retirement and reducing risk as they age. Mrs. Sandpoint (personal communication, March 15, 2019) had never kept cash on hand in the past and deliberately operated for years without an emergency fund. However, she has become very risk-averse close to retirement and has been keeping cash on hand for emergencies. “We are getting close to retirement, why would we take huge risks? When you are young and strong enough, that’s when you take risks” (Mrs. Sandpoint, personal communication, March 15, 2019). This approach seems the logical trajectory, but it depends on the specific goals and risk appetite of the rental property owner. Scholars have identified the ERM framework as an effective tool to enhance the deployment of capital according to the business goal, risk appetite, and risk strategy (Callahan & Soileau, 2017; Chappell, 2014; COSO, 2017; Fraser & Simkins, 2016; Hayne & Free, 2014; Viscelli et al., 2016). Therefore, some study participants focusing on retirement had assumed more risk in their youth to grow wealth, but other study participants were risk-averse and grew slowly over time with the overarching goal of retirement and risk reduction.

Moreover, I emphasize the goals and risk appetite are a spectrum. For example, while most of the study participants focused on growing wealth reinvested all their cash into their investments, some kept a small cash reserve to mitigate risk. “Luck is the meeting of opportunity and ability…everyone’s assessment of their risk tolerance is a lot higher than their actual risk tolerance…know the risks you are taking, does it fit the plan?” (Mr. and Mrs. Everett, personal communication, February 28, 2019). The rental property owners who budget for sustainable profitability identified their goal for their business: what did they want rental property investing to do for them? The rental property owners also identified their risk appetite: were they risk-averse or wanted to leverage risk for market opportunities? Once they align their goal and risk appetite, rental property owners can utilize the most appropriate techniques to manage risk and budget for sustainable profitability.

Budget Strategy 2: Cultivate a Risk Management Network

Albort-Morant and Oghazi (2016) observed entrepreneurs encounter uncertainty and make mistakes because they lack the critical information they need to manage their companies. Scholars have argued for business leaders to apply the ERM framework by disseminating risk assessment throughout the people in the organization (Dickinson, 2001; Meidell & Kaarbøe, 2017; Viscelli, Hermanson, & Beasley, 2017). However, small businesses often do not have the resources to obtain the critical information they need to manage risk, including advanced quantitative techniques, hiring a chief risk officer, or acquiring a risk assessment task force (Bhattacharya, 2018; Mafrolla & Matozza, 2014; Mafrolla et al., 2016). Therefore, small scale rental property owners must leverage networks to obtain critical information for risk identification and response. All the study participants cultivated a risk management network to either reduce risk or seize opportunities in their business. Their networks have played a critical role in every area of their business. The study participants were highly adept at making and utilizing their connections to budget for sustainable profitability.

As Mr. and Mrs. Ballard (personal communication, February 12, 2019) argued, rental real estate is a people business. Regarding tenants, my fieldwork data shows rental real estate is also a people business in leveraging the power of networks. The study participants' networks included mentors, peers, contractors, legal and tax professionals, an acquisition team, bankers, legislatures, rental real estate organizations, and more. For example, I was able to leverage rental property organizations to find my study participants. All the study participants were members of at least one rental property organization and leveraged that network to learn from their peer group and support legal defense on legislative issues.

I attended a Legislative Day on January 31, 2019 that was organized by a rental property organization in Olympia, Washington. Several hundred small-scale rental property owners in the greater Seattle area arrived on the steps of the state capitol to voice their concerns to legislatures on increased regulations that would dramatically multiply their business risk and harm tenants. I observed the power of idea sharing as the community of rental property owners united on one purpose to share information together and with legislatures. My study participants discussed how they complied with regulations and sought advice from others. "I kept learning along the way that doors get shut in your face . . . so what do you do instead? You find different ways to operate" (Mrs. Sandpoint, personal communication, March 15, 2019). Mrs. Sandpoint expanded her network widely to find resources that could help her improve her business. "In regards to the law, I kept educating myself and getting a window into other landlords and how they are handling it. That is the way to survive, to talk to and find out how others are doing it" (Mrs. Sandpoint, personal communication, March 15, 2019). The study participants leveraged their risk management network to find ways to identify, assess, and respond to risk in their businesses.

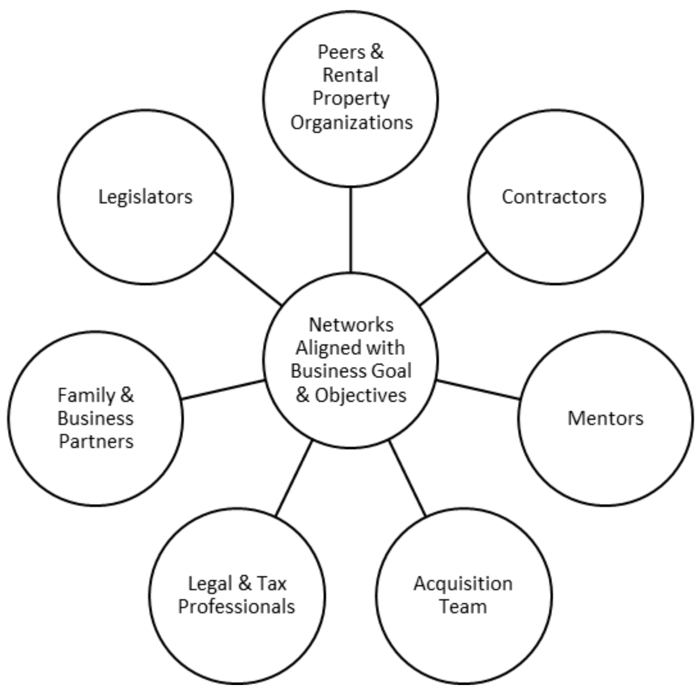

Figure 7. The networks rental property owners pursue to budget for sustainable profitability.

Networking is a time consuming and focused process. The study participants were selective with their time. They knew what networks they wanted to make and the expertise they sought (see Figure 7). The study participants aligned their business goal and objectives with their networking focus. If the study participants were focusing on acquisitions, they spent their networking time developing a strong acquisition team. For example, Ms. Edmonds (personal communication, February 7, 2019) emphasized the importance of having a strong mentor. “You don’t know what you’re getting into” (Ms. Edmonds, personal communication, February 7, 2019). A strong mentor has guided her through acquisitions, upgrades, market fluctuations, and legislative volatility. Study participants focusing on improving their properties spent their networking time finding effective contractors. Mr. and Mrs. Auburn (personal communication, February 16, 2019) advocated for a skilled contracting team. They contracted out most of their repairs and updates, but have encountered many unskilled contractors. The Auburns explained that they would arrive at a property to oversee the contractors’ work and find them looking up how to conduct a repair or update on YouTube. Additionally, these contractors would charge the Auburns for the time they spent watching YouTube videos on how to do the work. The Auburns emphasized that they have found several great contractors that have reduced the risk of incomplete repairs and improved the operations of their rental property business.

Mr. Bellevue (personal communication, February 26) was a frequent attendee at the same networking events I attended, several multiple times a day. Mr. Bellevue highlighted strong negotiation skills and not being afraid to set a goal, make decisions, and implement them. He advised rental property owners to target what they are good at and not try to do everything. “To me, that means you are not good at anything. Put yourself out there, so everyone knows who you are. Talk to everybody and let the world know what it is you specifically want so deals can come to you" (Mr. Bellevue, personal communication, February 26). Additionally, the study participants also pursued training to meet their business goals. Training included formal education in business, training seminars in how to operate, books and websites on the business, and more. Mr. Bellevue had an expansive reading list on topics he felt would help him achieve sustainable profitability.

The final important network the study participants highlighted was family and business partners. Most of the study participants were married and cited their spouse as a critical component to sustainable profitability. If the spouse was an active partner in the business, both rental property owners relied on the strengths of the other to build sustainable profitability. "I trust [my husband's] judgment. He has the ability to notice other things [and] qualities about [a] house that I wouldn't care about" (Mrs. Sandpoint, personal communication, March 15, 2019). Mr. and Mrs. Everett (personal communication, February 28, 2019) divided the tasks of investing from acquisitions to management. "We view a property and hash it out…we bring up different points and counterbalance…if we're not both on board, it doesn't happen...if [we're] not able to do this together it can't happen cause there is too much sacrifice and interruption to [our] daily life…both have to be committed" (Mr. and Mrs. Everett, personal communication, February 28, 2019). Rental real estate is a business that requires significant time and mindful spending. Therefore, the study participants had to have their families on board passively supporting if not actively engaged in the business to achieve budget for sustainable profitability.

In summary, researchers have observed the use of ERM to increase firm value in big businesses which can afford separate risk officer or committees (Callahan & Soileau, 2017; Li, 2018; Mensah & Gottwald, 2016; Viscelli et al., 2016). However, small business owners lack the resources and capacity to leverage the same resources as larger businesses (Bhattacharya, 2018; Mafrolla & Matozza, 2014; Mafrolla et al., 2016). Therefore, rental property owners have leveraged a vast array of networks to manage risk in their businesses and create sustainable profitability.

Budget Strategy 3: Comply With Industry Regulations and Educate Regulators

Business owners often see compliance as a burden and constraint on a company, especially small businesses that lack resources (Falkner & Hiebl, 2015; Kitching et al., 2015; Legg et al., 2015). However, compliance is not always a negative force but can provide dynamic opportunities for small businesses (Kitching et al., 2015). Small business owners could seize market opportunities through compliance modification of business activities that enhance efficiency or competitive advantage (Kitching et al., 2015). All the study participants strongly emphasized compliance with industry and government regulations to achieve sustainable profitability. The key technique common among the study participants was (a) learn the regulations, (b) follow the regulations consistently and from the book, (c) adapt operations to maintain sustainable profitability, and (d) educate the legislators on the business.

It is important to reiterate here the social sentiment in the greater Seattle area was that rental property owners were slumlords and only profit driven (Mrs. Sandpoint, personal communication, March 15, 2019). Slumlords are a social term and refer to the most hated figures of society for exploiting and endangering the vulnerable in poorly maintained units with high rent prices (Vols & Belloir, 2019). I felt this sentiment strongly from legislators and tenants while conducting my fieldwork. The study participants and scholars (Vols & Belloir, 2019) have attributed the volatility of regulations to the increasingly negative sentiment of society, low rental inventory, and the immoral acts of a view rental property owners.

Learn the regulations. The study participants that operated in cities with rapidly evolving regulations, such as Seattle and Tacoma, were active in thoroughly educating themselves on proposed and existent regulations. While observing Mr. and Mrs. Ballard’s (personal communication, February 12, 2019) rentals, I noticed a tall stack of papers on their living room table. Mr. Ballard explained this stack was the recent regulations and laws he was studying. Their legal acumen was very evident. The Ballards did not have formal training in law, but they were very proficient on Seattle initiatives, codes, and laws. They could quote the subsections and specific wording far beyond many of the property owners I had spoken with that operated outside of Seattle. The study participants outside of Seattle and Tacoma were wary of the regulations reaching their operating areas and leveraged rental property organizations, peer networks, and news outlets to monitor the situation.

Other forms of learning about the law include attending training. Mr. Tacoma (personal communication, January 24, 2019) has attended seminars to learn new ordinances and laws, complies with every single rule, and has been consistent in enforcing his lease. This enforcement includes following his own rules. For example, if he waives a late penalty on late rent for a Caucasian tenant but not a minority tenant, he will likely have a fair housing violation. Therefore, Mr. Tacoma has written leases and forms according to laws and his conflict experiences and has enforced them consistently to avoid the risk of violations and achieve sustainable profitability.

Follow the regulations consistently and from the book. All the study participants advocated following the law as critical for achieving sustainable profitability. “Just do things right” (Mr. and Mrs. Auburn, personal communication, February 16, 2019). The study participants included regulations and fees into their budgets. Mr. Bellevue (personal communication, January 26, 2019) has operated his properties in different legislative districts with varying levels of regulations. To offset the risk of violations, Mr. Bellevue sets compliance to each ordinance as a standard consistent throughout his businesses, regardless of the property location. For example, Mr. Bellevue set the First in Time regulation in Seattle as a standard across all his properties, including those located outside of Seattle. Mr. Bellevue argued his consistent application of local ordinances and regulations across his business facilitates memory and compliance with the most strict of requirements and avoids the risk of regulatory violations.

While conducting my fieldwork, the Washington State legislators passed Senate Bill 5600 and were considering other regulations that significantly increase the administrative and financial burdens while limiting rights for rental property owners. Before these bills, most of the study participants focused on their local city regulations. However, legislators have been forthright on their intentions to pass rent control legislation in the next legislative session despite objections from economists and academics (Kunkler & Metzger, 2019). Housing analyst advisors, such as Montojo, Barton, and Moore (2018), advocate the benefits of rent control without citing the plethora of academic and economic research to the contrary. Moreover, as the state legislators work on rent control, they have also been passing bills that restrict rental property owners' ability to evict tenants (Kunkler & Metzger, 2019). Therefore, all greater Seattle area rental property owners must mitigate regulation uncertainty at the state level and adapt to achieve sustainable profitability.

Adapt operations to maintain sustainable profitability. The study participants emphasized in multiple ways the legislative volatility and anti-property owner public sentiment impacted their operations and profitability. If regulations increase the costs of doing business, the property owners had to pass the expense onto the tenants to stay profitable. Mrs. Madison (personal communication, February 19, 2019) argued "Everything that I hear [legislators] say they will do, the tenant loses. [They're] going to limit my income but not my expenses." Desmond & Wilmers (2019) criticized rental property owners, especially in poor areas, for hedging their risk by raising rents to afford any loss, but capitalizing on the surplus profit when losses are rare. However, the participants of this study argued rental property owners have to find a way to pass risk and legislative expenses onto the tenants, or they will not be able to stay in business when a loss happens.

Rental property owners in the greater Seattle area have experienced rising expenses through taxes, contractors, repair materials, legal fees, and regulations (Ms. Madison, personal communication, February 19, 2019). Ms. Madison emphasized her repairman charged $200 to come out to the property before diagnostics, parts, and labor. Mr. Mill Creek (personal communication, February 12, 2019) posed the question, “I just ask the legislature: do you work for free? Why do you ask me to do something you don’t do?” According to Mr. Ballard (personal communication, February 12, 2019), “[A]nything that is a cost to us that is outside our control gets passed onto the tenant . . . have a legal defense fund ready to go, and tenants are paying for that.” In terms of recent legislative volatility, Ms. Seattle (personal communication, February 8, 2019) responded, “I’m going to see how it goes . . . I’ll make money if I sell [my properties] . . . [but] I’ll mitigate the legislation by charging more.” Ms. Seattle advised others to follow their business model if it is working for them and have a mentality to work hard and weigh or measure the money they spend to mitigate risk.

There are several important data points I argue are critical to include in this section. Many of the study participants expressed concerns over new regulations preventing them from protecting their tenants. The rental property owners’ concerns were less for their property and more for the moral implications of the new regulations. For example, Mr. Eastlake (personal communication, February 14, 2019) expressed concerns over his young female tenants and the new regulations that prevented rental property owners from screening out tenants with previous convictions, such as sexual harassment, stalking and rape.

