



# Maintenance and Investment in Small Rental Properties

Findings from New York City and Baltimore

The Furman Center for Real Estate and Urban Policy and Johns Hopkins Institute for Policy Studies

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September 2013

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## Abstract

Nearly half of all poor, urban renters in the United States live in rental buildings of fewer than four units, and such buildings make up nearly half our nation's rental housing stock. Yet small rental properties remain largely overlooked by researchers. We present two reports—from New York City and Baltimore—both providing suggestive evidence, drawn from a variety of sources, about the characteristics of small rental housing. We find that while small buildings offer lower rents and play a crucial role in housing low-income renters, these lower rents are largely explained by neighborhood location. Ownership matters, however. In New York, lower rents are associated with small buildings with resident landlords. Further, we also find better unit conditions in small rental buildings when compared to most larger properties, especially in small buildings with resident landlords. In Baltimore, we find that smaller-scale “mom-and-pop” owners dominate the small rental property market, but that the share of larger-scale owners increases in higher poverty areas of the city. The properties owned by these larger-scale owners receive fewer housing code violations and that these owners appear to invest more frequently in major improvements to their properties.

## Introduction

Nearly half of all poor, urban renters in the United States live in rental buildings of fewer than four units,<sup>1</sup> and such buildings make up nearly half our nation's rental housing stock. Yet small rental properties remain largely overlooked by researchers. We know little about their concentration of ownership, the characteristics of their tenants, the forms of financing and management practices used by owners, and the unique issues raised by properties in which owners often live alongside the tenants. Without a better understanding of how the characteristics and management approach of small rental property owners differ from those of large property landlords, policymakers will be handicapped in their ability to craft policies to monitor conditions in and encourage the maintenance of much of the affordable rental housing stock.

Below we present two reports—from New York City and Baltimore—both providing suggestive evidence about the characteristics of small rental housing. The reports employ different methodologies. The Baltimore report relies on Census data and administrative sources, some of which have only very recently become available. The New York report relies on Census data and administrative sources as well, but also includes insights gleaned from interviews conducted with small rental property owners as well as from two focus groups of tenant advocates, landlord representatives, and attorneys.

Units in small rental properties represent a significant share of all rental units in both cities. In New York City, more than a quarter of all rental units are in small buildings, in Baltimore, more than half. In both cities small rental buildings also play a crucial role in providing affordable housing. More than half of the Baltimore's affordable rental units are in small buildings, while more than 75 percent of all low-income New Yorkers not benefiting from a housing subsidy live in small rental properties. The evidence from New York regarding affordability, however, is somewhat mixed; rents are lower in small buildings, but a regression analysis reveals that these lower rents are primarily explained by differences in property location (as well as unit and building characteristics other than building size). However, the report finds that rents are

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<sup>1</sup> Garboden & Newman, Is preserving small, low-end rental housing feasible? (2012), 507; U.S. Bureau of the Census, American Housing Survey 2007 Metropolitan Area Data File (2007)

significantly lower when a rental building's owner resides in the building itself, even after controlling for property characteristics and location. The salutary effect of resident landlords is a recurring theme from the New York report.

The Baltimore report leverages a newly available rental registration dataset to provide insight into the characteristics of the owners of small rental properties.<sup>2</sup> In Baltimore, nearly 75 percent of small rental buildings are owned by “mom and pop”<sup>3</sup> owners, while only six owners were identified that own more than 100 properties. The report finds that ownership of small rental properties has become less concentrated over time, but that comparatively higher concentration persists in high-poverty areas of the city. Consistent with owner interviews in New York, the Baltimore report suggests that this may be a result of lower purchase prices found in poorer neighborhoods—making the accumulation of numerous properties more economically feasible. The evidence suggests that small scale owners control a significant share of the small rental stock in New York as well—nearly 40 percent of small rental buildings have resident owners, who, interviews suggest, are unlikely to have large property portfolios. In general, the vision that emerges in both reports, however, is of the small scale, non-professionalized, owner.

As for quality and conditions, the New York report finds a low rate of housing code violations among small rental properties, with these properties receiving fewer serious violations per unit than all but the largest (and considerably more expensive) buildings. This trend is even more pronounced with respect to small properties with resident owners. These buildings receive serious housing code violations at a rate similar to the city's largest market rate rental buildings—despite charging significantly lower rents. These patterns persist even when examining Census survey reports, which are less likely to be confounded by potentially lower reporting rates in small buildings.

Because there are so few larger rental buildings in Baltimore, that report does not compare conditions in small and large buildings. Instead, the Baltimore report leverages the ownership data discussed above to examine comparative housing code violation rates among large- and

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<sup>2</sup> New York City has a similar registration database, but compliance rates among small property owners are so low as to render it practically unusable.

