Rose, Geoff & Harris, Richard. (2001). “The Three Tenures: A Case of Property Maintenance” Urban Studies (), 1 – 18.

The paper looks at how property maintenance differences across ownership tenures focusing on Owner Occupied, Residential Landlord and Absentee Landlord. Furthermore, they look at the various types of absentee landlord structures with a focus on the rising case of LLCs. The authors use data from city of Rochester, NY to compare maintenance of these units and finds systematic differences both across tenure types and within the absentee landlord category. While longitudinal analysis indicates that the differences are likely tied to tenure type, the fact that only multi-unit structures are regularly inspected may cause some observation issues.

* Dietz and Haurin (2003) spoke of a general consensus that owner-occupiers take better care of property than landlords.
* Several studies use the American Time Use survey to find that owner-occupiers spend more times on maintenance than other tenure types and renters.
* A study by Ihlanfeldt and Mayock (2016) found that repossessed properties purchased by owner-occupiers had no negative impact on surrounding values while those purchased by investors did. A second study by Hwang (2019) focusing on Boston finds that maintenance problems remained after two years for absentee landlords and not for owner-occupiers.
* These studies; however, are dated and rely on inference by either assumptions regarding repossessed properties or surveys.
* In New York, there are legal advantages of being a residential landlord over an absentee landlord and several studies within New York seem to show maintenance behavior differences across these types [Sternlieb, 1966 and Sternlieb and Burchell, 1973].
* Porell (1985) uses American Housing Survey data to show that landlords provided more improvements than property mangers that live on site.
* Petterson, et. al. (1973) found that absentee landlords appealed property tax levies more frequently and Hilber (2005) and Ioannides (2002) found absentee landlords more likely to ignore neighbor concerns and more likely to purchase run-down properties in run-down areas.
* Other studies show that the number of properties a landlord owns may also matter (Mallach, 2007) and others show that the results are sometimes negative for smaller landlords.
* Desmond (2016) studies Milwaukee and shows the growth of LLC ownership and cites on case of an individual creating a separate LLC for each individual property to better shield themselves from any negative consequences. Also see Glantz (2019) and Mari (2020).

Methods and Data

Key data is from Rochester, NY who, for twenty years, has inspected all rental properties and inspections occur no longer than every six years. Most other studies utilize complaints rather than actual inspector data. Another problem with complaint data is that while neighbors may complain, residents will not complain if owner-occupied but may complain more if renters. The data is from s 2017 shapefile and a 2011 excel file. The authors then created the tenure type and absentee type variables. For the resident/absentee case, the obvious case of matched vs. unmatched addresses where used. Additionally, if any owner address was less than 50 meters to the property address, those properties were investigated more closely resulting in 2% of cases changing tenure type. Another issue may be owner-occupied units with “suites” that are rented out. To count properties owned by difference groups, addresses were used with the expected error in cases with different P.O. Box numbers. Once solution was to group ownership size in bins [1-10 properties, 11-40 properties, 40+].

Results

* Resident landlords controlled about 30% of two-units building with a declining share to 5% in 6-unit buildings.
* About 32% of single unit structures were held by absentee landlords with 61% of the city’s housing stock being single-unit structures.
* Owner-occupied were more highly valued by about $30K and were about 8.6% larger.
* An understated 4% of owner-occupied properties had outstanding code violations whereas 25.2% of absentee landlord structures had outstanding violations and this rate was slightly higher still at 27.1% for multi-unit structures. For resident-owned properties the rate was about 13.5%.
* The data shows that three-unit resident-owned properties had more code violations, losing the resident-owned advantage and the impact was negative in the case of 4-6 units. Once possible cause could be that with duplexes (two unit), the relationship between owner and renter is greater than in multi-unit structures.
* LLC owners reflected similar rates of code violations as other absentee landlord properties; however, those controlled by professional management companies outpaced all types of absentee landlords with 38.2% code violations. Additionally, this difference seemed greater in Black neighborhoods.
* The tenure differences shrink when value is controlled for (done by splitting sample into value bins).
* For causal analysis, the data from 2011 was added showing a 6% reduction in owner-occupied housing units.
* Between 2011 and 2017, 381 absentee owners of single unit structures became owner-occupiers while about 1161 owner-occupied units become renter units. In the case of the absentee to owner cases, the rate of code violation in 2017 was 12.6% which was lower than the absentee rate but higher than the owner-occupied rate. Conversely, for the properties that become rentals, the code violation rate was 21.1% in 2017.
* The paper looks at changes of ownership and the code violations and changes in assessed values showing that new owner-occupied units had a stronger commitment to the new properties. Properties that were owner-occupied and then becomes absentee owned saw high code violations in 2017 (about 26.1%) and a smaller appreciation in value (5.3%) compared to those where the owner was the same, but tenure changed.