Ms. Northgate (personal communication, March 22, 2019) also expressed strong concern for the recent regulation preventing her from checking criminal convictions in prospective tenants. Seattle’s Fair Chance Housing ordinance forbids rental property owners from screening prospective tenants based on criminal history (Ms. Northgate, personal communication, March 22, 2019. When Ms. Northgate was an onsite manager for her parents' apartment complex as a teenager, her parents placed a serial killer in the unit next to her. She did not feel safe. When she rented an apartment in college, the rental property owner placed a rapist in the unit next to her unit. This rapist tried several times to rape her and eventually got convicted for killing eight people. "I don't like the idea that I have to rent to somebody that I don't know what their background is. Based on my history" (Ms. Northgate, personal communication, March 22, 2019). Ms. Northgate had the same argument against the First in Time ordinance in Seattle; the property owner has to rent to tenants despite getting the "heebeegeebees." "I welcome diversity, but I do want to discriminate against people with bad attitudes [or make me very uncomfortable]" (Ms. Northgate, personal communication, March 22, 2019). Ms. Northgate argued this was a moral issue that impacted the operations of her business and the ability to protect the well-being of her tenants.

The study participants emphasized other concerns for tenant well-being and regulations that forced the rental property owners to increase costs for tenants. According to Mr. Montlake (personal communication, March 15, 2019), much of the new legislation "leaves us with: raise our rents dramatically or sell to someone who raises the rents dramatically. And [the legislators are] not really doing anything for affordable housing and not doing anything to maintain affordable housing that is already out there." Therefore, the study participants disagreed with new regulations not only because of the negative impact on business operations but especially over concern for tenant well-being.

While I was conducting my fieldwork, the frequent topic of conversation among rental property owners was leaving the state and investing out of state where the regulatory environment is in the rental property owner's favor. Asquith (2019) argued rent control and related regulations would encourage rental property owners to withdraw from the regulated market, thus reducing housing supply. Similarly, Diamond et al. (2019) conducted the Stanford Study where the researchers studied San Francisco rent control and found rental property owners reduced housing supply by 15% after selling their rentals to buyers repurposing the buildings. The loss in rental housing increased market rents 5.1% because of low inventory and high demand for units (Diamond et al., 2019). Rent control and related regulations undermine the goal legislators intended (Diamond et al., 2019).

However, most of the study participants were not interested in this approach because it did not align with their goal or risk appetite. According to Mrs. Sandpoint (personal communication, March 15, 2019), "I am not happy with the laws. I think that they are discriminatory against small mom and pops and are making us [rental property owners] pay for the government's failings and incompetence. The evil landlord is a myth, a boogie man. Politicians are opportunistic, and I am very, very concerned about the way the pendulum is swinging. But, there is no other safe asset right now. So, here we sit." Mrs. Northgate (personal communication, February 15, 2019) echoed, "I invest in property because it is what I understand. I don't invest in stocks and bonds. Traditionally, it has been widows that run houses through history. It is a respectable way to make a living. If my talents and skills align with that, I think it is okay for me to make money off that. If we didn't have landlords, tenants would have nowhere to live. You have to make money off that in order to make the investment worthwhile for landlords." The consensus of the study participants was to pass on costs associated with regulations onto the tenants to achieve sustainable profitability as legislation increases and becomes more volatile.

Educate the legislators on the business. Several study participants advocated for a proactive approach to legislators and regulations. Policy makers may not be aware of the various operational costs of the business and how regulations impact rental property owners at different levels of the rental real estate industry (Reid, Sanchez-Moyano, & Galante, 2018). In a report by the Seattle Women's Commission and the Housing Justice Project of the King County Bar Association. Cookson, Diddams, Maykovich, and Witter (2018) described a month of unpaid rent to be an inconvenience to rental property owners. Cookson et al. (2018) failed to consider the thin margins in which rental property owners operate or the fiscal amount of tenant damage to a property. Scholars have argued tenants' main responsibility to rental property owners is the payment of rent (Zapotoczna & Poczbutt, 2016). In an analysis of rental property owners with mortgages, Fereidouni and Tajaddini (2017) stated missed rental payments and temporary vacancies could greatly affect the rental property owners' ability to pay the mortgage on the rental property. As a result, rental property owners with mortgages are highly incentivized to ensure rent flow and establishing long term tenants (Fereidouni & Tajaddini, 2017).

Legislators increasing regulations create a burden on the majority of the industry, which is small scale rental property owners (Amodu, 2018; Polletta et al., 2017). Small scale rental property owners are significantly less likely than corporations to evict tenants (Raymond, Duckworth, Miller, Lucas, & Pokharel, 2018). Moreover, scholars (Aubry et al., 2015; Varady, Jaroscak, & Kleinhans, 2017) have argued legislators and housing programs must recognize rental property owners as key partners and support rental property owner needs and concerns for the well-being of tenants. Similarly, policy makers could use incentives to encourage rental property owners to invest in legislative initiatives (Sloto, 2016; Varady et al., 2017). However, Cookson et al. (2018) recommended to legislators for industry improvement in an effort to restrict Seattle rental property owner legal rights and increase regulations.

Mr. Montlake's (personal communication, March 15, 2019) family has operated rental properties in Seattle for three generations. He is concerned that legislators have been "paint[ing] the industry with a broad brush…[We] gotta stay up to date and keep an eye on the pipeline as far as legislation goes…we try to do education informing to our neighborhood of the unintended consequences of the legislation…We're going to follow the rules, but we also want to advocate that the rules are detrimental to those the laws are for… [The legislators] don't understand unintended consequences and don't welcome opinions from the industry that they want to regulate and they need to work more together with people that are trying to make it affordable for everybody…we live here, we want to be good neighbors and stewards to the community and making everything inflated isn't helping anybody to keep things as cheap as possible." Several of the study participants argued compliance with regulations was not enough for sustainable profitability, but rental property owners need to be actively involved in shaping rules that impact their businesses and communities.

Budget Strategy 4: Make a Positive Social Impact

Business owners can align profit-making activities with positive social change initiatives to seize market opportunities and obtain social support (Haugh & Talwar, 2016; Rey-Martí et al., 2016; Shad et al., 2019). Lai and Shad (2017) found a positive link between firm implementation of ERM and sustainable profitability. Olson and Wu (2017c; 2017d) effectively linked moral responsibility with the implementation of ERM practices, encouraging business leaders to identify and respond to upside risks that create long term value for the business and society.

It is important to reiterate that the social sentiment in the greater Seattle area is that rental property owners are slumlords (Mrs. Sandpoint, personal communication, March 15, 2019). Vols and Belloir (2019) defined a slumlord as a rental property owner that (a) allows substandard housing, (b) exploits vulnerable classes with high rents, (c) tax evasion, (d) noncompliance with regulations, and (e) harasses and threatens tenants. However, none of the study participants matched this description. The study participants actively did the opposite to achieve sustainable profitability, including (a) improving their properties so they could attract (b) tenants that wanted value for their money. Moreover, the study participants actively (c) paid their bills, (d) followed regulations consistently, and (e) fostered positive, long term relationships with their tenants.

COSO (2018) published a guide for businesses to use in identifying and analyzing social and government-related risks as well as determining risk response. COSO recognized that social and government forces could increase the risk for a business and recommended business leaders prioritize risks into five categories for action. These categories included (a) accept the risk as unlikely to occur or cause severe damage and take no action, (b) avoid the risk to reduce the likelihood it will occur, (c) pursue and convert risk into opportunity, (d) reduce the risk by taking action to limit a harmful impact, or (e) share the risk by collaborating with other organizations to reduce the impact. The study participants pursued and converted their risks into opportunities, contributing in several ways to make a positive social impact with individuals and their communities.

Additionally, the study participants strongly believed in positively impacting society because their social actions contributed to sustainable profitability. They viewed sharing generously and giving to others as part of their hard work mindset, but other business benefits included increased cash flow, tax deductions, and enhancing their stakeholder network. The study participants contributed to positive social change through (a) their conventional jobs, (b) upgrading and improving properties, (c) donating to causes, and (d) non-public great acts of kindness (see Figure 8).

Figure 8. The techniques study participants used to create positive social change.

Conventional job helping others. Most of the study participants either worked or had a spouse who worked a conventional job while operating their rental real estate business. The conventional job was a key strategy for mitigating risk as the consistent income would support the family and could provide additional capital for investments. However, the participants' conventional occupations came from a wide range of industries, most in socially laudable and moderate to low paying careers. Their conventional occupations included first responders, military soldiers, nurses, engineers, tradesmen, scientists, religious leaders, and teachers. It is relevant to note these rental property owners are influencers of positive social change in their 40 hour work week as well as in their roles as property owners improving their properties and communities.

Upgrade and improve properties. In addition to their laudable conventional careers, the study participants consistently reinvested their cash into improving their properties. For example, when Ms. Edmonds (personal communication, February 7, 2019) bought her multi-family property, it required cosmetic upgrades, new windows, a new roof, a paved parking lot, and more. "It needed to look like a home with shutters around the windows…we put a lot of money into it, a lot of financial sacrifices so the investment would pay off" (personal communication, February 7, 2019). As I explained in the section on cash utilization, rental property owners can achieve substantial benefits from buying a property with deferred maintenance and improving its value. Rental property owners can upgrade a property to charge higher rents and target higher-paying tenants. The improvements are a critical part of budgeting for sustainable profitability and mitigating the risk of property with deferred maintenance.

However, there is also a benefit to the community. Ms. Northgate (personal communication, February 15) explained, “I have actually had people thank me when I took over a rental building [because I clean the building up]. I had to evict a jigalow that would have women picking fights in the parking lot over him.” Mr. Mill Creek (personal communication, February 12, 2019) has aimed to deliver the highest quality and value in his market segment. “If they walk into our properties, they would see no reason to look at another property” (Mr. Mill Creek, personal communication, February 12, 2019). The study participant argued he goes out of his way to provide additional value to his tenants. For example, Mr. Mill Creek puts fresh flowers out on patios in the spring and shovels in the winter. Therefore, attractive and maintained rental units create community improvement, content tenants, and increased cash flow for the rental property owner.

Non-public great acts of kindness. Finally, most study participants chose to give frequently to charitable causes whether on an individual or formal level. This charitable approach was a critical part of the study participants’ hard work mindset. “Giving is such a rewarding thing” (Mr. Mill Creek, personal communication, February 12, 2019). Ms. Madison (personal communication, February 19, 2019) exclaimed, “I am very much of the philosophy to those whom much is given, much is expected…I’ve always had something. How do people get up in the morning and just think about themselves. I don’t get that.” Between volunteering for decades and donating thousands to hundreds of thousands to charitable causes, the study participants are a generous population.

I am detailing several examples of the study participants' stories in this section because the value of a mini-ethnographic case study is to tell the lived experiences of the participants to present a holistic image of the phenomenon (Ingold, 2014; Jarzabkowski et al., 2014; McCurdy, & Uldam, 2014). Additionally, great acts of charity are not isolated incidents in this group of rental property owners; they are the norm for this population. Ms. Seattle (personal communication, February 8, 2019) is very involved in local charities and nonprofit memberships. She has been contributing to the Red Cross and a sports organization. Additionally, Ms. Seattle has served on the board of several condos, emphasizing up-to-date maintenance and safety. Ms. Madison (personal communication, February 19, 2019) has spent over 30 years tutoring students from immigrant populations. The largest single donation Mr. and Mrs. Kent (personal communication, February 9, 2019) have done is to a struggling local school. The Kents subdivided one of their properties and donated the land to the school. At the time, the Kents did not have the cash to help out the school, but they did have the land. The school was able to sell the land for $100,000 and keep their doors open to children. Mr. and Mrs. Kitsap (personal communication, February 27, 2019) charitable extensive goals for their rental property business. Among those goals are supporting military veterans and families. They recently sold a property at a $70,000 loss to a military family. The Kitsaps also donate 10% of their business profit annually to charities and organizations benefiting military veterans and families. As their business grows, the Kitsaps have a specific plan to donate a house a year to a military family.

Shad et al. (2019) emphasized the importance of business leaders applying ERM to social good initiatives could report their actions to improve perceptions of the business. Moreover, business owners can leverage the ERM framework to improve the reputation of their business (Pérez-Cornejo, de Quevedo-Puente, & Delgado-García, 2019). However, it is important to note that none of the participants discussed their positive social change efforts beyond my inquiries. Additionally, none of the study participants mentioned charitable donations to 501c3 non-profits are tax deductible. So positive social change can also aid budgeting for sustainable profitability while improving social perceptions.

However, several study participants had stories that were examples of positive social change at the individual level and created no tax deductions. The charitable acts were a part of the rental property owner's mindset. I have identified a strong link between a mindset for positive social change and budgeting for sustainable profitability. Whether volunteering or donating funds, these rental property owners consistently make room for positive social change.

For example, Mr. and Mrs. Ballard (personal communication, February 12, 2019) have been a positive support system for their tenants in difficult times. The Ballards had a tenant with dementia that needed money to enter a memory care facility. This tenant had no family interested in taking responsibility for her, so the Ballards went through every piece of paper in the tenant's rental property and found a pension note. The Ballards spent six months trying to activate the pension for her. Once the tenant was able to afford and move into the care facility, she did not understand this was her new home. In the winter, she would take the bus back to the rental property that had been her home for years. Mr. Ballard would receive a phone call from the care facility that she was missing and then go to the vacant rental property to start the furnace, put a kettle on the stove for a welcoming tea, and wait for his former tenant to arrive. This event was repeated three separate times until the care facility enacted a more watchful position on her. Mr. Ballard argued, “What are you going to do? You gotta look at yourself in the mirror in the morning…This is the stuff that isn’t in the landlord handbook.” Bengtsson-Tops and Hansson (2014) also found in a study of tenants suffering from severe mental illness that the rental property owners served as an unofficial, influential support system offering security to the vulnerable.

Mr. and Mrs. Auburn have been a positive influence on positive social change. Mr. Auburn has led a group for recovering addicts for 12 years, serving 20-30 hours a week. The Auburns felt this experience prepared them for the role they would play in one squatter’s life. The Auburn’s were flipping a house filled with squatters and, after removing a group of squatters, Mr. Auburn found a young, teenage squatter who had moved into the house. Rather than remove the youth, Mr. Auburn boarded up the house and paid the youth money to maintain the place and live in a camper. Mr. Auburn assisted the youth until he was able to get a full time job and a more permanent place to reside. Sometimes positive social change can happen at the individual level and changing the life trajectory of one person. “We take adversity and turn it into opportunity” (Mr. and Mrs. Auburn, personal communication, February 16, 2019).

In summary, the study participants are not profit-driven slumlords. On the contrary, they have effectively blended profit-making activities, a charitable mindset, and helping others to contribute to sustainable profitability in their businesses and positive social change. Despite the social sentiment in the greater Seattle area that rental property owners are slumlords, the study participants have found an effective balance between improving their properties and helping others while staying in business. By working conventional jobs that help others, upgrading their properties, donating to causes, and non-public great acts of kindness these rental property owners have created positive impacts on their tenants and communities while achieving sustainable profitability.