<sup>3</sup> Defined as owners owning fewer than six properties.

small-scale owners of small rental properties, finding a relatively consistent rate across both groups. Further, the Baltimore report finds that small-scale owners in high-poverty areas receive violations at a higher rate than large-scale owners in the same areas, perhaps due to maintenance expertise not present among “mom and pop” owners in poorer areas. This seems potentially counter to New York City finding that small buildings with resident owners are in better condition than those without resident owners. But because single-family rental homes by definition cannot have resident owners, and because they represent close to 70 percent of Baltimore’s small rental stock, the Baltimore report does not analyze whether landlord residency leads to improved unit quality, as in New York.

Both reports make clear the importance of small buildings to the affordable rental housing stocks of their respective cities, highlight patterns about conditions, and present a number of promising avenues for further research, especially regarding factors influencing both the quality and affordability of units in these properties. The evidence they present provides the basis for further research into the consequences of ownership scale for the maintenance of small buildings, the effect of resident landlords on unit conditions, and the role played by both these factors in fostering stable tenancies.

## **Methodological Lessons**

### *Administrative Data*

Both reports make extensive use of local administrative data, including rental registrations, property sales history and housing code violations. While such administrative data can be highly informative, it is often difficult to rely on administrative data in studies of multiple cities. First and foremost, cities vary in the type of information they collect and how they record it. Thus, not every dataset available in one study city will be available in other study cities, and not every dataset useful in one study city will prove as useful in another. For instance, while both New York and Baltimore collect mandatory rental registrations from most residential landlords, the compliance rate in New York among the owners of small buildings is so low as to render the data unusable for the purposes of this study. That said, researchers studying New York City are fortunate that the city has a rental registration ordinance at all—these data are entirely absent in many cities.

Housing code violation data are used in both reports as a proxy for the condition of small buildings and the units therein. These data are more widely available than rental registrations, and, as more cities upgrade their data systems, these datasets likely will offer finer categorization of violations by type and severity. Armed with these classifications, researchers will be able to distinguish between violations that are more likely to affect tenants' quality of life (such as vermin infestations) and those with less clear impacts (such as failure to display a certificate of occupancy).

Other administrative data sources can provide insight into more dimensions of a city's small rental stock. Property tax assessment rolls can provide valuable information about these buildings' ages and construction quality. Building permits can provide a useful proxy for owners' investments in major improvements. With the advent of 311 systems in many cities, researchers can analyze neighborhood conditions beyond buildings and units. Some cities have vacancy registration ordinances that could allow for comparisons regarding unit turnover rates in buildings of different sizes. The Baltimore report uses sales transaction data (drawn from city land records) to analyze ownership turnover among small buildings over time and draw conclusions about investor activity.

### *Survey Data*

Both reports make use of metro American Housing Survey (AHS) data. The AHS, conducted by the Census Bureau, collects data from seven out of forty-six metropolitan statistical areas (MSAs) every two years, with each MSA resurveyed every six years. In Baltimore, these data are used to describe the rent, tenant, unit, and neighborhood quality characteristics of the small rental stock. While the New York report uses AHS data in places, nearly all rent, tenant, and unit characteristics are drawn from the New York City Housing and Vacancy Survey (HVS). The HVS is conducted triennially by the Census Bureau on behalf of New York City's Department of Housing Preservation and Development. Although the HVS is conducted to determine whether the housing market meets the requirements New York State law imposes to authorize rent regulations in the city, the survey borrows many questions from the AHS and provides similarly valuable data on building, unit, and tenant characteristics, all collected directly from tenants.



These reports on unit conditions allowed the New York team to confirm findings drawn from housing code violation data using anonymous survey responses. Although the HVS is a uniquely rich source of conditions data,<sup>4</sup> similar studies of the small rental stock in other large cities could make use of the metro AHS to get a snapshot of conditions every six years.<sup>5</sup> Alternatively, a larger range of cities could use city-level American Community Survey (ACS) data to replicate a good deal of our analysis on an annual basis, especially with respect to landlord residency. While the ACS lacks detailed data on unit conditions, it does capture building size, owner residency, rents, incomes, utility costs, the availability of various kitchen and plumbing facilities, and the length of the current tenants' tenure.

### *Stakeholder Focus Groups*

The qualitative data used in the New York report was collected from a series of focus groups and individual interviews with landlords and their representatives, tenants' representatives, and other stakeholders in the rental community. The New York team convened two focus groups: the landlord-themed group included owners' attorneys, representatives from small and large landlords' associations, as well as some individual owners themselves; the tenant-themed group included tenants' attorneys, affordable housing advocates, and tenant organizers. The groups were separated to encourage candid discussion. Participants in both groups were able to offer insights into the small rental market that could not have been gleaned either from the data or even from the owners themselves. Much of the New York report's concern about the potential underreporting of condition problems in small buildings was motivated by the discussion in the tenant-themed focus group. Similarly, participants in the landlord-themed group were able to speak more broadly than individual landlords about the elevated economic pressures on small property owners.