Conclusion

The paper does find differences across tenure types, number of units, and number of properties owned; however, some of these may be tied to the frequency of inspections. Additionally, the paper finds that it is more tenure type rather than owner that seems to drive the differences. That said, LLCs are no better or worse than other absentee landlords.

“Wall Street has purchased hundreds of thousands of single-family homes since the Great Recession. Here’s what that means for rental prices”

CNBC Website: <https://www.cnbc.com/2023/02/21/how-wall-street-bought-single-family-homes-and-put-them-up-for-rent.html>

Carlos Waters 2,/21/ 2023

* MetLife Investment Management predicts that institutional investors may own 40% of single-family rental homes by 2030.
* Stop Wall Street Landlords Act of 2022 is an act written by Rep. Ro Khanna of California which restricts tax and other benefits to landlord investors with $100+ million in assets and imposes excise taxes on such properties.
* The article cites several firms that are purchasing and adding to housing stock through Built-for-Rent projects and claims many are backed by larger firms such as Blackstone or Pretium Partners.
* Concern is a connection between corporate ownership/purchasing and higher housing prices as seen in man of the Sunbelt areas.

“Corporate Ownership: A Threat to Housing Affordability?”

Pioneer Institute Public Policy Research Article

Aiden Enright, 3/21/2023

* Massachusetts is losing population and higher housing prices are argued as a possible cause.
* While there is debate about red tape for new construction, there is little conversation about the increases in corporate ownership.
* Argues that there has been an increase since 2000 and the Great Recession in corporate ownership as corporations took advantage of cheaper foreclosed properties and smaller landlords looking to get out of the market.
* A Pew report cited finds that 17 of all homes sold in Massachusetts in 2021 (11,027) were purchased by investors. The national average being 24%, up nine points since 2015.
* Authors cite Barnstable, MA where 60%+ of rented homes are owned by investors.
* Cite a study by Federal Reserve of Minneapolis that showed corporate investors where statistically more likely to buy properties in poorer areas around the Twin Cities.
* Other states with high corporate investing include Arizona, Neveda, Texas, Georgia, and North Carolina.
* The author cites a paper by Travis (2019) showing that LLC ownership was linked to increased likelihood of disrepair.
* Article highlights how LLCs provide shielding of owner and their other assets meaning there is less of an incentive to protect the value and quality of a given property.
* Redfin article reports that 18.4% of U.S. homes purchased in Q4 of 2021 were by investors. (<https://www.redfin.com/news/investor-home-purchases-q4-2021/>) Report has a graph of investor purchases over time.
* Data seems to show that investors are focusing on lower valued properties and thus blocking many first-time home buyers.
* The article also cites supply issues as being the primary driver of likely housing cost increase. Specifically zoning responses to massive increases in development between 1960 and 1980s. The zoning laws typically restricted multi-family units and increased lot sizes.
* Cite another study showing how landlord restrictions also lead to unintended consequences. (<https://journals.sagepub.com/doi/abs/10.1111/cico.12321>)

“Institutional Investors: A Local Perspective”