Summary of Study Participant Application of Enterprise Risk Management

Rental property owners have achieved sustainable profitability through the use of ERM although they did not actively utilize this model. The ERM model includes (a) matching the risk strategy with the stakeholders' risk appetite (Arnold et al., 2015; O'Har, Senesi, & Molenaar, 2017; Simona-Iulia, 2014). The study participants have accomplished (a) by applying budgeting strategies for risk reduction or leveraging risk. (b) ERM requires redefining risk as an opportunity (Arnold et al., 2015; O'Har, Senesi, & Molenaar, 2017; Simona-Iulia, 2014). The study participants have achieved (b) by seizing market opportunities through debt management, lifestyle, risk management networks, positive social change, and more. (c) COSO (2018) specified ERM involves reorganizing risk procedures throughout the firm. However, the study participants completed and went beyond (c) to transfer risk between their businesses and personal lives to mitigate and reduce risk. (d) ERM integrates the risk approach into firm strategy which the study participants (Arnold et al., 2015; O'Har, Senesi, & Molenaar, 2017; Simona-Iulia, 2014). The study participants effectively accomplished (d) by organizing their business objectives and budgeting strategies around risk reduction or leverage. I have compiled the participant observation stories of the study participants (see Appendix B) to provide additional context, practical application, and examples of how they used risk management strategies to budget for sustainable profitability.

Applications to Professional Practice

My specific business problem for this study was what risk management strategies to rental property owners use to budget for sustainable profitability? I identified four major budgeting strategies that 22 rental property owners operating in the greater Seattle area have used to achieve sustainable profitability for 10 years or more. The four budgeting strategies include (a) integrating risk identification, response, and monitoring into their firm strategy, (b) cultivating a risk management network that effectively enabled them to mitigate risk, (c) developing a risk response to industry regulations, and (e) creating positive social change impact. I have translated the strategies and techniques of my study participants into application models for business practice through participant observation, interviews, and document review.

The integration of components of the ERM framework into business strategy is critical for (a) firm leadership to seize profit opportunities and mitigate risk (Callahan & Soileau, 2017), (b) moral responsibility and the triple bottom line (Wu, Chen, & Olson, 2014), and (c) small businesses to adapt to changing regulatory landscapes (Angeline & Teng, 2016). Additionally, business leaders can highly customize ERM to seize opportunities in the market and meet the needs of the business (Choi et al., 2016; Sprčić et al., 2017). Rental property owners, whether beginning or struggling, may find benefit in utilizing these models to work toward sustainable profitability.

Model 1: Integrate Risk in Business Strategy

I have translated the decision making processes the study participants conducted to achieve sustainable profitability into an action model to integrate risk appetite into business strategy (see Figure 9). Enterprise risk management adds value to a business through a decision-making system for optimizing risk (Nocco & Stulz, 2006). A business leader should not pursue a profit opportunity without examining the associated risks, thus making risk optimization strategies a critical part of creating business value (Nocco & Stulz, 2006).

Rental property owners could start with asking what their goal is in rental real estate, to retire soon or grow wealth. While a rental property owner can make retiring soon and growing wealth their goals, focusing primarily on one goal allows rental property owners to focus their strategy. Rental property owners could simultaneously consider their risk appetite on the spectrum of risk reduction to leveraging risk. While rental property owners can make several goals, they must set a priority and align it with the overall goal. Business leaders could set priorities in risk management, for businesses must choose from an unlimited number of risks on which to focus (Bogodistov & Wohlgemuth, 2017). For example, if a rental property has cash capital, whether to spend it on paying down debt or acquiring new debt depends on risk tolerance and priority. Rental property owners should not be risk averse and continuously leveraging more debt to grow wealth. Similarly, rental property owners wanting to leverage risk to grow wealth should not be acquiring properties in full cash without mortgages. Rental property owners must set a priority on risk appetite that aligns with the goal for the business to guide the operational decision making (see Figure 9).

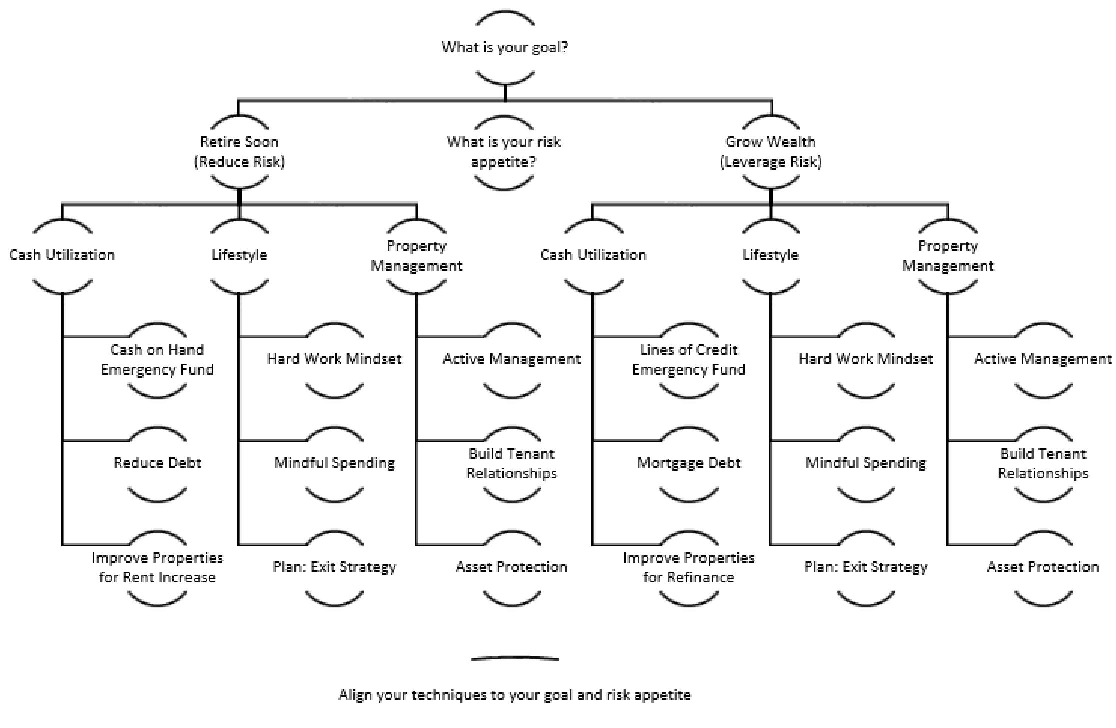

Figure 9. Application model for integrating risk appetite into business strategy.

Once rental property owners have determined the business goal and preference on risk tolerance, the operational decision making in the model (see Figure 9) reflects the techniques the study participants used to achieve sustainable profitability. Significant similarities exist between lifestyle and property management techniques, but there are also important differences in cash utilization and planning. A final important note is the fluid nature of operational techniques to meet the business goal and risk tolerance.

Regardless of the operational technique, rental property owners could verify the technique aligns with the business goal and risk tolerance. As business goals and risk tolerance change, rental property owners may consider continuing to use an ERM framework for business decision making.

Model 2: Cultivate a Risk Management Network

Networks can significantly aid sustainable profitability; rental real estate is not a siloed industry. However, going out and meeting people is time consuming. The study participants were specific and analytical about the networks they needed to fulfill their business goal and objectives. Rental property owners could align their networking strategy with their business goal and techniques (see Figure 10) and can repeat this model as business needs arise. Rental property owners could identify risk in their business and question what networks can fulfill those gaps (see Figure 10).

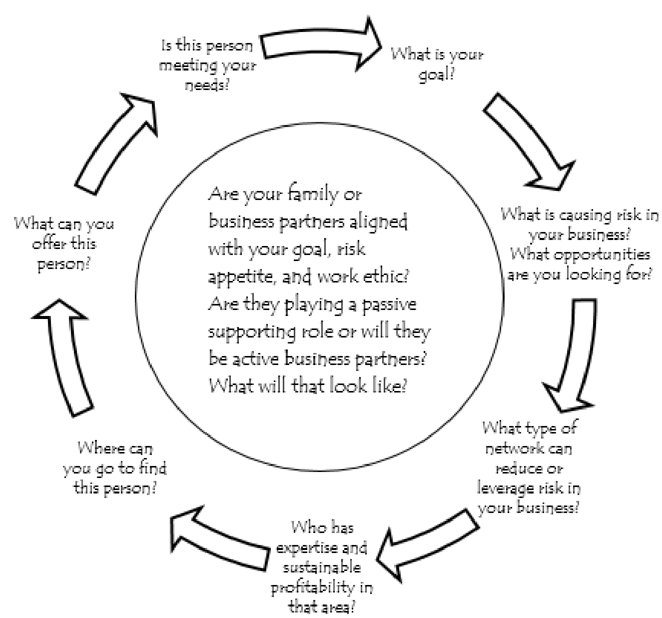

Figure 10. Application model for cultivating a risk management network.

The idea is to target specific networks that can help rental property owners mitigate risks or seize opportunities, build those relationships, and evaluate if they meet the business goal. Additionally, rental property owners could consider the most important network of family. The study participants all emphasized the important role family, particularly spouses, play in the business. Moreover, the role may change over time. Rental property owners could identify, assess, and evaluate the role of their family in the business according to the business goal.

Model 3: Learn, Follow, Adapt, and Educate on Industry Regulations

Moral rental property owners may not have created the regulatory problem, but they could be part of the solution. I have transferred the risk response of the study participants to industry regulations into a model containing action steps to mitigate regulation risk (see Figure 11). Rental property owners could learn the regulations in their market by reading the law, talking to their peers, and enrolling in training sessions offered by local rental real estate organizations. Rental property owners could read the law so that they can design a risk response that is specific to the law, not what someone said about the law. However, networks are useful for generating risk response techniques that work for other rental property owners.

Rental property owners could follow the regulations consistently by budgeting for regulation expenses and implementing the laws consistently across all properties and units. Through consistent implementation, even in different districts and jurisdictions, rental property owners reduce the risk of error from varying policies and systems.

Moreover, rental property owners can streamline their systems through the consistent compliance to regulations.

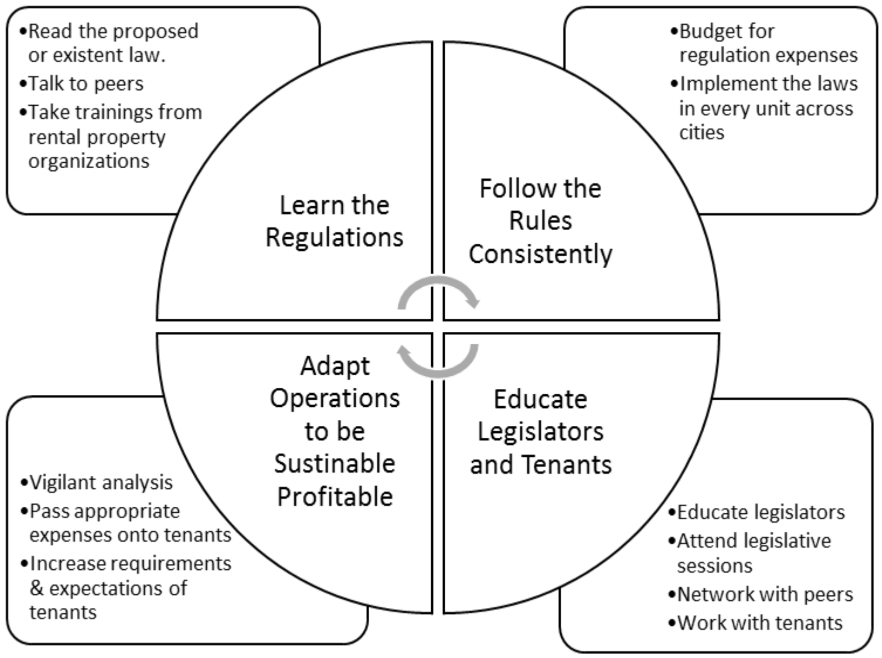

Figure 11. Application model for responding to industry regulations.

Rental property owners could adapt their operations to be sustainably profitable as regulations increase or diminish. Techniques for sustainable profitability may change as the regulatory market shifts, and rental property owners need to be vigilant of risk and opportunity. The study participants have adapted to regulation increases by passing expenses onto tenants and increasing their requirements of tenants. However, rental property owners passing expenses onto tenants could ensure the expense is appropriate for the regulatory environment to stay competitive and moral. Similarly, rental property owners increasing requirements and expectations of tenants could comply with the regulatory environment and monitor what the market will bear.

Finally, rental property owners could do more than react to regulations. Rental property owners need to take a proactive approach and educate both tenants and legislators on how their business operates and responds to risk. Do not allow hostilities to continue between legislators, tenants, and rental property owners. Rental property owners could attend legislative sessions and voice their concerns in an objective, rational argument for why regulations endanger the business and harm tenants. Moreover, rental property owners could network with their peers and rental property organizations for solutions to regulations and to address the legislature as a united body of concerned business owners. Most of the study participants supported rental property organizations that leveraged membership resources to effectively educate legislators and fight for fair and equal protection under the law. Lastly, rental property owners could work with tenants to help them understand there are costs to doing business; rent price and value reflect that cost. By taking a proactive approach to learning, implementing, and educating on regulations, rental property owners can build a risk resilient strategy and achieve sustainable profitability.

Model 4: Create Positive Social Change

In an ideal world, all rental property owners would be leaders in positive social change. However, many individuals require business incentives to make a positive impact, especially when they are not profitable and are struggling with rising expenses (see Figure 12). There are multiple business advantages to creating positive social change (see Figure 12).

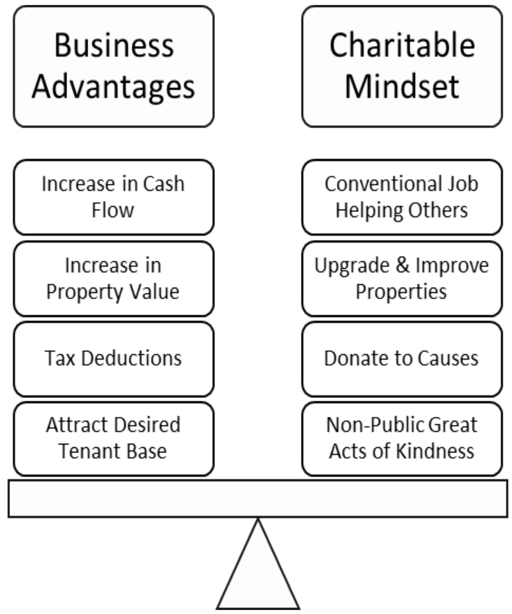

Figure 12. Application model for balancing business advantages and social change.

First, rental property owners working a conventional job helping others creates an additional income as well as improves interpersonal skills. Second, rental property owners who upgrade and improve their properties achieve the business advantages of higher property values, higher rental income, and attracting their target tenant base. Third, rental property owners who donate to 501c3 causes can receive a tax deduction for their charitable works. Fourth, business owners who positively contribute to their communities can create favorable perceptions of the business from the public (COSO, 2018; Shad et al., 2019). Non-public great acts of kindness may not garner direct business advantages, but can intangibly improve a rental property owner's relationships with networks of tenants, community, peers, and legislators. Several study participants also argued great acts of kindness is part of their mindset and who they are as a person.

Since these rental property owners achieved sustainable profitability, other aspiring rental property owners could consider the mindset that made them profitable for decades.

Prioritizing Risks

The ERM framework encompasses prioritizing risks (COSO, 2018). In their business, rental property owners could identify, assess, and respond to risks according to their business goals and risk appetite. Therefore, rental property owners could consider the costs and benefits of each risk and determine whether to (a) accept, (b) avoid, (c) pursue, (d) reduce, or (e) share the risk. Additionally, through analysis and decisive planning, rental property owners can build their business with risk resilience, positive social change, and sustainable profitability.