### *Property Owner Interviews*

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<sup>4</sup> The HVS is particularly valuable in New York City because it distinguishes between survey responses from tenants in market rate units, rent stabilized units, rent controlled units, and public housing. The New York report makes extensive use of these distinctions.

<sup>5</sup> Metro AHS reports break out most data into three "subareas," typically including the "central city" in the MSA.

In an effort to reach the broadest possible array of small property owners, we identified three target neighborhoods where a large percentage of the housing stock was made up of small rental buildings. We attempted to contact a random sample of approximately 200 small building owners in each of three target neighborhoods. We were able to gather property tax billing addresses for 587 of the 600 buildings in our sample, and we sent invitations to participate, via regular mail, to each of these billing addresses.<sup>6</sup> Although we believed that contacting property owners by phone would likely increase our response rate, contact phone numbers are neither available in RPAD nor on the aforementioned property tax billing statements.<sup>7</sup> (In other cities, such phone numbers might be available.) In drafting the invitation, we made clear that we had no affiliation with any government agency and that nothing said in the interviews would be attributed specifically to a particular participant. Even so, given that the letters arrived unsolicited, we anticipated a very low response rate. We were nonetheless surprised that we received only seven direct responses to the mailing, constituting a response rate of 1.2 percent. Given that only thirty-four (5.8 percent) of the letters were returned undeliverable, this response rate suggests that landlord reticence will likely remain an obstacle to any effort to systematically contact property owners in this fashion. Although HPD does not make registrants telephone numbers public, it does collect emergency contact information. Reaching out to owners by telephone might prove more effective if a reliable source for property owner contact numbers were available. Moreover, developing a methodology for more accurately capturing the full extent of property owners' portfolios could help generate a much more complete set of potential contact names and addresses for larger-scale owners, as well as allow for sampling by owner type (rather than at random), which could help provide a more representative cross-section of property owners. We propose a project to develop such a methodology in our research agenda below.

The complementary use of these different data sources allowed us to cross-validate findings from one data source with evidence from another. It also highlighted some of the deficiencies of each

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<sup>6</sup> Using property tax billing addresses helped us reach a larger number of non-resident landlords than we would have had we just used the property addresses themselves.

<sup>7</sup> Although all non-owner-occupier landlords (as well as owner-occupier landlords in buildings of three or more units) are required to register an emergency contact number with the city's Department of Housing Preservation and Development (HPD), those numbers are not part of the property registration data made public by HPD and registration rates among small buildings owners are extremely low.

data source, namely, the small sample size that we collected for interviews and the highly selected nature of that sample, the potential reporting biases in administrative data, and the relatively small sample size and measurement and sampling error issues associated with using survey data (as well as the fact that these surveys may not ask the questions cities most want to address). Future studies should try to make use of complementary data sources in order to get a more complete picture of local housing stocks.

## Research Agenda

We believe our findings are important in themselves, but they also suggest a number of areas for future research, two of which we highlight below.

### *Ownership of urban rental property*

Both reports offer preliminary findings that suggest the importance of differences in ownership of rental properties. The New York report calls attention to small-scale resident owners, whose properties appear to offer lower rents, more stable tenancies, and as good or better physical conditions than larger rental buildings. Although resident owners appear to offer a superior product at a lower price, more research is needed to identify the mechanisms that produce this result. How much does closer tenant screening by resident owners contribute to observed differences in unit quality? Are resident owners simply able to monitor conditions more effectively and attend to any issues without delay? Are tenants in owner-occupied properties likely to report small problems to their landlord more quickly, so they can be addressed before they become larger problems? Most critically, can these habits and practices be replicated in buildings without resident owners? These questions could be answered by more in-depth qualitative, comparative study of the practices of resident and non-resident owners.

The Baltimore report finds that ownership size has little relation to code violation citations for the city as a whole, but that, in high poverty neighborhoods, larger-scale owners of small buildings offer better conditions and tend to invest more frequently in major improvements to their properties. These findings seem potentially contradictory and point to the need for a better

understanding of the consequences of ownership type and scale, especially at a time when a growing number of large-scale investors are buying up REO properties with the aim of managing them as rentals, sometimes for an extended period. More research is also needed to determine if larger-scale owners are able to offer better quality units due higher levels of professionalization and associated management skills, or whether these findings from Baltimore are generalizable to other cities. Additionally, the effect of ownership scale on affordability is a ripe area for further exploration.