Evidence Matters, HUD Office of Policy Development and Research

Winter 2023

* Cash Sales are more prevalent in low-income zip codes and home prices have grown between 2017 and 2021 while income has not.
* Cite Goodwin and Godling (2021) claiming that institutional buyers purchase homes is disrepair and re able to more quickly rehab them given their better fiscal position.
* Argue that cash sales can be used as a measure of investor activity and cite the National Association of Realtors and CoreLogic as swaying that in Q1 of 2022, 60% of cash homes sales were by investors.
* Article focuses on data from John Burns Real Estate Consulting that includes only single-family detached housing.
* Investors can be small, medium, large or institutional, depending on their portfolio.
  + Small: 1 to 9 units and accounted for 80% of investor-owned homes (IOH)
  + Medium: 10 to 99 units and accounted for 14% as of August 2022. Article cites Lexington, KY as a hot spot for medium sized owners.
  + Large: 100 to 999 units and accounted for 3%.
  + Institutional: more than 1000 units and accounted for 3%. Areas highlighted are Atlanta, Charlotte, Jacksonville, Fort Worth, Dallas, and Huston.
* Purchase of IOHs have increased dramatically after COVID along with rising costs of land, construction materials and labor. Also points to higher regulations.
* Key factors to institutional purchase include Price-to-Rent ratios, demographics (especially age cohorts), and, of course, location!
* Texas is cited as one of the largest IOH markets. Key characteristics include growth of 11%\_ of households, 12% of residents moved within past year, rents increased more than 30% in past decade, and home prices by 40% during the same time.
* Dallas/Fort Worth Case Study
  + 20% population growth between 2010 and 2020.
  + Institutional investors owned more than 15,800 units in Dallas area and 13,750 in Fort Worth area
  + According to CoreLogic, cash sales made up 31.4% of sales in 2017 and 39.7% in 2021 in Tarrant County with Dallas County showing a 37.1 to 39.6% growth in the same period.
  + Article includes a graphic by zip code of share of cash sales.
  + Show a correlation with the fact that the areas with higher cash sales also have older homes with smaller values. Also use census data to show these areas with lowest median income.
* Show that new apartment construction was lower in high cash areas and higher in low cash areas.
* Developers are also purchasing homes in planned communities. They cite a transaction where Fundrise purchased 124 homes, all newly built in a single development with cash to make them rental.
* An article from Rent Café argues that the number of single-family homes built solely for rent will reach its largest in 2022.
* Huston Case Study
  + Since 2018, 14 subdivisions with 2,575 single-family units have been built as build-to-rent and they charge rents much higher than average.
  + Only four are in Harris County and none within the beltway (CBD)
* Blackstone-owned Home Partners of American recently stated it will stop purchasing in 38 cities due to restrictions. Most are in the hotter areas of corporate ownership.
* Some cities in Texas and New Orleans have passed resolutions to limit short-term rentals or tried to create more transparency. Georgia, on the other hand, proposed laws to limit such restrictions, but there was a lot of backlash and so they died.

Travis, Adam (2019). “The Organization of Neglect: Limited Liability Companies and Housing Disinvestment” American Sociological Review, 84(1), 142 – 170.

The paper uses surveys and administrative data to show that there is a level of disinvestment when a property is sold from individual to LLC that is not accounted for by other housing characteristics. The paper focuses on Milwaukee, WI and seeks to address the question of why some properties fall into disrepair while others do not. Specifically, the paper looks at how changing institutions (i.e. Business law) may inadvertently contribute to this issue.