A Note on Member Checking

As I addressed in the second section of this study, I did not use member checking. According to Morse (2015a), member checking unnecessarily complicates a researcher's ethics and data analysis. Morse criticized the scholarship for not determining how this strategy ensures quality inquiry and prevent ethical violations. Therefore, I utilized methodological triangulation, fieldwork protocols, data saturation, and data analysis software to ensure the rigor of this study.

Implications for Social Change

This study has tangible implications for positive social change. The study participants demonstrated how creating positive social change has advantages for rental property owners seeking sustainable profitability as well as for tenant and community well-being. I transferred the risk management budgeting techniques the study participants applied to create positive social change into an application model (see Figure 12). Rental property owners can use this application model to leveraging positive social change as one strategy to achieve sustainable profitability.

Recommendations for Action

I designed this study to solve a business problem. My intention was to assist rental property owners in managing risk in their businesses through budgeting strategies for sustainable profitability. I recommend rental property owners consider the application models in this section regardless of whether they are sustainably profitable or struggling with risk. Rental property owner organizations may also benefit from using the models as guidelines for finding the gaps and meeting the business needs of rental property owners. Additionally, legislators would benefit from the results of this study to (a) learn the interests of the rental property owner, (b) design regulations that incentivize rental property owners, and (c) learn how to collaborate with rental property owners in a productive way that encourages positive social change. Finally, I will disseminate this study through (a) publication in academic journals, (b) distribution to rental property owner organizations, and (c) circulation to the study participants and other rental property owners in my network.

Recommendations for Further Research

After an extensive review of the literature from 2013 to 2019 on this topic, I have not found scholarly research presenting practical business solutions for sustainable profitability represented through data on rental property owners. Moreover, few scholars have sought the perspective of rental property owners (Zuberi & Dehm, 2019). The plethora of scholarly research on rental property owners has presented the problem of rising rent costs as either concerns for tenant well-fare or recommendations for legislators (Amodu, 2018; Aubry et al., 2015; Chisholm, Howden-Chapman & Fougere, 2018; Cole et al., 2016; Cradduck, 2018; Desmond & Wilmers, 2019; Diamond et al., 2019; Easthope, 2014; Feldman & Weseley, 2013; Furst & Evans, 2017; Galster et al., 2018; Garboden, Rosen, DeLuca, & Edin, 2018; Graham, Milaney, Adams, & Rock, 2018; Greif, 2018; Hatch, 2017; Jones, Heuer, Penrod, & Udell, 2019; Lind, 2015; Mackenzie et al., 2017; Manganelli et al., 2014; Morris et al., 2017; Newell et al., 2015; Polletta et al., 2017; Reid et al., 2018, Rosen, 2014; Seemann et al., 2014; Vols & Belloir, 2019). A few researchers have addressed the legislative problems for rental property owners (Arias et al., 2016; Arnott & Shevyakhova, 2014; Ástmarsson et al., 2013; Aubry et al., 2015; Autor et al., 2014; Evans et al., 2015; Fields & Uffer, 2014; Palmer & Childs, 2014). However, scholars have proposed solutions that are too statistically complex or unrealistic for small rental property owners to reasonably put into practice (Canas et al., 2015; Zapotoczna & Poczbutt, 2016).

I caution academic scholarship from focusing on the problem from the tenant and legislative perspectives, but not offering practical business solutions for rental property owners. Academic scholarship must conduct primary research and offer tangible solutions to the business problem to help rental property owners maintain sustainable profitability while positively impacting tenant and community well-being. Instead of restating the problem and calling for more legislative regulations, scholars must find solutions for legislators and rental property owners to collaborate beyond the rental price issue. A sustainably profitable business has the resources to make a positive social impact. This study should not be unique in providing practical models for rental real estate business practice based on primary research.

I recommend additional research focusing on how a rental property owner can leverage risk management budgeting strategies to achieve sustainable profitability. Moreover, scholars could explore positive social impact and tenant issues from the perspective of the rental property business and risk management budgeting. In the limitations section of this study, I addressed the limitations I encountered were time constraints, availability of data, and researcher biases. Scholars can expand this study topic to other geographical areas and rental property owner populations as well as explore the phenomenon through additional data collection techniques. I was able to leverage my researcher bias as a rental property owner to make contact and collect data on my study population, but other scholars that are not working in the rental real estate industry could eliminate this research bias.

Reflections

It is critical to note that my position as a rental property owner enabled me to enter the social network of rental property owners and recruit volunteers for this study. Based on the events of my fieldwork, I found the social environment and morale of rental property owners in the greater Seattle area to be extremely tense and cautious. Rental property owners have been experiencing increasing regulations and fees that are reducing their ability to operate profitably. Therefore, I daily frequented social and organizational events for two months to introduce myself, share my story, and build rapport before I could start my fieldwork.

I initially encountered significant difficulty in finding study participants. Many rental property owners did not speak to me after I explained my research intentions, perhaps out of concern I might write a biased exposé rather than an academic inquiry. Most of my study participants openly expressed to me that if I were not their peer, they would not speak to me. Additionally, most of my study participants were specific that they wanted their identities to be confidential. As a peer, I could assure them I was in pursuit of their success strategies, risk management techniques, and stories of positive social change. Moreover, as their peer, I was able to effectively express to rental property owners the practical applications of this study to our businesses and legislative adversity.

Before starting my study, I was aware of tensions over regulations in the greater Seattle area. However, my husband is in the Army, and we have been stationed outside the greater Seattle area. So I was not aware of how extremely tense the regulatory environment had become until I arrived in Seattle to conduct my research. After experiencing the tension and daily frustration between rental property owners, tenants, and legislators over rent prices and budgeting for sustainable profitability, I argue this study is timely and highly appropriate for business practice.

Conclusion

In this study, I have determined a specific, practical answer to how rental property owners can use risk management strategies to budget for sustainable profitability. Rental property owners can achieve sustainable profitability in an uncertain regulatory environment through four key application models. The key models involve (a) incorporating risk identification, response, and monitoring into firm strategy, (b) cultivating a risk management network that effectively enables risk mitigation, (c) risk response to industry regulations, and (d) creating a positive social change impact. Through the application of these models, rental property owners can identify, assess, and monitor their risk according to their business goal and risk tolerance. Moreover, rental property owners utilizing these models can shape the industry through collaboration with stakeholders and positive social change.

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Appendix A: Data Collection Protocols

SEMISTRUCTURED INTERVIEW PROTOCOL

Location/Site: ____________________________

Date: ____________________________________

Time Frame: _____________________________

Participant Code Name: ____

Other Contextual Information: ____

Research Question (for interviewer only)

What risk management strategies do rental property owners use to budget for sustainable profitability?

Interview Opening Ideas:

Ask how the business is going and what participant is currently working on

Empathize over recent rental property legislation in the news

Reiterate information about the study from the informed consent form

Ask if participant has any questions before beginning

Item No. 1

Category: Strategy

Question: What strategies and processes have you used to budget for sustainable profitability?

Probes & Follow-up:

Participant Answer:

Researcher Reflections:

Item No. 2

Category: Risk Management

Question: How do you align your risk appetite with your business strategy?

Probes & Follow-up:

Participant Answer:

Researcher Reflections:

Item No. 3

Category: Risk Management

Question: How do you incorporate risks and opportunities into your budget?

Probes & Follow-up:

Participant Answer:

Researcher Reflections:

Item No. 4

Category: Strategy

Question: What strategies contributed to unprofitable properties or time periods?

Probes & Follow-up:

Participant Answer:

Researcher Reflections:

Item No. 5

Category: Budget

Question: How does your budget reflect your business goals for sustainable profitability?

Probes & Follow-up:

Participant Answer:

Researcher Reflections:

Item No. 6

Category: Strategy

Question: What other information could you add that might be applicable to the strategies rental property owners use to budget for sustainable profitability?

Probes & Follow-up:

Participant Answer:

Researcher Reflections:

Interview Ending Ideas:

Thank participant for time and information

Reiterate information about the study from the informed consent form as applicable

Ask if participant has any questions before finishing

PARTICIPANT OBSERVATION PROTOCOL

Location/Site: ______________________________

Date: ______________________________________

Time Frame: _______________________________

Participant Code Names: ____

Activity: ____

Other Contextual Information: ____

Visual Record/Sketch (if applicable)

Descriptive & Reflective Notes

Time	Observation	Observer Thoughts

Points to Follow-up on: _____________________________________

Follow-up Information: ______________________________________

Appendix B: Participant Stories

Mr. and Mrs. Auburn

The Auburns started investing in rental real estate in 1995 and hold several single family rentals.

Budgeting Strategies for Sustainable Profit

The Auburn's goal has been slowly acquiring rental properties for cash flow when they retire. Rental real estate is the Auburn's only retirement source. According to Mr. Auburn: "I didn't have a lot of disposable income." The Auburn's started on a no money down contract from seller-owned properties. They self-manage their properties to reduce the cost of management. The Auburn's have still been in the acquiring phase of their business, but the increase in rental property prices has been a barrier to expansion. The Auburn's have re-financed their properties on 15 year terms so they will have the mortgages paid in full when they want to retire. They have been operating completely from cash flow, reinvesting the cash flow into the properties for repairs, updates, and debt payments. "You get what you put out."

Cultivating a Risk-Mitigating Network

The Auburn's advocated for a skilled contracting team. They contract out most of their repairs and updates, but have encountered many unskilled contractors. The Auburn's explained that they would arrive at a property to oversee the contractors work and find them looking up how to conduct a repair or update on YouTube. Additionally, these contractors would charge the Auburn's for the time they spent watching YouTube videos on how to do the work. The Auburn's emphasized that they have found several great contractors that have reduced the risk of incomplete repairs and improved the operations of their rental property business.

Additionally, the Auburn's considered each other a strong team. Mrs. Auburn has been the idea generator while Mr. Auburn finds a way to put those ideas into practice. Moreover, the Auburn's have actively pursued online and local networks of rental property owners. "Even at this age we [are] still teachable and hungry to learn." The Auburn's have continued to use their hour long commute home together to listen to podcasts and other informative venues for rental real estate.

Management of High Risk Areas

The Auburn's differentiated the risks associated with the acquisition of a rental property with the risks related to the management of that rental property. The Auburn's have argued tenants are the most risky part of the management business. Therefore, the Auburn's emphasized the need for thorough screening in the tenant application process. For example, the Auburn's have required potential tenants to give them permission to contact their former landlord. The Auburn's would contact the former landlord, but instead of pursuing specific details Mrs. Auburn only asks: "would you rent to this person again?" Additionally, the Auburn's have instructed potential tenants to fill out the application form completely and incomplete forms are placed at the bottom of the pile of applications. However, the Auburn's have not charged potential tenants for background checks before reaching out to references. "We're not in the business to make money off background check fees."

The Auburn's have had consistently long term tenants that have rented the properties for up to 14 years. "It's been so long since a vacancy, we don't remember how much deposit we've returned." The Auburns have mitigated their risk by encouraging long term tenancy and positive relationships with their tenants. "We will not rent to family or friends, this is a business and we want to keep that separate. That said, we've developed friendships with our tenants." However, the Auburn's have had good tenants turn into problems with drugs and cause damage. Yet the Auburn's have built integrity into their business and relationships with tenants. One tenant returned several years after vacating a unit, had reformed his life, and gave $1,500 to the Auburns to pay back the damage he caused to the property.

The Auburn's do not maintain an emergency fund, but use the cash flow from their properties to cover monthly repairs or capital expenses. They also have open lines of credit in the event of an emergency and hold their properties in limited liability companies.

Risk Response to Legislative Volatility

The Auburns have a unique situation from other property owners in the greater Seattle area. Since they operate in rural areas with smaller populations, the Auburns know their legislators. Unlike Seattle where concerned citizens can apply for 60 seconds to talk to their city council at a city forum, the Auburns have frequent access to their legislators, including at the local grocery store and post office. "It's a networking business…all about relationships and how you relate to city officials…We have the respect of the authority…[they know] we're going to play nice [and follow the rules]…just do things right." The Auburns have operated profitably in their rural legislative environment and have no intention to expand to a more volatile legislative environment like Seattle. According to Mr. Auburn on the legislative volatility and expanding their business to Seattle, he emphasized: "I won't deal in Seattle."

Positive Social Change Impact

The Auburn's have been a positive influence for social change. Mr. Auburn has led a group for recovering addicts for 12 years, serving 20-30 hours a week. The Auburn's felt this experience prepared them for the role they would play in one squatter's life. The Auburn's were flipping a house filled with squatters and, after removing a group of squatters, Mr. Auburn found a young, teenage squatter who had moved into the house. Rather than remove the youth, Mr. Auburn boarded up the house and paid the youth money to maintain the place and live in a camper. Mr. Auburn assisted the youth until he was able to get a full time job and a more permanent place to reside. Sometimes positive social change can happen at the individual level and changing the life trajectory of one person. "We take adversity and turn it into opportunity."

Mr. and Mrs. Ballard

The Ballard's have operated single-family properties and small multi-family properties in Seattle for over 30 years.

Budgeting Strategies for Sustainable Profit

The Ballard's have deliberately purchased their properties geographically close to them. "Having our properties close is what makes it work…[K]eep things as simple as possible." The Ballard's have preferred what they call an "emotional model" which has enabled them to pick their neighbors and respond quickly to problems. The Ballard's have leveraged their rental property business to build a common space and community around their values, including integrity, healthy living, and healthy nutrition. "The setup is appealing to a certain type of people who stay a while." I was able to see the common spaces and sample the plums frozen from their last harvest.

The Ballard's keep rents slightly below market and are no longer interested in acquiring new properties. They are undecided on their exit strategy, but are not interested in adding more properties to actively manage.

Management of High Risk Areas

The Ballard's have been active in responding instantly to tenant needs. "This is a people business and we are in a business partnership with our tenants. [The] first thing I do when a tenant calls is say thank you for calling…[We] jump on what the tenant needs not wants…[and] because our properties are right next to us, it's hard to pretend that things aren't wrong."

Regarding risk through debt, the Ballard's acquired their properties in the 1980s when interest rates were significantly higher than 2019 rates. However, the Ballard's wanted to reduce risk and viewed high interest debt as high risk. "We paid off our mortgages as fast as possible." The Ballard's also maintain an extensive emergency fund and a line of credit to mitigate any negative risk. The rental property owners hold each property in a limited liability company with an umbrella policy.

The Ballard's strategy to costly repairs at tenant turnover is to keep tenants for as long as possible. The Ballard's return 100% of deposits to tenants. "We do not consider [their] deposits a profit source. That said, I delivered [them] a clean house. Return a clean house." Additionally, their "…tenants stay so long, by the time they move out, [repairs are] normal wear and tear."

Risk Response to Legislative Volatility

When I was speaking with the Ballard's, their legal acumen was very evident. The Ballard's did not have formal training in law, but they were very proficient on Seattle initiatives, codes, and laws. They could quote the subsections and specific wording far beyond many of the property owners I had spoken with that operated outside of Seattle. The Ballard's took an extensive amount of time to learn every detail of the laws to stay in compliance. However, the Ballard's investment in their legal knowledge underscored the administrative burden on Seattle property owners to know the expanding legal landscape of their operations.