A closer study of rental property ownership will require creative approaches to administrative data sources. In most cases, ownership scale (and sometimes even owner-occupancy status) will not be directly observable. In their report, the Baltimore team was able to leverage a high rental registration rate along with less convoluted ownership structures to get at ownership scale. Many other cities (including New York) present additional challenges. More sophisticated owners may choose not to hold their properties in their own name (or even in the name of a single entity), but rather in single-use entities created solely for the purpose of owning each individual property in their portfolios. This makes determining the full extent of a given property owner's holdings very challenging. However, by combining various administrative datasets, including recorded sales histories, property tax billing information, rental registrations, and state corporate formation filings, we may be able to find enough clues to plausibly connect single-use holding entities to each other and form a much more accurate map of urban property ownership.

Given the vast amount of our nation's wealth that is concentrated in real property,<sup>8</sup> we know surprisingly little about the concentration of ownership in the real estate sector, especially when compared to other sectors of the economy. If we are able to develop a reliable methodology for uncovering the true extent of rental property owners' portfolios, we will be able, for the first time, to observe the true level of rental property ownership concentration in American cities. Because so few cities can offer reliable data in this vein, the consequences of property ownership concentration are mostly unknown. Advocates voice concern about the practices of absentee investors, but there is little hard evidence about the relative conditions in buildings owned by

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<sup>8</sup> The Federal Reserve estimates the total value of the real estate assets of nonfinancial corporate businesses at \$9.4 trillion. BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FINANCIAL ACCOUNTS OF THE UNITED STATES (2013).

investors. Reliable data on ownership would allow us to study the potential effects of concentration of ownership on affordability and housing quality. Are certain property owner profiles associated with poor conditions? Does ownership concentration affect local rents? If we are able to gather these data on ownership longitudinally, we will be able to observe how changes in the concentration of ownership over time affect the affordability and measured quality of the housing stock in neighborhoods. The recent purchase of REO properties by investors in many cities may offer a unique opportunity to study fairly sudden changes in ownership patterns.

#### *Unsubsidized, low-income renters*

Both reports also raise important questions regarding the status of low-income tenants who do not benefit from housing subsidies. Because so much affordable housing research focuses on the subsidized stock, this population is often overlooked, despite the fact that it is among the most vulnerable. The Census tells us little about unsubsidized low-income renters beyond the fact that a disproportionate number of them live in small buildings (more than 70 percent nationally). In New York City, the HVS allows us to learn a little more about the housing conditions faced by these renters, but little is known about how they actually manage to subsist, especially in high-cost cities like New York. Further qualitative research on these tenants—exploring their housing options, the trade-offs they make—is needed to learn just how precarious their situation really is. There are anecdotal and intuitive reasons to believe this population is among the most threatened by homelessness, but additional research could examine just how often these tenants end up in shelters or on street, and whether there are particular unsubsidized rental buildings that act as a “last stop” on the road to homelessness. Understanding more about the profile of these tenants could help policymakers better target scarce homelessness prevention resources.

In interviews, small property owners in New York repeatedly referenced the prevalence of illegal basement units in small rental buildings across the city. Tenants’ advocates stressed that these units are a crucial source of unsubsidized affordable housing, especially in high-cost cities like New York. Although data are scarce, an analysis of the illegal or improvised rental housing market to determine how many people live in extremely crowded units that do not satisfy

relevant housing codes, in basement apartments, or in other makeshift housing arrangements (such as sharing rooms with strangers) would prove valuable to policymakers wishing to better understand the housing options available to unsubsidized, low-income renters. In a world of tightening budgets for affordable housing programs, preserving these units may be essential to housing a growing number of unsubsidized tenants. A project exploring the true health and safety threats posed by these living arrangements and the most cost-effective approaches to bringing dangerous illegal units up to code and to providing housing models that meet the housing needs that illegal or improvised arrangements are filling would help cities to refine their housing and building codes and better serve their most vulnerable populations.



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## **Maintenance and Investment in Small Rental Properties in New York City**

### **The Importance of Resident Landlords**

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## Introduction

Small buildings play a crucial role in New York City’s rental housing stock, especially when it comes to housing low-income tenants. As we document below, more than 75 percent of all low-income New Yorkers not benefiting from a housing subsidy live in 1- to 5-unit properties. Policy interventions to improve the quality of small buildings, prevent deterioration, and encourage stability require understanding small property owners’ decision-making processes, the problems they face, and the incentives they have to overcome them. Using a combination of analysis of administrative and survey data, interviews with small building landlords, and focus groups with tenant advocates, landlord associations, and lawyers who work with the owners of small rental properties, this study describes the tenants, rents, and conditions of the 1- to 5-unit housing rental stock in New York City<sup>9</sup> and highlights some of the important characteristics that distinguish it from the stock of larger buildings. Perhaps the most important of these is that, for many small multi-family rental properties, the property owner is in residence. We find that the presence of live-in landlord has a significant and positive relationship with better housing conditions, reduced rents, and greater tenant stability. Following the analysis we suggest a variety of channels through which the circumstances and decision making of small building owners and managers might generate the differences that we observe. We then identify a cluster of questions for future research.