* Hamill (1998) indicates that the LLC become pervasive after the state-by-state movement to streamline tax and liability rules for business organization.
* Cite Arrow (1963) and others on how laws to limit liability and risk may lead to riskier behavior.
* Use an interrupted time-series to show that when properties change from individual to LLC hands, disrepair increases despite those properties not already being on a trend toward disrepair.
* Case studies in Las Vegas and Detroit by Mallach (2014) identify four types of real estate investors: flippers, rehabbers, long-term holders, and “milkers”. The first two see appreciation gains while the latter two seek cash-flow profits generated by renters receipts with “milkers” seeking to maximize profits by minimizing costs by typically purchasing inexpensive properties and avoiding maintenance costs.
* Some key periods in landlord law include:
  + Establishment of building codes (Lubove, 1962; Novak, 1996)
  + Rise and fall of rent control (Arnott, 1995)
  + Expansion of tort liability (Love, 1975; Rabin, 1983)
* Incorporation traditionally comes with the cost of higher taxation, especially in the form of the corporate tax followed by the taxation of owner incomes.
* The key change came in 1977 when Wyoming created the LLC and then was solidified in 1988 when the IRS indicated that the LLC would be taxed as a partnership rather than a corporation. All 50 states had LLC legislation by 1996.
* In real estate, this was welcome as the 1970s and 1980s was a period of increasing liabilities for landlords as courts moved away from the common law doctrine of “caveat lessee” and shifted more liability for living conditions to landlords.
* Author indicates two mechanisms for the LLC to lead to more disinvestment:
  + The protective shell of LLC leads to more investment in low-end properties (adverse selection on property characteristics).
  + The protective shell of LLCs leads to less incentive to invest time or money into maintenance (LLC-owner effect).
* Uses digitized records and the MARS (Milwaukee Area Renters Study) as data sources. Also uses data from the Master Property Record and the Neighborhood Services System which contains all code violations issued by DNS.
* Residential property is coded by
  + Land Use Code (Single family, two-family, multi-family, condominiums, residential mixed-use).
  + Rental properties are then identified if any of the following hold:
    - Owned by business entity
    - Multi-family residents (3+ units)
    - Single family not owner occupied
    - Two-family that is not owner occupied
    - Condominium that is not owner occupied
    - Mixed use property with at least one residential unit not owner occupied.
    - Owned by bank or lending institution.

The validity of the coding was double checked with 2010 census counts for rental units and the authors coding yielded 95% of the census total. The author excludes properties owned by government, and tax-exempt agencies.

* Code violation data from DNS is used to measure disinvestment. While inspection frequencies differ, the author focused only on triggered inspections. Furthermore, focus is limited to code violations for structural condition, habitability of the unit, exterior maintenance, and provision of access to DNS inspectors. This is used to create a dichotomous variable “code violation” that is one if a code violation is received on a property in a given year.
* Ownership is divided into five groups:
  + LLC (based on naming requirements by state law)
  + Corporations (based on naming requirements by state law)
  + Limited Partnerships (based on naming requirements by state law)
  + Real Estate Owned (REO)
  + Sole Proprietors (those not above)
* Property size is controlled for by number of units and property type (single, two, multi-family, etc.).
* Also control for building age and assessed value.
* Also control for sale history using post foreclosure, ownership transfer periods.
* Also controlled for location of landlords (absentee or nearby) and ownership scale.
* Census controls include household poverty, racial composition, housing tenure with missing values filled in using linear interpolation and the Longitudinal Tract Database.
* Because care must be taken for selection bias, the author uses both a property fixed effects and control-group interrupted time series model. The models are estimated as Limited Probability Models with OLS to avoid incidental parameters. The control-group interrupted time series (appears similar to regression discontinuity) uses treatment properties (sole to LLC) to test again control (sole to sole) and tracts the disinvestment. The estimation equation is:

The post transfer indicates control and treatment groups with and indicating intercept changes immediately upon transfer. The pre period and post period county the number of years pre or post year zero (transfer year) in either state and the corresponding coefficient is the slope parameter. In this setup, the condition suggests the presence of an LLC-owner effect.

* Initial LPM results show a 2 percentage point increase in the likelihood of receiving a violation for the treatment properties. Likewise, properties in poor and black neighborhoods are more likely to receive violations as are older and larger properties. The inclusion of fixed effects lowers the magnitude to 1 percentage point, but remains statistically significant.
* The interrupted time series approach provides mixed results. While the overall comparison is not statistically significant, the differences between the two pre and two post slopes are statistically significant and the graphical image implies that SP to SP sees a lower and decrease probability of receiving a violation while the SP to LLC see an initial decrease, but a significantly increased probability as time increases from the transfer period.
* Author then identifies “high poverty neighborhoods” with more than 40% of residents below the 2000 poverty line and then compares the density of LLC ownership and finds a higher density in the poor neighborhoods. The author then estimates the first two models on each subsample and finds significantly higher probabilities in the poor neighborhoods.
* The author then uses the MARS survey to measure the responsiveness of landlords and compares across the ownership types. The MARS data is shown to provide similar results consistent with what is found in the primary analysis.

Citations

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