The Ballard's clearly stated "We are for affordable housing," but some legislative regulations prevent affordable housing. For example, the Ballard's cited by the disparity of costs to register rental units in Seattle. They described the cost to register being about the same for large, sky-rise rental property businesses as it is for small-scale rental property owners. The Ballard's argued this cost hurts small-scale rental property owners and keeps them from being competitive in the market because they have to pass the cost along to the tenants to stay in business. The Ballard's specified property taxes, insurance, city fees, and "…anything that is a cost to us that is outside our control gets passed onto the tenant."

Regarding compliance with legislative changes, the Ballard's act "…straight from the book" to be sure they are following every new rule and ordinance. For example, the First in Time legislation was only applicable to formally advertising a vacant property. When this legislation was in effect and the Ballard's had a vacancy, they did not formally advertise it, but filled the vacancy with word of mouth. On other vacancies in the past, the Ballard's have included extensive criteria on advertisements to be sure they are compliant with every Seattle rule and can still attract the kind of tenant they want to have as a neighbor. Mr. Ballard explained, "I believe in the issues surrounding discrimination."

The Ballard's argued for rental property owners to "…have a legal defense fund ready to go and tenants are paying for that."

Positive Social Change Impact

The Ballard's described their goal as "…a happy relationship with a tenant and long term relations with good tenants." The Ballard's have been positive support system for their tenants in difficult times. For example, the Ballard's had a tenant with dementia that needed money to enter a memory care facility. This tenant had no family interested in taking responsibility for her so the Ballard's went through every piece of paper in the tenant's rental property and found a pension note. The Ballard's spent 6 months trying to activate the pension for her. Once the tenant was able to afford and move into the care facility, she did not understand this was her new home. In the winter, she would take the bus back to the rental property that had been her home for years. Mr. Ballard would receive a phone call from the care facility that she was missing and then go to the vacant rental property to start the furnace, put a kettle on the stove for a welcoming tea, and wait for his former tenant to arrive. This event was repeated three separate times until the care facility enacted a more watchful position on her. Mr. Ballard argued, "what are you going to do? You gotta look at yourself in the mirror in the morning…This is the stuff that isn't in the landlord handbook."

The Ballard's are also among multiple property owners that ploughed the streets in front of their rental properties so their tenants could go to work or get groceries. During my fieldwork, record snowfall hit Seattle and was named by residents as "snowmageddon." The City of Seattle was unable to pave most arterials and side streets for two weeks.

Mr. and Mrs. Everett

Mr. and Mrs. Everett started investing in 2004 with multifamily units, growing slowly over time.

Budgeting Strategies for Sustainable Profit

Both Everett's work conventional jobs with children at home. Their jobs provide health insurance and steady income for investing. "It's a capital intensive business…you have to have capital…it's not what you make, it's what you save." The Everett's argue that budgeting conservatively and delaying gratification are important skills in the rental property industry because "…there is no short-cut." While they are not thrifty, the Everett's characterized themselves as mindful spenders.

The Everett's want to make money by saving money when they purchase the property. They save the money and either pay full cash on foreclosures or put 25% on down payments. "It's balancing fiscal conservative and risk leverage." The Everett's keep cash on hand in the bank and carry insurance to cover any emergency costs the cash flow from their properties might not. However, the Everett's are not actively trying to pay down the mortgages on their properties beyond the minimum payment. "Paying off loans is not the most efficient use of your money, it will stop your growth." The Everett's aim to pull cash out of their properties on a refinance or use a tax 1031 exchange to acquire more properties.

Cultivating a Risk-Mitigating Network

The Everett's emphasized the importance of having a good team around them when finding and maintain rental properties. For example, the Everett's have an inspector that takes his time and carefully inspects a property to be sure the investment meets their criteria. The Everett's are members of several property owner organizations and networking groups to utilize educational and knowledge-sharing resources. I attended an economic forecast seminar with the Everett's and was able to network with other property owners as well as evaluate market data and predictions for 2019. However, the Everett's most important team member is each other. "Luck is the meeting of opportunity and ability…partners have to be of the same mind." The Everett's divide the tasks of investing from acquisitions to management. "We view a property and hash it out…we bring up different points and counterbalance…if we're not both on board, it doesn't happen...if [we're] not able to do this together it can't happen cause there is too much sacrifice and interruption to [our] daily life…both have to be committed."

Management of High Risk Areas

The Everett's view one of their largest risk areas to be the selection of tenants. "We want long-term people and tenant retention." They emphasized the importance of having a plan to vet tenants and fill vacancies. "[We] want good people not perfect people." On risk, "…every one's assessment of their risk tolerance is a lot higher than their actual risk tolerance…know the risks you are taking, does it fit the plan?" The Everett's take pride and invest in their properties. When replacing parts of a property, they think of the overall value of the investment rather than what is the cheapest. When the Everett's have bought properties in distress with deferred maintenance, they improve and upgrade the units. "We know who the tenants are [that we want] and the market we are after." The Everett's have only had one eviction in the 15 years of their rental property business. Additionally, the Everett's emphasized the importance of walking away from purchases or problems if the numbers do not work. "Patience is rewarded in this industry…know your market."

Positive Social Change Impact

The Everett's try to foster a friendly environment in their rentals by matching new tenants with current tenants. For example, they may introduce tenants that have children around the same age. "Our tenants are our customers…it's a people business…treat them well, they are an essential component." The Everett's give gift cards at Christmas to their tenants, baby gifts to new mothers in their units, and try to build friendly, positive relationships in their properties. Additionally, the Everett's give unstructured donations to charities.

Mr. and Mrs. Kent

The Kent's started in the 1990s by turning foreclosures into flips and transitioned to rentals as a retirement strategy. "The value of the house would go up and down but the rent would be fairly stable." The Kent's got used to doing their own repairs and upgrades on their properties and invest mostly in single family rentals. In 2019, they own several single family rentals.

Budgeting Strategies for Sustainable Profit

The Kent's financial goal has been to retire. Mr. Kent was frequently absent for work. "I want my husband to be able to retire." The Kent's rental property portfolio has consistently been under 10 properties to "be enough to manage and keep up without being too much…We didn't want more because it would affect our lifestyle. This way we can take off for a month at a time." The Kent's actively manage their own properties and focus on debt reduction to increase cash flow.

The Kent's use a buy, rehab, rent, and repeat strategy for their properties. "We never did anything truly bold, just slow and steady toward the goal." The Kent's are "Dave Ramsey people" and have aimed to keep their living expenses below their income to contribute more funds toward their debt reduction strategy. After acquiring a property, the Kent's would have the mortgage paid off in 5 years. The Kent's own three of their properties without mortgages and are targeting their last debt.

The Kent's also try to keep their rent under market to attract a larger tenant base. "When you rent a little lower, you can get a better selection of tenants rather than someone who will pay whatever just to get in."

Cultivating a Risk-Mitigating Network

The Kent's believe in the power of networking. The Kents' educational focus has been leveraging the power of networks. The Kent's have sought mentors and a strong advisory team from the start of their business. "We always seek advice and listen." The Kent's attribute a major part of their success to the rental property mindset. It is about "…shared goals and teamwork, belief in reward for hard labor, [and] recognizing each other's strengths and weaknesses." Mr. Kent "…is good at getting it done, [and] I do the scheduling and planning." Mrs. Kent has other rental property owners in her family that also serve as a resource. In 2007, the Kent's learned from a building specialist that there was no building going on in Seattle and the population was increasing. This contrast would lead to low housing inventory and housing values would increase as a result. The Kent's leveraged this knowledge to acquire more properties and capitalize on the increased value in subsequent years.

Management of High Risk Areas

The Kent's hold their properties in a sole proprietorship and use an extensive umbrella policy to mitigate any expensive risks that might occur in their properties. They also maintain a home equity line of credit and emergency fund to manage additional risk.

Risk Response to Legislative Volatility

The Kent's response to the legislative volatility of the greater Seattle area is to be "…very well planned out and intentional…have an end strategy." The Kents have considered selling a rental if needed to avoid legislation, "…but we don't know what we would do with a lot of money." Therefore, the Kents have assumed a wait and see strategy on legislation. "We are not anxious to sell but if they [the legislators] are so ornery and capricious we will sell." The Kents contended that it is tenants that get hurt if legislators force small rental property owners to sell their properties because of strict regulations that hinder the ability to operate and profit. "Some of our tenants own homes, but want to live closer to work and avoid the commute."

Positive Social Change Impact

The Kent's have considered themselves fortunate to have the same tenants for years. Their longest renting tenant stayed with them for 27 years. This tenant was a widow with children and had difficult cancer treatments. The Kent's felt called by their religion to compromise on the rent and other aspects of the lease until the tenant recovered.

The Kent's also strongly believe in donating to causes. They donate regularly to the Salvation Army. The largest single donation the Kent's have done is to a struggling local school. The Kent's subdivided one of their properties and donated the land to the school. At the time, the Kent's did not have the cash to help out the school, but they did have the land. The school was able to sell the land for $100,000 and keep their doors open.

Finally, the Kent's strongly believe in volunteering their time. They have taught children for 20 years and spent time building structures for Native American tribes. The Kent's are "…not afraid to try to make things better…we're average people, we have a little more now [than when we started] but nothing special."

Mr. and Mrs. Kitsap

Mr. and Mrs. Kitsap have emerged from partnership and business failures to develop a system based on numbers, analysis, and integrity. These rental property owners operate in the greater Seattle area as well as several southern states.

Budgeting Strategies for Sustainable Profit

The Kitsap's focus on minimizing negative risk by mindfully purchasing rental properties. They utilize specific numbers and formulas to evaluate potential rental properties. Their process is to (a) evaluate the property, (b) research purchase options, and (c) drive the purchase to completion. The Kitsap's consistently use formulas for profit, which they call "a box of what makes money and everything has to fit in that box. Always have an out. [For example,] if a flip is not selling, rent it until you can sell so it is self-sustaining." The Kitsap's formulas streamline their purchasing decisions and keep their business acquisitions manageable. "When I do my numbers it's the worst case scenario." The Kitsap's have built in potential losses into their formulas so they can seize market opportunities while minimizing negative risk. "Stay in your damn box. Don't deviate, no exceptions or I lose money."

The Kitsap's use their operating cash flow on the acquisition of new assets. "Leverage on your own money and assets, not other people's money." However, the Kitsap's do maintain a liquid safety fund.

Management of High Risk Areas

The Kitsap's attempt to utilize their time efficiently. "If what I am doing isn't making me a grand, I need to pay somebody else to do it." These rental property owners also view mindset to be a major factor in their success: “don’t make a decision out of emotions or desperation, don’t have analysis paralysis, ego will get you into trouble, and avoid feeding frenzies…the way you think is the way you go. It’s how you look at it. Don’t manifest your own problems.” The Kitsap’s also highlighted the importance of relationships and integrity in the real estate business. “Relationships are important for making the process faster.” Moreover, “the more tools you have in your box the better you will do.”

Positive Social Change Impact

The Kitsap’s have extensive goals for their rental property business. Among those goals are supporting military veterans and families. They recently sold a property at a $70,000 loss to a military family. The Kitsap’s also donate 10% of their business profit annually to charities and organizations benefiting military veterans and families. As their business grows, the Kitsap’s have a specific plan to donate a house a year to a military family.

Mr. and Mrs. Olympia

The Olympia's have been investing in rental real estate for over two decades. "When we started we didn't have anything." The Olympia's approached their business from a mentality of scarcity. They did not have the funds to hire anyone so they did repairs and upgrades by themselves. "We searched until we go the best price…[it was] a lot of nights and weekends."

Budgeting Strategies for Sustainable Profit

The Olympia's approach to the rental real estate industry is fiscally conservative and to "fear debt." However, the Olympia's will use debt to purchase and improve properties. "Leverage is my best friend." The Olympia's are not actively trying to pay down the mortgages on their properties beyond the minimum principle and interest payments, but are reinvesting their cash flow into property improvements and acquisitions.

Cultivating a Risk-Mitigating Network

The Olympia's are active in networking with other rental property investors. With the success and knowledge they have learned over several decades, they volunteer to speak and advise other rental property owners. When new legislative bills arise, the Olympia's are quick to take trainings and seminars held by rental property associations to stay in compliance.

Management of High Risk Areas

The Olympia's carry insurance on their properties as well as a dollar amount to cover a full month of expenses in a bank account. The Olympia's argued by carrying mortgages on their properties, they are more likely protected from lawsuits because a lawyer is likely not going to see enough value in the properties to pursue a legal case. The Olympia's hold their residential properties in a sole proprietorship.

Risk Response to Legislative Volatility

The volatile legislative market has increased the administrative costs of operating a rental property business. Therefore, the Olympia's have raised rents to reflect their rising costs. The Olympia's argued they have to stay current and at market with rent prices "…because if legislation caps [rents] you may be too far behind to catch up." In response to legislative attempts to implement rent control, Mr. Olympia emphasized "as these things happen, capitalists adapt…these legislative efforts hurt the tenant because landlords adapt to cover the costs and are forward acting." For example, "if [legislation only allows a rental property owner to] raise rent 10% a year and landlord's anticipate the market is a 5% [rent increase] this year but will be a 15% [rent increase] next year, they'll raise rent this year up to 9% [to capture as much of next year's projection as possible] even if rent is only up 5% this year." Rental property owners have to respond ahead of the market if legislation prevents them from responding to the market.

Positive Social Change Impact

The Olympia's are involved in their community with at-risk groups and frequently rent to at-risk individuals. "Respect people – don't look at tenants as low likes, it's all a business relationship…be professional…operate with integrity and hold people accountable." The Olympia's argued it is good for property owners to make money off their business. "A profit enables us to help others as well as ourselves."

Mr. and Mrs. Tacoma

The Tacoma's started investing in the early 2000's and actively manage their single and multi-family properties.

Budgeting Strategies for Sustainable Profit

The Tacoma's started rental real estate investing by rolling W-2 stock to buy houses. The Tacoma's strategy was to buy rentals on mortgages and live a thrifty lifestyle to funnel as much cash to pay off that debt and buy more properties. The couple with two children paid off their primary residence mortgage in 4 years after purchase. Despite a large cash flow from their properties, the Tacoma's describe themselves as living the "normal American style of life".

The Tacoma's only took vacations that were paid for as a gift by others, ate inexpensive meals like rice and vegetables, and strived for minimalist possessions. Gifts from family and abandoned possessions made up many of their belongings. "If I see free firewood on the side of the road, I get it". However, the Tacoma's also invest in their children. They have paid for private schools, music lessons, and college tuition as far as terminal degrees. They have employed their children from an early age on their properties, teaching their children craftsman and management skills. Mrs. Tacoma has worked a mid-level W-2 job that has supplied medical and dental for the family while Mr. Tacoma manages their properties. However, the Tacoma's have valued their time over small amounts of money and paying what they owe. The Tacoma's would not spend hours to make or save a dollar and often call to pay their bills before their contactors and lenders invoice them. Through their thrifty lifestyle, the Tacoma's have been able to buy and hold rental properties in the wealthy neighborhoods they know doctors, judges, and other lucrative professions reside.