### I. How Affordable are 1- to 5-Unit Buildings?

The importance of the small rental stock to affordability is often framed in terms of the outsize role it plays in housing low-income renters.<sup>10</sup> The most frequently cited statistic, drawn from the Secretary of HUD’s Millennial Housing Commission report, indicates that, nationally, 70.6 percent of households not receiving federal housing assistance and earning less than 50 percent of the area median income (AMI) live in 1- to 4-unit buildings. In New York City, the

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<sup>9</sup> Although many researchers typically define “small” properties as 1- to 4-unit buildings, we include 5 unit properties due to the fact that perhaps the most influential housing policy in New York City, rent stabilization, applies only to buildings 6 units or larger.

<sup>10</sup> SHAUN DONOVAN, MILLENNIAL HOUSING COMMISSION FINANCE TASK FORCE, BACKGROUND PAPER ON MARKET RATE MULTIFAMILY RENTAL HOUSING (2002); ALAN MALLACH, JOINT CENTER FOR HOUSING STUDIES, LANDLORDS AT THE MARGINS: EXPLORING THE DYNAMICS OF THE ONE TO FOUR UNIT RENTAL HOUSING INDUSTRY (2006).

situation is similar. Table 1 reports the distribution of households living in market-rate rental housing and earning less than 50 percent of the citywide AMI for a family of four by building

**Table 1: Distribution of Unsubsidized Low Income<sup>11</sup> Renters by Building Size in New York City**

	Units	%
<b>1 unit</b>	16,021	5.2%
<b>2-5 units</b>	228,520	73.5%
<b>6-49 units</b>	26,897	8.7%
<b>50+ units</b>	39,495	12.7%
<b>Total</b>	310,933	100.0%

Data Source: 2011 NYC HVS

size. Among low-income tenants paying market-rate rents, 78.7 percent live in 1- to 5-unit buildings, with the vast majority living in 2-5 unit buildings.<sup>12</sup>

Although these figures are often cited as proof of the importance of the small rental stock to affordability, the simple presence of low-income households in small buildings does not imply that they are paying affordable rents. That said, in interviews, small property owners universally acknowledged the role their buildings play in housing low-income tenants and all reported charging at least some tenants below-market rents. One Bronx property owner saw a social mission in her role as landlord, describing prevailing local rents as “over the top” and saying, of her building:

*I thought it should be affordable housing for working people....I could have made more money... I was charging \$1,200, I could get \$1,600. I don't want to be a slumlord, I'm trying to be nice.*

While no other landlords reported rent discounts at this scale, nearly all owners interviewed described a more symbiotic dynamic with some long-term tenants: exchanging rent breaks for relief from vacancy. Given their comparatively small portfolios (no owner interviewed owned more than four properties, nor was aware of any other local small property owner that did), these owners all felt particularly vulnerable to vacancies. One Corona owner said that the typical turnover period of two months imposed considerable financial hardship on her family. All owners interviewed said they would happily forego rent increases in order to ensure that “good” tenants stayed. As one Elmhurst owner put it: “Long-term tenants are at below-market rents. It’s worth it for the stability.”

<sup>11</sup> We define “low income” as a household earning less than 50 percent of the citywide AMI for a family of four.

<sup>12</sup> Nationally only 25.5 percent of market rate tenants live in 2- to 4-unit properties. DONOVAN, *supra* note 2 at 28.

Despite the high concentration of low-income tenants in small buildings and property owners' reports of below-market rents, survey data suggest that tenants in small multifamily buildings spend as much of their income on rent as tenants in larger market rate rental buildings. Table 2 reports, by building size and rent stabilization status, median rents, median household incomes, the shares of households that are rent burdened (spending more than 30 percent of their annual income on rent), and the share of households that are severely rent burdened (spending more than 50 percent of their income on rent). The data indicate a striking uniformity in the shares of tenants that are rent burdened and severely rent burdened across buildings of different sizes, and between buildings that are stabilized and those that are not. Tenants in small buildings pay lower rents than tenants in market rate units in larger buildings, but they also earn much lower incomes, just as tenants in rent stabilized units pay even less in rent but earn even lower incomes.<sup>13</sup>

**Table 2: Share of Rent Burdened Tenants in One-Bedroom Units by Building Size and Stabilization Status in New York City**

