

To: Tim Gladhill, Kurt Ulrich, Dean Kapler, and other interested parties

From: Michael Healy

Re: Owner Occupancy versus Absentee Landlords

There are a lot of hard to measure variables at play in the seemingly endless debate about the extent that homeownership versus rental affects the quality of life in neighborhoods and the quality of the housing stock in those neighborhoods. There is fairly broad consensus that long-term residents of a neighborhood tend to have more investment in the neighborhood's well-being and a greater interest in forming relationships and building up social capital. Because of the high costs associated with buying and selling a home, homeowners tend to relocate less frequently than renters and therefore tend to have longer tenures and be more stable as community members. Research suggests, however, that some types of rentals experience similar trends towards long-term tenancy and the benefits that accompany it such as housing cooperatives, rent-controlled apartments, and subsidized affordable housing living arrangements. Residents of these types of properties are more likely to feel a sense of ownership or an investment in the property since they are either part owners (in the case of co-ops) or are getting a great deal and a pleasant living experience that would not follow them if they relocated (in the case of rent control and subsidized housing complexes). In the case of more traditional apartments, tenants are unlikely to feel a very strong compulsion to participate in the building's upkeep since they will see few direct financial or lifestyle benefits to be gained by doing so. In these situations, whether or not the landlord is an owner-occupant or a neighbor (versus a fully absentee landlord) might potentially have some bearing on what standards they maintain the property up to. A study by George C. Glaster (1983) attempted to empirically measure the effects of owner occupancy on properties. Glaster ran a series of regressions and concluded that owner-occupants both start off with better housing than absentee-landlords and invest more heavily in maintenance efforts to sustain that high quality. His theory is that owners-occupants experience a reduced quality of life if they do not maintain their property correctly while absentee-landlords are more detached from that. Absentee landlords would also be less concerned with keeping up appearances and meeting neighborhood standards than someone who had to see and interact with the neighbors daily. The study found that owner-occupancy had the most profound "superiority" versus absentee landlord-ism in low income groups, potentially because they have lower opportunity costs from working on the buildings themselves (their time being less monetarily valuable) and are more likely to know their neighbors and value their opinions. Oddly, there have not been any major corroborating studies performed but Glaster's analysis lines up well with what common sense would already lead many people to conclude. Residents who feel a sense of investment in a property and are likely to stay there long-term such as owner-occupiers, co-op residents, and beneficiaries of rent control are incentivized to keep the property up to high standards. A typical renter, being more transient, would not have that same incentive and the care of the property would fall almost entirely to the landlord. In the case of absentee landlords, some sort of municipal oversight might be necessary to ensure that the property was still being kept up even though neither the tenants nor the landlords would be likely to be particularly enthusiastic about maintaining it at high standards.

Sources:

Galster, George C. "Empirical Evidence on Cross-Tenure Differences in Home Maintenance and Conditions." *Land Economics* Vol 59.1 (1983): 107-113.

"Social Benefits of Homeownership and Stable Housing." National Association of Realtors (2012).