The Tacoma's have operated on a basic concept for their budget. When cash flow came in from their rental properties and they would use it to pay any expenses for the month before using the rest to pay down debt. The rental property owners did not have an emergency fund for unexpected events or capital expenses. "Money in the bank is worthless, money put to work is wise." The Tacoma's argued every dollar can be put to work to make more either through investing in property or paying down debt on their properties. These property owners maintained a large home equity line (HELOC) of credit at a low variable interest rate in the event that they could pay their bills in a given month with their cash flow. With an excel spreadsheet, Mr. Tacoma has kept meticulous financial records of his personal and business accounts. He has budgeted a year ahead leaving space in the budget to cover repairs, capital costs, and vacancies. The Tacoma's would pay off their HELOC balance quickly if they needed to use it to cover costs and do not leave balances on their credit cards at the end of the month. The Tacoma's have strongly believed in paying their share of taxes, but have adjusted their forms so they pay in April rather than receive a tax refund. The rental property owners view a tax refund as an interest-free loan to the government with cash they could be using to invest or pay debt throughout the year.

Mr. Tacoma attributed their success to several factors, including (1) integrity, (2) thrift, (3) education, and (4) finance. Both Mr. and Mrs. Tacoma came from low-income backgrounds and have achieved college degrees in engineering and accounting.

According to Mr. Tacoma, “it had to be us who made it happen.” These rental property owners strongly emphasized their aim to operate their investments with integrity and respect. Mr. Tacoma argued his tenants trust him more because they see him working on the property with his hands. He has also created trust by teaching his tenants about their legal rights and obligations. While the Tacoma’s operated with a higher risk appetite when they were younger, they have been working toward an exit strategy. “We set long term goals but short term tasks that work toward those long term goals”.

Cultivating a Risk-Mitigating Network

The Tacoma’s have invested their time and funds into local government. Mr. Tacoma has volunteered for their city’s housing department, teaching property owners how to follow city ordinances and state laws. The Tacoma’s have also attended local rental property owner organizations that lobby legislators and oppose laws that restrict property owner rights.

Management of High Risk Areas

Mr. Tacoma has been self-managing their rental properties. He has picked up the coins from the laundry machines at his multi-family units once a week and deposits them into the bank. “The bank charges a fee if I deposit over $100 in coins so I pick these up every week to stay under that amount”. The Tacoma’s have contracted out major repairs, such as parking lot paving, roof replacement, and installing meters for heat and water. However, Mr. Tacoma has cut expenses on minor repairs such as pumping his lot during a flood, sanding and staining apartment cabinets, and appliance repair.

Mr. Tacoma has conducted three dozen of his own evictions and has learned from experience to comply with every state and city rule. Mr. Tacoma described his best asset protection strategy was not to make a mistake in the first place. Rental property owners need to have policies and notes on everything in order to comply with city ordinances to state laws.

Risk Response to Legislative Volatility

Mr. Tacoma emphasized property owners must especially know RCW 5891 and 5912. According to Mr. Tacoma, the greater Seattle area landlord-tenant legislation was written in favor of tenants and the county superior courts are giving unreasonable lenience to tenants. Property owners "…have to be very careful in the courts…think quickly, talk slowly…you have to be a professional, know what you are doing, and have a code of ethics." Mr. Tacoma has attended seminars to learn new ordinances and laws, complies with every single rule, and has been consistent in enforcing his lease. This enforcement includes following his own rules. For example, if he waives a late penalty on late rent for a Caucasian tenant but not a minority tenant, he will likely have a fair housing violation. Therefore, Mr. Tacoma has clearly written leases and forms according to laws and his conflict experiences and has enforced them consistently.

Members of the Community:

The Tacoma's have been members of their community for decades, slowly investing in the properties and population of their area. The rental property owners have operated on the virtues of respect and integrity. They have made personal connections with their tenants by holding summer picnics at their properties, buying their tenants' Girl

Scout cookies, giving tenant graduation gifts, and going to tenant baby showers. The Tacoma's have upgraded their properties with tile and granite to make the rental a modern home for their tenants. Both Mr. and Mrs. Tacoma have been active in organizations that promote charity in their community.

Mr. Bellevue

Mr. Bellevue quit a successful, lucrative job in the service industry. Mr. Bellevue wanted to write his own check and build his business around his desired lifestyle. For example, after living in a rural area he decided to expand his business to the Seattle area for a different, more urban lifestyle. Real estate has enabled him to live a flexible lifestyle despite the significant amount of work. He considers his wife a silent partner in the business. Mr. Bellevue has owned his rentals for 25 years, investing in both single and multi-family housing.

Budgeting Strategies for Sustainable Profit

Mr. Bellevue has a planning and preparation mindset. He recognized the signs and markers of the Great Recession and created a business plan two years prior, thus utilizing the economic event to expand his business and profit. Mr. Bellevue purchased at a discount properties dropping in value as the market declined during the Great Recession. Whatever the market event, Mr. Bellevue has a tactic to make profit. If the market is up, he will refinance his properties and pull cash out to rehab and increase the value of his properties. If the market is down, he will buy and add more properties to his portfolio.

Cultivating a Risk-Mitigating Network

Mr. Bellevue also started a second business in 2008 that served rental property owners in the operations of their own businesses. Mr. Bellevue was able to build credibility and networks with other rental property owners through this additional business. He leveraged both his rental property business and service business to support the other. Mr. Bellevue's rental property business gave him credibility with other rental property owners so they would hire his service business. Mr. Bellevue used his service business to identify and find new properties to add to his portfolio. Mr. Bellevue was able to mediate risk in purchasing his rental properties through this synergy between his two businesses. For example, if Mr. Bellevue is working on a property and the rental property owner is considering selling, Mr. Bellevue has successfully positioned himself to where he knows the property and can make a quick offer and transaction for the asset. However, he must constantly be replenishing and replacing networks, employees, and potential sellers to maintain this business synergy.

Mr. Bellevue described three important factors a rental property owner must have for success: (a) time, (b) money, and (c) expertise and experience. However, a property owner may only have one or two factors so must pursue partnerships to achieve all three factors. Partnerships could include business partners and contractors that have time and expertise or lenders that have money. Mr. Bellevue highlights strong negotiation skills and not being afraid to set a goal, make decisions, and implement them. He advises new rental property owners to target what they are good at and not try to do everything. "To me that means you are not good at anything. Put yourself out there so everyone knows who you are. Talk to everybody and let the world know what it is you specifically want so deals can come to you."

Management of High Risk Areas

"A lot of landlords are cash poor. House rich – cash poor." Mr. Bellevue emphasized that rental property owners can have significant equity in their properties but lack liquid cash when they encounter opportunities or challenges to the business. Mr. Bellevue considers himself financially conservative, preferring a stable, predictable income from property cash flow. “I want to know how much money this month and next month and so on.” Through consistent cash flow, Mr. Bellevue achieves repeated income and prefers not to sell for one-time cash. The cash flow from his properties covers monthly operating expenses and most capital expenses. Rather than saving cash in a savings account, Mr. Bellevue prefers to invest in acquiring new properties, rehabbing the properties, refinancing to pull cash out of the properties, and reinvesting that cash in a new purchase or rehab. In this way, Mr. Bellevue is able to increase the value of his properties and expand his asset portfolio. He only uses first mortgages and lines of credit rather than private or hard money lenders. Mr. Bellevue leverages lower bank interest rates through this strategy.

Mr. Bellevue uses “a good insurance policy” to mediate risk that could negatively impact his assets. For example, a fire at one of his multi-family properties destroyed three units, but his insurance policy covered the majority of the cost. However, Mr. Bellevue emphasized the importance of some liquid cash because the repairs cost him $10,000 a week in cash despite the insurance policy.

Mr. Bellevue described cash liquidity as (a) cash on hand in a bank account, (b) stocks a property owner can quickly sell, or (c) lines of credit. However, Mr. Bellevue “hate[s] to have money just sitting” because it could be earning profit through purchasing or rehabbing properties. Mr. Bellevue maintains a three month cash on hand emergency fund.

Risk Response to Legislative Volatility

Legislation changes greatly impact Mr. Bellevue's businesses on multiple levels with the properties he owns and the services he provides to other rental property owners. Mr. Bellevue operates in multiple cities and counties throughout the greater Seattle area, which requires compliance to different and rapidly changing ordinances. To offset the risk, Mr. Bellevue sets compliance to each ordinance as a standard consistent throughout his businesses, regardless of the property location. For example, Mr. Bellevue set the First in Time ordinance in Seattle as a standard across all his properties, including those located outside of Seattle. Mr. Bellevue's consistent application of local ordinances and regulations across his business facilitates memory and compliance with the most strict requirements.

In terms of thriving in a volatile legislative market, Mr. Bellevue argues his success involves: (a) treating tenants and business partners equitably and fairly, (b) code and ordinance compliance, and (c) functional and clean units. "Be educated and follow the law. It is really cheaper than trying to circumvent the law."

In the greater Seattle area market, the increase in rentals from building projects tempts rental property owners to lower rents. Mr. Bellevue argued this tactic destroys property values and suggested offering concessions to attract tenants, such as half off the first month of rent or adding new features to the unit.

"Managing [a business] is a lot like managing a crew ship. If I keep the ship pointed in the right direction it does fine, but if you take time off the ship starts drifting off course." Mr. Bellevue utilizes technology, such as scheduling applications and taskoriented software, to simplify his daily operations and use time efficiently. For example, in scheduling our sessions, Mr. Bellevue sent me a link to access his calendar and schedule myself at a convenient time. This software reduced the multiple emails I encountered with other study participants that could take a significant amount of time to organize. Mr. Bellevue views his ability to automate his systems as a success factor that distinguishes himself from other rental property owners.

Positive Social Change Impact

Mr. Bellevue impacts society on two levels. First, he consistently and aggressively improves his properties to improve the asset value, neighborhood, and tenant standard of living. Second, he donates money non-publically to charities, such as organizations that support disabled military veterans.

Mr. Eastlake

Mr. Eastlake started investing in rental properties in the 1970s. He has focused mostly on multi-family properties. Mr. Eastlake owns and actively manages his multi-family units, but has been otherwise retired and no longer interested in acquiring new properties.

Budgeting Strategies for Sustainable Profit

Mr. Eastlake started a company in the rental real estate industry and leveraged the company to buy his properties. His acquisition strategy has been to leverage equity and market declines to purchase more properties over time. Mr. Eastlake has acquired his properties slowly over the decades. For example, the tax changes in 1986 influenced a market decline and Mr. Eastlake was able to leverage the equity on his first property to purchase two properties when property values were low. In the 2010s, Mr. Eastlake again leveraged the equity from his properties to purchase another multi-family property while the market values were low.

Mr. Eastlake's goal for rental real estate has been to create a retirement. Until the 1990s, Boeing was the largest employer in the greater Seattle area, but was not an option for Mr. Eastlake. "I knew I wouldn't get a Boeing pension so this was retirement."

Mr. Eastlake's debt strategy has been to slowly reduce the mortgages on his properties over time. "You're working for the bank for 25 years and until you get that mortgage paid off you won't see much…You have to be willing to put in the time."

Mr. Eastlake has rented to the same tenants for decades, several that have lived in his properties since the 1980s. He has kept these units maintained and in repair but often cannot do cosmetic updates, such as granite countertops and tile, until a tenant moves out. Therefore, he has kept the rent lower in the units with fewer updates than in the units that have extensive cosmetic updates. He explained that when tenants stay a long time their rents tend to be lower than new tenants because he has not been able to update the units. Looking at his financial sheets, Mr. Eastlake had clear lower rents reflecting the length of time tenants had resided in the units.

Cultivating a Risk-Mitigating Network

Mr. Eastlake extensively pursued trainings, courses, and books on real estate to gain the knowledge he felt would make him successful. He is also active in rental property owner organizations to share information and success strategies with his peers.

Management of High Risk Areas

Regarding choosing a property to purchase, Mr. Eastlake argued one has to look at how much work the building needs and how much rent you can get out of it. He explained the average rent in Seattle is a combination of low and high rents. He cautioned other property owners to beware of the skew of the new. He saw an average of 30 to 40% difference in rent prices between new construction rentals and older buildings. New construction rentals can often charge a higher rent while older buildings, often owned my small scale rental property owners, cannot achieve those high rent prices. However, small scale rental property owners can put in “eye candy” cosmetics, such as granite countertops and tile, to achieve the mid-range of rents despite having older buildings.

Mr. Eastlake has held his properties in separate limited liability companies, which can increase the expense of separate tax and registration filings each year. However, a limited liability company may contain risk to individual properties rather than unusual costs of one property impacting the others. Mr. Eastlake has also held umbrella policies to mitigate risk.

Regarding deposits, Mr. Eastlake has required a deposit of $500 for each unit. Specifically, he has required tenants to steam clean carpets when they vacate the unit and has seldom encountered damage to the unit. However, if there is damage, he will often take what the tenant can give rather than going to court. For example, he had a unit with $1,000 in damage, but accepted only $150 and the $500 deposit from the tenant. The cost to go to court was higher than the $350 loss he assumed from the repairs to the unit. Despite one unfortunate case in 35 years he had to take the tenant to court, but most tenants receive their deposits within a week after they vacate the unit.

Risk Response to Legislative Volatility

Mr. Eastlake has felt a responsibility to be vigilant for his tenants. "I always felt I needed to take care of my tenants. I have a lot of single ladies, so I need to take care of them. The [Seattle] city has taken away my ability to protect them from felons." Mr. Eastlake was referring to the City of Seattle's new law to ban the box on rental application. Rental property owners are no longer able to ask or use previous convictions as a reason to decline a prospective tenant, except for very few circumstances. While the law has been beneficial for felons to reintegrate into society, Mr. Eastlake argued it has removed his right as a property owner to keep historically harmful people out of his properties and consider the safety of his tenants.

Mr. Eastlake has advocated for compliance and adaptation to Seattle laws. Mr. Eastlake has complied exactly as the law was written despite the burden on property owners to learn and comply with frequent new initiatives, codes, and laws. However, rental property owners can adapt to the laws. For example, property owners can include in their rental applications that tenants must have stability and ability to pay rent with a detailed employment history. A lot of previously incarcerated individuals do not have a detailed employment history to qualify for renting the unit. Mr. Eastlake explained Seattle measures like the First in Time ordinance required rental property owners to adapt in ways that harm specific groups. Rental property owners had to create more extensive and strict criteria for rental applications, which often ruled out minorities and potentially good tenants.

Another major concern Mr. Eastlake shared was that the Seattle City Council did not seem to care about resident input. At city forums, concerned citizens would get only 30 to 60 seconds each to voice their opinion to council members, several of which do not look at the citizen speaking. “It seems to me that they are trying to check the box for neighborhood [and business] involvement but they don’t really care…You offer alternative suggestions, but the city says it’s too expensive. But you ask them how much and they don’t know.” Mr. Eastlake has been considering his exit strategy if legislation impedes his ability to operate his business profitably. “People have other options to invest their money…I’ve been taking care of a few people [tenants] there, you know, looking after them. If they [the city council] run me out of town, any buyer is going to raise rents to market. Who's that going to hurt?...[T]ake out the places that have low-income [rents] and buyers raise the rent 40%. No one's looking at the big picture…it's [going to lead to] gentrification."

Positive Social Change Impact

In addition to Mr. Eastlake's protective view of his tenants, he is also active in his community and donates $10,000 a year to charities.