	1 unit	2-5 units	6-49 units (market)	6-49 units (stabilized)	50+ units (market)	50+ units (stabilized)
<b># Units</b>	4,339	136,454	49,752	260,717	87,294	203,242
<b>Median Rent</b>	875	975	2,000	1,000	2,500	1,025
<b>Median Income</b>	40,000	40,000	82,000	37,000	90,000	37,500
<b>Rent burdened</b>	0.44	0.54	0.43	0.54	0.50	0.57
<b>Severely rent burdened</b>	0.22	0.33	0.26	0.34	0.29	0.34
<b>Data Source: 2011 NYC HVS</b>						

Apartments in small rental buildings represent a critical source of affordable housing, inasmuch as they are likely often the only apartments low-income New Yorkers can afford. Rent-stabilized units may have comparably low rents, but the fact that those units change tenants so infrequently,<sup>14</sup> and can lose their stabilized status under certain circumstances when they do, only emphasizes the importance of small rental buildings to the city's affordable housing stock.

<sup>13</sup> Of course, there remains a sense in which these low-income households may still bear a greater rent burden than households in more expensive market-rate units, insofar as 30% of a high-income household's income may represent less valuable foregone consumption than 30% of a low-income household's income, even if it more in dollar terms and they are both "rent burdened."

<sup>14</sup> See Figure 1 in Section II, *infra*.

A comparison of median market rents across building types, however, ignores differences in the location of buildings of different sizes and masks considerable variation across boroughs. To explore some of this variation, Table 3 reports median rents for market rate units in the five boroughs, broken out by building size. Relative to larger buildings in the same borough, small buildings are most affordable in Brooklyn and Manhattan, where rents in medium and large buildings are especially high. In the Bronx, the median rent in a small building is actually higher than in larger buildings, and in the Queens, small building rents are just a bit higher than in 6-49 unit buildings. These comparisons suggest that the overall level of affordability of small buildings is driven in part by differences in rents by building type within Manhattan but likely in larger part due to the fact that smaller rental properties tend to be located in the outer boroughs, where rents are cheaper in general and there is less demand for density.

**Table 3: Median Market Rent by Building Size and Borough**

	1 unit	2-5 units	6-49 units	50+ units
<b>Bronx</b>	1,300	1,175	1,100	1,100
<b>Brooklyn</b>	1,500	1,200	1,650	1,250
<b>Manhattan</b>		2,000	2,203	2,800
<b>Queens</b>	1,500	1,250	1,200	1,400
<b>Staten Island</b>	1,325	1,000		

Data Source: 2011 NYC HVS

In light of this evidence suggesting that small building rents tend to be cheaper because small buildings are located in lower demand, outer borough neighborhoods, it is important to assess whether there is anything about small buildings themselves that result in lower (or higher) rents. Do small buildings offer a better deal than larger buildings, in terms of the quality they deliver for the price? After controlling for neighborhood factors and unit and buildings characteristics, are rents still lower in small buildings? Column 1 of Table 4 reports the coefficient estimates from a hedonic regression of market rents on building and unit characteristics, controlling for geographic location with sub-borough area<sup>15</sup> fixed effects. After controlling for these

<sup>15</sup> The Housing and Vacancy Survey upon which this analysis is based makes use of 55 “sub-borough areas” that roughly track 59 community districts in New York City. The Census Bureau developed the sub-borough areas based on the most recent decennial census and each contains at least 100,000 people.

characteristics, we find no statistically significant relationship between the rent and the fact that a unit is in a small building. It therefore appears that the difference in market rents between buildings of different sizes that we observe in Tables 2 and 3 is largely due to differences in the neighborhoods in which these buildings are located, unit characteristics, and building characteristics other than size.

The second column of Table 4 reports the results from a hedonic regression, limited to units in small buildings to explore whether particular types of small buildings offer lower rents. Apart from building size perhaps, the coefficients generally have the expected signs. Unsurprisingly, rents tend to be higher for units with more rooms, on higher floors, in buildings with elevators.

<b>Table 4: Hedonic regressions of market rents in New York City</b>		
	All	2-5 Unit
<b>1 unit building</b>	90.946	
	(-1.26)	
<b>6-49 unit building</b>	-78.764	
	(-1.43)	
<b>50+ unit building</b>	36.754	
	(-0.34)	
<b>Unit floor</b>	33.206	-34.528
	(2.48)*	(-1.87)
<b>Elevator</b>	409.809	-49.677
	(4.47)**	(-0.14)
<b>Rooms</b>	93.24	77.466
	(3.81)**	(3.07)**
<b>Bedrooms</b>	266.529	155.82
	(8.28)**	(5.18)**
<b>Tenant? pays electric</b>	129.008	52.905
	(2.44)*	(-1.09)
<b>Pay gas</b>	-76.149	4.81
	(2.46)*	(-0.2)
<b>Pay water</b>	-158.549	-83.043
	(2.05)*	(-1.14)
<b>Pay other fuel</b>	73.754	248.419
	(-0.33)	(-1.19)
<b>Owner in building</b>	-21.142	-54.712
	(-0.88)	(2.82)**