Mr. Mill Creek

Mr. Mill Creek has been operating rental properties since 2002. Mr. Mill Creek was born in an immigrant family escaping difficult conditions and willing to work hard for a better life. However, Mr. Mill Creek started his rental property business after decades of working conventional jobs. In his conventional jobs, he got tired of working hard for someone else. “Someone else’s name was on the building.” When he and his wife started raising children, Mr. Mill Creek wanted to start his own business so he could have a flexible schedule and work for himself. He had an “…imaginary contract with myself when we had children to be a good dad.”

Budgeting Strategies for Sustainable Profit

Mr. Mill Creek started acquiring properties with debt leverage, but felt like he was working for the bank and paying the bank all his income. “Buy and leverage worked, but I don’t think it will any longer. It’s too costly because to buy an investment that’s expensive and pay a bank doesn’t leave much room [for cash flow].”

Mr. Mill Creek has stopped acquiring properties and has been implementing his exit strategy. His 2019 strategy has been to sell the least profitable properties and obtaining cash for his retirement. “You have to have an exit strategy.” Mr. Mill Creek attributes much of his success to his mindset. “I don’t like to lose money, I always try to put someone else’s interest first.” Mr. Mill Creek has not focused on high or low end service, but has aimed to deliver the highest quality and value in his market segment. “If they walk into our properties, they would see no reason to look at another property.” Mr. Mill Creek argued he goes out of his way to provide additional value to his tenants. For example, Mr. Mill Creek puts fresh flowers out on patios in the spring and shovels in the winter. During my fieldwork, record snowfall hit Seattle and was named by residents as "Snowmageddon." The City of Seattle was unable to pave most arterials and side streets for two weeks. Mr. Mill Creek was one of several rental property owners that not only shoveled the sidewalks and driveways of their properties, but also shoveled the streets so their tenants could get to work. "These properties are an asset. When you own an asset, you take care of it. Think of it as a business, you want people to get in and out of it."

When Mr. Mill Creek was acquiring his properties, he would look for "…the diamond in the rough." Mr. Mill Creek argued a rental property owner has to know their competition and outsmart them. Moreover, he advocated rental property owners need to use an equation and numbers that meet their needs and goals. "[The] price of real estate and legislation is making real estate [investing] less prudent. It's going to lead to more mega complexes. I like to think I offer more than that."

Cultivating a Risk-Mitigating Network

Mr. Mill Creek has leveraged networks and mentors of other investors who have scaled large rental property businesses. He has also greatly invested in his own education, including formal bachelorette degrees, trainings, books, and learning practical advice from mentors. "An investment in yourself is the best investment you can make. The chance of me losing money myself is pretty low."

Management of High Risk Areas

Mr. Mill Creek argued he has mitigated risk by offering value. "I'm in the business to find housing for people who need housing. I'm in business to make a profit. This business is to find affordable housing and exceptional value." Additionally, Mr.

Mill Creek has held his properties in limited liability companies and maintained multiple umbrella policies. In regard to an emergency fund, "…it's never a bad idea to have cash. You're never losing money by saving money…for me, static cash makes sense, but I am not in an acquisition phase."

Mr. Mill Creek has also required high deposits on his rental properties. "When people are paying that much, they generally are not willing to abuse the property." Mr. Mill Creek argued his clear expectations and high deposits have enabled him to reduce his risk of damage when tenants move out. "The place is brand new when they move in, it needs to be brand new when they move out. I tell them that and most the time it is and they get their deposit back." Mr. Mill Creek has given back close to 100% of deposits on his properties.

Mr. Mill Creek attributed his success with risk to being objective. "Take the emotion out of it because it is a business. Don't ever expect to lose money, it's not an option. It's like the military, don't go into an operation not expecting to come out." Mr. Mill Creek invests his time into his properties by spending a few hours a night at a property. He argued he has always been profitable.

Risk Response to Legislative Volatility

Mr. Mill Creek's response to the legislative volatility of the greater Seattle area is that "…legislation is baffling. How can you [legislators] think you are doing your job? When you have property owners keep the stuff of a tenant who can't pay rent. It's like requiring a grocery store to keep all their boxes…I have no problem working. I just ask the legislature: do you work for free? Why do you ask me to do something you don't do? …I have never met a slumlord."

Mr. Mill Creek's reaction on the legislation changes is to not invest. "If I knew back then what I know today, I would not be in business. Why would I recommend to others to get in this business?...Legislation has not given me the impetus to keep my properties…I'm pro-tenant and pro-business. I'd give my shirt off my back for my tenants, [but] what choice do I have with legislation?"

Positive Social Change Impact

Mr. Mill Creek volunteers a few hundred hours a year at charity causes. "Giving is such a rewarding thing." In the past, he has offered free housing as long as someone gets a job and pays for the unit at some point. However, he does not put a time frame on it and has relied on the integrity of the tenant. Mr. Mill Creek stated every tenant in this situation has paid him. "It's just who I am. What I have is not inherited. I had large school debt when I graduated. No silver spoons. What I had was a valuable education both in school and family…I live by: nothing that can be sustained for a long time comes quickly."

Mr. Montlake

The Montlake family are the 3rd generation in their family to own their family's rental property business. The family started in the 1950s in Seattle. The Montlake family have actively held and accumulated their properties. The family has not sold a property in 30 years. Mr. Montlake has been actively managing multi-family units. His management has been his first and only full time job. "I went straight from high school to the pros…I picked up a lot of personal skills [managing our properties]…I take it seriously. This is how I feed my family."

Budgeting Strategies for Sustainable Profit

Mr. Montlake cited his family's lifestyle as an element of their business success. "Discipline and the right approach to people and work ethic is probably what sets us apart from other people in the business. We do everything ourselves from the most menial to the most complex." The Montlake family have been flexible on acquisition if the right opportunity arises. However, their focus has been on maintaining their assets. Mr. Montlake described their goal was to update and improve properties to capture more rent and equity value. "By doing the work ourselves, we pass the savings onto tenants. [We are] very responsive to tenants." Mr. Montlake described customer service as their unique value proposition. "We want to be person to person. Our phones are on [and] we're ready to solve all sorts of problems."

Cultivating a Risk-Mitigating Network

Mr. Montlake has been active in networking with rental property owners. He has attended meetings and forums for rental property owners to discuss legislative issues. "I go to a lot of the stuff and classes that [rental property associations organize] and we do get together and talk about concerns and trade off tips on how we handle things."

Management of High Risk Areas

The Montlake family have still have mortgages on their properties from refinancing. Mr. Montlake explained the family has been actively paying down mortgages to get the equity. "We could probably pay everything off if we wanted to but that's not what we want to do." They have maintained cash in accounts for each property for an emergency or next capital improvement.

Mr. Montlake explained evictions, taking tenants to court, and damage are expenses they try to avoid. Mr. Montlake has mitigated these risks through active engagement with the tenants and properties. "Taking care of people is a part of doing business." The Montlake family has returned the full deposit to tenants over 90% of the time. "We're only interested in collecting rent, as long as we get that we are getting our end of the bargain….We've done 2 evictions in 30 years – both were inherited tenants when we bought the property. We [put in] a lot of money on both those situations just to get them out."

Risk Response to Legislative Volatility

Mr. Montlake explained they were in a "wait and see" pattern with legislative issues. They know some rental property owners that have fled the state and not been successful out of state, but Mr. Montlake has not ruled out the nuclear option of reinvesting out of state. He is concerned that legislatures have been "paint[ing] the industry with a broad brush…[We] gotta stay up to date and keep an eye on the pipeline as far as legislation goes…we try to do education informing to our neighborhood of the unintended consequences of the legislation…We're going to follow the rules but we also want to advocate that the rules are detrimental to those the laws are for."

When I asked Mr. Montlake his perspective on legislatures, he replied: "I wish they would legislate more directly to slumlords that have their ceilings caving in and corporate landlords that are gouging people. I think for the most part corporate landlords are withholding deposits and they don't have as much of a personal connection as small family landlords and I think that should be remembered…Another thing is property taxes have gone up over 25% year after year for the last 3 years – um – it is something that people with under market rentals should get some sort of relief on to keep their units cheap. We got a bill from one of our properties that we have well under market in downtown Seattle. We contested the increase and we even showed them our books and our income and said – look – what you're charging for the property tax is not equal to what this property generates. Their response to us was [they're] basing our number off what [we] could get if [we sold]. So then that leaves us with: raise our rents dramatically or sell to someone who raises the rents dramatically. And they're not really doing anything for affordable housing and not doing anything to maintain affordable housing that is already out there."

Mr. Montlake continued: "They don't understand unintended consequences and don't welcome opinions from the industry that they want to regulate and they need to work more together with people that are trying to make it affordable for everybody…we live here, we want to be good neighbors and stewards to the community and making everything inflated isn't helping anybody to keep things as cheap as possible."

Positive Social Change Impact

Mr. Montlake has been extensively involved with local business organizations and programs to support local businesses. The family has given privately to charities.

Mrs. Madison

Mrs. Madison has operated her rental property business for over 40 years in Seattle, investing in single condominium units, single family houses, and small multi-family properties. When she started in rental real estate she was working a conventional job. However, she argued she was not temperamentally suited to work for others.

Budgeting Strategies for Sustainable Profit

Mrs. Madison was able to leverage the public sentiment for a shorter commute to work during the oil embargo of the 1970s by providing rentals next to major employers. Her strategy was to continue acquiring properties in the same area. She took classes from the University of Washington on rental real estate investing and plumbing. Mrs. Madison used sweat equity to improve her properties. Sweat equity is the property owner improving the value of the property through repairs and updates with their labor. "When you are starting out, you are it. If something needs to be done, you do it."

Mrs. Madison has paid the mortgages of all her units in full. Moreover, the mortgages were paid off early. "I planned this so that everything is paid off and done…This is my retirement plan. I've put 45 years of sweat and being a landlord."

Cultivating a Risk-Mitigating Network

Property managers and contractors have been a risky part of the business. "I supervise property managers because they often don't have training…[and] it's a thin margin business." Mrs. Madison explained that she has built a strong team through trial and error, but she has been in the business so long that her contractors have been retiring.

Mrs. Madison has also attended rental property owner association events and trainings to learn local legislation and network with other rental property owners.

Management of High Risk Areas

Mrs. Madison has considered tenants to be the risky part of the business. She has had long term tenants that have stayed in her properties for 30 to 40 years. "I tell my tenants don't hide problems from me, I want to know so I can fix it. This is a pitfall. Why aren't more landlords doing this…Someone's home is the outward picture of who they are. I want my tenants to be happy and stay. Turnover is expensive." Mrs. Madison has always had a no-dog policy on her properties and has had tenants secretly harbor a ferret that caused damage. However, Mrs. Madison has not once evicted a tenant. "You pick them right in the first place…We are not in the eviction business, we are in the housing business. We want them to stay forever and be nice." Mrs. Madison has been selective even when renewing a lease. Before renewing a lease, she takes tenants to lunch and asks how the tenants have been doing. Mrs. Madison has focused on building positive relationships with her tenants. She has provided value to her tenants through "the little things", including chocolate for Christmas and salt for snow in the winter. Mrs. Madison leverages these relationships to also build a referral business. Rather than advertise a vacant unit for rent, she has already vetted a new tenant she found from the previous tenant's referral.

Mrs. Madison has returned about 80% of deposits to vacating tenants, not including utilities. She has expected her tenants to conduct a thorough cleaning of the unit before they vacate. "Sparkling and spotless is important for my business."

"Life happens I get that so we try to work it out."

Mrs. Madison has also been concerned about the rising costs of operating rental property in Seattle. "Property taxes are astronomical…My plan is to raise the rent every year rather than a dramatic increase every few years. Costs always go up." For example, a plumber costs about $200 to walk into the unit before diagnosis of the problem or repair costs.

Mrs. Madison has operated on the cash flow from her properties. She holds her properties in a sole proprietorship and maintains lines of credit for an emergency fund.

Risk Response to Legislative Volatility

Mrs. Madison has been concerned about recent attempts by the state legislature to prolong the time between when a tenant does not pay and when a rental property owner can evict them. "You mean to tell me that by the first of the month they didn't know they would not have the rent?...The city is spending so much time putting the responsibility on us [Seattle rental property owners]. The things they are trying to do will work with corporations with deep pockets, but won't work with mom and pops driving around town with snow shovels scraping the snow off sidewalks for their tenants. Thin margins…I'm not somebody's mom, I'm the landlord."

When the Seattle City Council implemented the First in Time ordinance, Mrs. Madison raised her credit score requirement and extended her rental criteria to four pages. She cited raising her criteria as the only option to ensure the first tenant that applies is going to be appropriate for the property, thus limiting available units for potentially good tenants that cannot meet the requirements.

Mrs. Madison expressed concerns over how properties that are too expensive to rent and taxes too high to sell are going to become vacant. Vacant houses lower inventory and contribute to unaffordable housing. “I’ve worked over 40 years for this to be my retirement. And you want to tell me they [the tenants] can have a weasel?” Mrs. Madison was referring to King Country’s Fair Housing Ordinance (KCO 12.20.020) that rental property owners allow reasonable accommodations to tenants with service or emotional support animals. Most animals qualify as emotional support animals and rental property owners cannot refuse a reasonable request to have the animal on the property, including some species that might cause damage.

Mrs. Madison emphasized the harmful impacts the state and Seattle city legislators have on the tenants. The legislation that increases the costs and decreases the options for rental property owners they will pass onto the tenants. “Everything that I hear [legislators] say they will do, the tenant loses. You’re going to limit my income but not my expenses.” Rental property owners will find a way to pass those expenses onto the tenants or they will not be able to stay in business. If property owners exit the business, tenants will have lower inventory.

Positive Social Change Impact

Mrs. Madison has been an active contributor to society. She and her husband have volunteered in non-profits and over 30 years of tutoring students from immigrant populations. “I am very much of the philosophy to those whom much is given, much is expected…I’ve always had something. How do people get up in the morning and just think about themselves. I don’t get that.”

Mrs. Sandpoint

Mrs. Sandpoint has operated single family rentals for 25 years in Seattle.

Budgeting Strategies for Sustainable Profit

Mrs. Sandpoint arrived in America as an immigrant restarting her life with no capital. “Immigrants understand that instant gratification does not build wealth…You don’t have to keep up with the Joneses.” Mrs. Sandpoint came to America with a mindset that wealth was not negative and that you can make money through property. “I worked 3 jobs to pay the mortgage…I didn’t have anyone to impress…if I could save 50 cents I would walk to work…I’ve never been to a Starbucks in all the years I have been here…total deprivation…all I did was work, work, work to pay the mortgage…I even stayed in a friend’s basement room for a couple hundred dollars [a month]. I was also going to night school to get a job that would make me more money…I brought in roommates to afford mortgage…We’re very conservative, we don’t bite off more [debt] than we can chew, we work hard and delay gratification, we’re frugal.”

However, despite her efforts, Mrs. Sandpoint emphasized she was lucky. “The most important thing is luck, you can do all the work you want but in the end it is just dumb luck.” Mrs. Sandpoint experienced significant returns on her hard work and investment in the path progress where the value of her properties increased over time. “[In 2008], my mind was always turning and I was always keeping my eyes open for opportunity…I don’t have a cushy, comfy lifestyle. I work every day. I jump on opportunities. I am always on it…planning, doing. This is a 24/7 job. It is the only way to get premium land and tenants…You have to be constantly soaking it in and constantly looking. If you don't love it, it's arduous."

In terms of risk, Mrs. Sandpoint has been comfortable with high risk situations. "When I was young I took so much risk…We are still very conservative and our kids don't get anything easily… in their teens they have flip phones…it's a lifestyle choice…we pick up stuff at Goodwill."

Mrs. Sandpoint focused on paying off her property mortgages as fast as possible. She invested heavily in stocks early in her adult life and later sold those stocks to afford more properties and pay down mortgages. "It's a lifestyle choice, it's delayed gratification, you're constantly thinking about how to invest for a return." Mrs. Sandpoint has invested in improving her rental properties and as the neighborhoods improved over time she could raise rent. "You have to be ready to do the work if the contractors don't show up…Freedom from a society that owns you. [Have] an immigrant mentality, a depression era [mentality]."

Cultivating a Risk-Mitigating Network

Through the acquisition and management of her properties, Mrs. Sandpoint also experienced sexism and racism. "I kept learning along the way that doors get shut in your face…so what do you do instead? You find different ways to operate." Mrs. Sandpoint expanded her network widely to find resources that could help her improve her business. At local rental property owner organizations, Mrs. Sandpoint has an annual pass to training classes to educate rental property owners on legislative issues. "In regards to the law, I kept educating myself and getting a window into other landlords and how they are handling it. That is the way to survive, to talk to and find out how others are doing it." Her husband became an irreplaceable active partner in their rental property business and they were able to divide the tasks according to their strengths. "I trust [my husband's] judgment. He has the ability to notice other things [and] qualities about [a] house that I wouldn't care about. I care about the numbers."

Management of High Risk Areas

Mrs. Sandpoint had never kept cash on hand in the past and deliberately operated for years without any emergency fund. However, she has become very risk-adverse close to retirement and has been keeping cash on hand. "We are getting close to retirement, why would we take huge risks? When you are young and strong enough, that's when you take risks."

"Deposits are my worst nightmare. I discovered early that as a woman of color from another country, many people assumed that I was dishonest. I had to work a lot harder as I was at a disadvantage. No one took my word for anything and a minority-attorney-friend told me that the judges would side with the tenants if they were white. So, I didn't keep any deposits and took a hit unless they did something egregious. Entitled white males were the worst offenders and the most likely to harass/intimidate me. So, to keep my own sanity I simply let things go and didn't deduct anything other than cleaning and really, really crazy damage from the deposits." Mrs. Sandpoint has actively avoided going to court with her tenants because of the expense. "[O]ne tenant put me through the wringer and I did have to pay an attorney to deal with his attorney. I won, of course, but it was expensive and I hadn't actually withheld more than a fraction from his deposit in the first place. I ended up covering most of the damage and the attorney fees, but at least I didn't have to give back the few dollars I did withhold."

"Over the years I've been lucky enough to build enough wiggle room into the rent to just shrug things off. In general, I see repairs [and other expenses] as an investment in my property. I turn lemons into lemonade and stay focused on the future. Now I'm even more careful about who I rent to. I listen to my instincts and I am never desperate enough to compromise on the quality of the tenant just to fill the house. It's a tap dance with all the laws but I think about every inquiry, turn every rock over, watch people at open houses, smile and move very, very slowly. It's a bit exhausting and honestly, in the old days, because I was so desperate and eager I made mistakes. Again, I'm just lucky I didn't get ruined by circumstances."

Risk Response to Legislative Volatility

Mrs. Sandpoint has been operating within Seattle where city council has enacted strict regulations and high fees that hinder rental operations. Mrs. Sandpoint expressed concerns over implications from the city council that rental property owners are slumlords and violate civil rights. "I pay my bills. I treat people right. [Based on where I come from,] please don't tell me about civil rights…" When I asked what her strategy is going forward, Mrs. Sandpoint replied, "I have the enviable problem of having no exit plan…I [have been] reinvesting time, energy, and resources. With the new laws it is very clear to me that reinvesting in the property is not the thing to do…so I think I am going to watch and wait and figure out an exit strategy."

“I am not happy with the laws. I think that they are discriminatory against small mom and pops and are making us [rental property owners] pay for the government's failings and incompetence. The evil landlord is a myth. A boogie man. Politicians are opportunistic and I am very, very concerned about the way the pendulum is swinging. But, there is no other safe asset right now. So, here we sit.”

Positive Social Change Impact

Mrs. Sandpoint uses a combination of well-maintained properties and charitable contributions to make a social impact. “We maintain really beautiful, well maintained properties. Our response rate is 100% and we never cut corners. We always do the right thing because we have the resources. That said, back when I was poor and desperate I did everything myself and it was sub-par and yet I barely made ends meet. So I was lucky nothing major went wrong.

Regarding charitable contributions, “We do give to charity and have never thought of it as giving back. We think of it as being lucky enough not to miss the charitable contributions. We support causes that we 'approve' of. There are some that we simply wouldn't support. Recently we've become less charitable actually. There are so many things that we are concerned about and we don't like what some charities are doing. So, we're actually in the process of becoming even more cautious in our giving. For example, we used to give to the public schools and this year we haven't because of what we have experienced and are witnessing. We are in a wait and see mode.”

Ms. Edmonds

Ms. Edmonds is a second generation rental property owner who has invested in both single and multi-families. She actively manages her properties while working a conventional job with a young family.

Budgeting Strategies for Sustainable Profit

Ms. Edmonds sold her single-family rental property that was out of state, preferring to have investment property closer for her to manage. Ms. Edmonds buys in the path of progress. She bought her multi-family when it was in a rough neighborhood, but the property had potential for Boeing and Microsoft employees. However, the multi-family required cosmetic upgrades, new windows, a new roof, a paved parking lot, and more. "It needed to look like a home with shutters around the windows…we put a lot of money into it, a lot of financial sacrifices so the investment would pay off." Ms. Edmonds described her focus to be a combination of short term and long term goals. Her short term goals include leveraging the multi-family property to acquire more properties, build her business, and pursue an acquisition deal a year. Her long-term goals include retiring from the cash flow from her properties.

Cultivating a Risk-Mitigating Network

Ms. Edmonds emphasized the importance of having a strong mentor. "You don't know what you're getting into." A strong mentor has guided her through acquisitions, upgrades, market fluctuations, and legislative volatility.

Management of High Risk Areas

Ms. Edmonds considers her risk to be on the administrative side of the business and on the customer side of the business. She separates her business account from her personal accounts and keeps an emergency fund in the bank. Careful budgeting is a critical component of her operations. “What you see on paper as far as numbers may not be reality”. Similarly, Ms. Edmonds keeps her property aesthetically beautiful as well as maintained. “If it looks nice they’ll treat the place better.”

Risk Response to Legislative Volatility

While Ms. Edmonds’ property is geographically located outside the most recent legislative changes, she is monitoring the growth of tenant-friendly laws. “Legislative changes would change our plan completely. If it is too risky and at greater cost we wouldn’t invest.”

Positive Social Change Impact

Ms. Edmonds invests in her property a little at a time, trying to make the property look beautiful as well as improve the neighborhood. She is also involved in community improvement outside her rentals and donates to her children’s school scholarship fund.

Ms. Northgate

Ms. Northgate has been investing in single family and small multi-family rentals since the 1980s.

Budgeting Strategies for Sustainable Profit

Ms. Northgate was raised in the rental real estate industry and had learned rentals were an effective way to prepare a retirement. "I never made enough money off my 40-hour week job…My tenants make more per year than I do." Ms. Northgate was clear about the difference between her units and slumlords. "My parents owned property, but they were slumlords…When I moved back years later the property was covered in mold. It was just disgusting…They retired on their income from those rentals. They were from the depression generation and pinched every penny." Ms. Northgate has had a random strategy on buying and holding, usually buying if she finds a good opportunity and has the capital. However, she has been considering growth and more acquisition. Ms. Northgate has been planning to purchase more properties to invest for retirement.

Management of High Risk Areas

Ms. Northgate has used clear expectations to mediate risky tenants. "There is a lot of intuition involved. Recently, I have been taking classes. I don't want to rent something that I would not live in myself. I always make sure they are really clean when I rent them. I let the tenants know I spent a lot of time and money on something and they need to take care of it. I do the work myself. I advertise that you have to be respectful of the neighbors. [The tenants] all get along, they go out to lunch together, or keep to themselves." Ms. Northgate argued that she makes her expectations clear. "I have personally cleaned [the units] myself and I don't want to clean them again when [the tenants] move out. My goal is to rent [the unit] out as is." Ms. Northgate has returned around 75% of full deposits back to her tenants.

Ms. Northgate argued tenants need common sense. "I am amazed at how much people don't know. Some don't even know how to clean a house…I have a welcome letter that explains what you have to use to clean. I only put this in there because there are people who have done stuff…I have actually had people thank me when I took over a rental building [because I clean the building up]. I had to evict a jigalow that would have women picking fights in the parking lot over him."

Ms. Northgate has also beautified her units. "I want to know that somebody can afford to live there. I want to see that they can be financially responsible. So that first and last deposit shows that they can handle their finances. I want to have the flexibility from strict rules. I had a vacant unit for 2 months and rented it to a woman below my qualifications but talking to her she makes a good tenant. It's more than a job, more than not being a sexual offender, more elements that outweigh those things that make a good tenant. One tenant I knew as a person has trouble with a job and I let his rent slide for a few months, and later he caught up."

Ms. Northgate has paid expenses as they arise rather than relying on debt and keeps a substantial amount of cash on hand for emergencies. She has maintained extensive insurance (including earthquake) on her properties and has held her rentals in limited liability companies. Gives the tenants a specific list of what (and how) to clean and what needs to be maintained.

Risk Response to Legislative Volatility

Ms. Northgate has operated in Seattle and committed to stay in compliance with the volatile regulatory environment and frequent changes to the law. “I try to keep up with it the best I can. I try to keep up with the spirit of the law.” Ms. Northgate expressed strong concern for the new regulations preventing her from checking criminal convictions in prospective tenants. When she was an onsite manager for her parent’s apartment complex as a teenager, her parents placed a serial killer in the unit next to her. She did not feel safe. When she rented an apartment in college, the rental property owner placed a rapist in the unit next to her unit. This rapist tried several times to rape her and eventually got convicted for killing 8 people. “I don’t like the idea that I have to rent to somebody that I don’t know what their background is. Based on my history.” Ms. Northgate had the same argument against the First in Time ordinance in Seattle, the property owner has to rent to them despite getting the “heebeegeebees.” “I welcome diversity, but I do want to discriminate against people with bad attitudes [or make me very uncomfortable].”

“I invest in property because it is what I understand. I don’t invest in stocks and bonds. Traditionally, it has been widows that run houses through history. It is a respectable way to make a living. If my talents and skills align with that, I think it is okay for me to make money off that. If we didn’t have landlords, tenants would have nowhere to live. You have to make money off that in order to make the investment worthwhile for landlords. You can make it a win-win for everybody. I think a big part of that is mutual respect.”

Positive Social Change Impact

Ms. Northgate has given to her community in small ways by “keeping eyes on the community” and knowing her neighbors. When record snow hit Seattle during my fieldwork, Ms. Northgate shoveled the roads in front of her units so tenants could get out. Not just the sidewalks, but the roads as well. She has also cleared out the storm drains.

Ms. Seattle

Ms. Seattle started investing in real estate later in life after a difficult divorce that left her with few resources. However, her parents had been property owners so she was familiar with leveraging real estate as a vehicle to build wealth. She started buying condos and renting them out in 2001, adding multi-families and houses to her portfolio ten years later. Working a conventional job, she maxed her 401k contributions and invested the rest into rental real estate.

Budgeting Strategies for Sustainable Profit

Ms. Seattle operated on thin margins with minimal amounts of cash flow. Positive cash flow covers her monthly operating expenses. Ms. Seattle prefers to control over spending rather than focusing on a budget. “Every $100 or $200 spent is another day I have to work at the end toward retirement.” For example, she explained she drives a 14 year old car and has no intention of upgrading. Ms. Seattle emphasized her approach as intentional living. “Every time I spent money, I haven’t done without, spending is always weighed and measured.” Ms. Seattle is willing to pay others to do the jobs that she does not, such as toilets. “You can’t be frugal and own rentals because you have to spend money. You can be cost-conscious.” For example, Ms. Seattle does not buy new appliances, she buys used appliances in like-new condition.

Cultivating a Risk-Mitigating Network

Ms. Seattle emphasized the power of networks in developing a solid team of peer investors and contractors to bounce ideas. Ms. Seattle looks for strong connections with integrity. For example, Ms. Seattle has a quality contractor that is dependable and reasonable, but she is willing to pay for that. Rather than pursue every single discount, she is willing to pay for a contractor that is dependable and has integrity with his work. Ms. Seattle sometimes has to chase and remind contractors that she is ready to pay them because they delay in sending invoices.

Management of High Risk Areas

Ms. Seattle holds several properties in LLCs and maintains an extensive umbrella policy. She holds a liquid asset line with her IRA as collateral and a home equity line of credit on her personal residence. "1500 units was never my goal…you have to hustle at the small level to keep units occupied because it hurts more than the large complexes. Evictions are so costly and time consuming." Ms. Seattle will offer to let tenants break the lease and leave rather than going through the eviction process.

The tenants' treatment of the property is also an area of risk. Ms. Seattle described a lot of instruction is needed sometimes for tenants. For example, Ms. Seattle had a tenant family that would relocate the washer and dryer units out of the house to the backyard for use and then return them to the house after use. "I get interesting tenants, but if they pay their rent and follow the rules, it's okay…I have mutually respectful relationships with my tenants." However, at times cultural differences can complicate the relationship when some cultures do not view a contract as legally binding and Ms. Seattle has to educate her tenants on how to follow the lease.

Ms. Seattle acquires properties with deferred maintenance and rehabilitates them to raise rents and property value. For example, one multi-family property she had acquired had a laundry room that was only being used for illegal activities. These activities increased the risk of her property as well as the safety of tenants so she closed off the room and put in her lease that tenants were expected to take their laundry out to cleaners.

Risk Response to Legislative Volatility

Ms. Seattle had an eviction in 2016. Most of the tenants' rent had been paid by a charity. However, when Ms. Seattle walked into her rental after the eviction, she was shocked. "I walked into the living room and there were smartphones and a 60-inch flat screen. And I had a small tube. Why did they have this and I didn't. And I thought…because I own the building. I spend my money on improving the property. I will get the money back when I sell it, but don't make me sell it. This is my retirement."

Ms. Seattle has a plethora of stories with tenants. She had one tenant with Alzheimer's that trashed the unit, but Ms. Seattle did not pursue her and just spent her money on restoring the unit instead of investing in her 401k that year. In other cases, when Ms. Seattle has pursued evictions, she has been in fear of bodily harm as tenants followed her out of the courthouse screaming "evil".

In terms of recent legislative volatility, Ms. Seattle responded: "I'm going to see how it goes…I'll make money if I sell [my properties]…[but] I'll mitigate the legislation by charging more." Ms. Seattle advises others stick to their business model if it is working for them and have a mentality to work hard and weigh or measure the money they spend. "It's frustrating that you work so hard to grow this business and get it to do well on your sweat and tears and others who never worked like that want to take it away."

Positive Social Change Impact

Ms. Seattle is very involved in local charities and nonprofit memberships. She has been contributing to the Red Cross and a sports organization. Additionally, Ms. Seattle has served on the board of several condos, emphasizing up-to-date maintenance and safety.