# Maint. Deficiencies	11.558	1.985
	(-1.23)	(-0.29)
SBE FE	Y	Y
R <sup>2</sup>	0.59	0.43
N (units)	3,285	2,145

Of particular interest is the regression coefficient for owner occupied buildings. Controlling for other factors, rents in small buildings are approximately \$50 less when the owner lives in the building. The relationship between having a live-in owner and a lower rent is both smaller in magnitude and not statistically significant in the sample of all buildings in the first column, suggesting that the effect of having a live-in owner is attenuated or nonexistent in larger buildings.<sup>16</sup> Additional regression estimates, not reported here, bear this out.

Moreover, owner interviews suggest that decreased rent levels may not exhaust the effect live-in owners have on the actual experience of ‘affordability’ in small rental properties. In interviews, property owners reported other forms of leniency, such as timing of payments, that they attributed to the unavoidable intimacy that arises in small buildings—an intimacy that is almost certainly maximized when the property owner lives together in her building with her tenants. As one Elmhurst owner put it:

*If a tenant loses a job, it's ok if the rent is late. There's wiggle room. It's also personal. When it's this small, you can't help it. It's personal.*

## II. Who Lives in 1- to 5-Unit Buildings?

### A. Tenant Demographics in Small Buildings

Table 5 reports summary statistics that describe the demographic characteristics of households living in market rate or stabilized units in buildings of different sizes throughout New York City. Units in small buildings make up 28 percent of the stock of all rental units. Relative to tenants living in other market rate rental units, tenants in small buildings have lower incomes. They are

<sup>16</sup> Only 5 percent of renters in 6-49 unit buildings, and 2 percent of renters in 50+ unit buildings report having a resident landlord.

also more likely to be immigrants, less likely to be seniors, more likely to be Section 8 voucher recipients, and are much more likely to be black, Puerto Rican or Hispanic.

<b>Table 5: Tenant Traits by Building Size and Stabilization Status in New York City</b>						
	1 unit	2-5 units	6-49 units (market)	6-49 units (stabilized)	50+ units (market)	50+ Units (stabilized)
<b># Units</b>	39,669	499,024	102,306	553,989	170,998	391,301
<b>Average income</b>	73,513	56,487	117,622	52,184	133,666	56,607
<b>People/room</b>	0.68	0.74	0.71	0.78	0.73	0.77
<b>Immigrant</b>	0.44	0.47	0.25	0.43	0.24	0.45
<b>Senior</b>	0.07	0.00	0.08	0.09	0.00	0.07
<b>Section 8</b>	0.01	0.06	0.04	0.10	0.03	0.07
<b>White</b>	0.37	0.32	0.62	0.32	0.65	0.37
<b>Black</b>	0.27	0.26	0.07	0.23	0.10	0.22
<b>Puerto Rican</b>	0.07	0.09	0.06	0.11	0.02	0.09
<b>Other Hispanic</b>	0.17	0.19	0.12	0.24	0.08	0.20
<b>Asian</b>	0.12	0.13	0.11	0.09	0.13	0.10
Source: 2011 NYC HVS						

In nearly every respect, tenants in market rate small buildings much more closely resemble residents of rent stabilized units than they do residents of market rate units in larger buildings. Many of the differences between residents of small buildings and residents of larger buildings are generated by differences in the locations of these units. Market rate rentals in larger buildings tend to be concentrated in Manhattan, where rents are higher and are therefore only affordable to higher income households. Like Table 5, Table 6 reports summary statistics that describe the demographics of households living in different building types, but is limited to the Bronx. While, relative to tenants in other market rate rental units, tenants in small buildings still have lower incomes, the difference is much less stark. Indeed, tenants paying market rents in larger buildings in the Bronx much more closely resemble tenants in smaller buildings than they do tenants in market rate buildings in Manhattan. Table 6 also shows how few market rate units there are in larger rental buildings in the Bronx at all: only 6.2 percent of rental units in larger buildings<sup>17</sup> are unregulated.

<sup>17</sup> This figure excludes public housing and other place-based subsidized housing projects, so the true share is even lower.

<b>Table 6: Tenant Traits by Building Size and Stabilization Status (Bronx Only)</b>						
	1 unit	2-5 units	6-49 units (market)	6-49 units (stabilized)	50+ units (market)	50+ Units (stabilized)
<b># Units</b>	4,233	57,944	5,343	114,597	9202	105,508
<b>Average income</b>	43,355	42,152	34,146	33,880	51,210	38,092
<b>People/room</b>	0.53	0.75	0.70	0.84	0.71	0.77
<b>Immigrant</b>	0.17	0.40	0.23	0.41	0.35	0.42
<b>Senior</b>	0.00	0.00	0.57	0.07	0.00	0.06
<b>Section 8</b>	0.00	0.16	0.17	0.22	0.04	0.15
<b>White</b>	0.41	0.13	0.17	0.07	0.21	0.12
<b>Black</b>	0.27	0.37	0.30	0.28	0.44	0.28
<b>Puerto Rican</b>	0.19	0.22	0.37	0.24	0.11	0.21
<b>Other</b>						
<b>Hispanic</b>	0.13	0.23	0.16	0.38	0.17	0.35
<b>Asian</b>	0.00	0.04	0.00	0.03	0.06	0.04
<b>Source: 2011 NYC HVS</b>						

In the previous section, we reported evidence that property owners tend to charge less in rent to their tenants if they live in the same building. Our interviews suggested several ways in which the greater intimacy that characterizes relationships between small building landlords and their tenants could affect lease terms, as well as the kinds of tenants that the landlord accepts. We expect that these effects might be amplified where the landlord lives in the same building as her tenants and therefore has the capacity to more closely monitor her tenants and observe how well they treat their units and common spaces, has better information about their circumstances, and

<b>Table 7: Tenant Traits in Small, Multi-Family Buildings by Landlord Residency in New York City</b>		
<b>Owner in Building</b>	No	Yes
<b># Units</b>	304,525	201,830
<b>Average Income</b>	59,333	55,074
<b>People/room</b>	0.76	0.70
<b>Immigrant</b>	0.46	0.45
<b>Senior</b>	0.02	0.01
<b>Years in unit</b>	6.99	7.61
<b>No lease</b>	0.36	0.46



<b>Lease Term</b>	2.73	2.70
<b>Section 8</b>	0.06	0.05
<b>Years in NYC</b>	17.78	17.99
<b>White</b>	0.31	0.34
<b>Black</b>	0.25	0.27
<b>Puerto Rican</b>	0.09	0.08
<b>Other Hispanic</b>	0.20	0.17
<b>Asian</b>	0.13	0.13

Data Source: 2011 NYC HVS

perhaps is in a better position to enforce the terms of an informal lease or unwritten agreement. Moreover, for these landlords, the selection and treatment of tenants is also the selection and treatment of neighbors, so the property owner's decision making process will reflect not just profit maximization, but all of the non-pecuniary costs and benefits associated with living next to different kinds of households. Table 7 reports summary statistics for tenants in 1- to 5-unit buildings, broken out by whether the landlord lives in the building or not. Nearly 40 percent of tenants in 1- to 5-unit buildings live in the same building as their landlord. Demographically, the two groups are quite similar. There is little evidence here that resident owners are selecting a different mix of tenants, at least with respect to observable attributes. However, it is possible that tenants in buildings with resident owners differ with respect to unobservable characteristics, such as reliability in paying rent or the degree to which they take care of their own units.

## B. Landlord/Tenant Relations in Small Buildings

### 1. Increased Landlord/Tenant Intimacy

Particularly in owner-occupied small rental buildings, the physical proximity of the landlord and tenants makes a certain level of intimacy inevitable. Indeed, in interviews, owner-occupant landlords reported frequent contact with their tenants, along with knowledge of both their professional and personal lives, at a level likely not found in larger or professionally managed rental buildings. Non-owner-occupant small property owners, however, also reported higher

levels of engagement with their tenants due to the frequent building and unit visits necessitated by self-management.

Several small property owners reported that these relationships with their tenants made it easier for them to address complaints without government involvement. This did not always mean that problems were resolved in a timely manner. Rather, some owners reported that this increased intimacy was reciprocal—as landlords, they were more aware of tenants’ financial difficulties and more lenient on late fees and rent increases (see Section I), but tenants adjusted their quality and responsiveness expectations accordingly. As one Elmhurst owner put it:

*Tenants are more understanding because they know my father [who manages their properties], and he looks humble. It lowers their expectations; they are willing to wait if something is going to take a few days. But it goes both ways, they don’t always pay rent on time, and he never charges late fees.*

Some owners, however, reported tenants who are reluctant to report physical problems with their units out of fear of a confrontation with their landlord. In at least one case, this fear was deliberately instilled in tenants, as one East New York landlord put it when describing what made a good property manager in his neighborhood:

*Somebody with a gun. It’s a hard situation because in certain areas, the management technique is totally different...Getting the rent is a problem. But it becomes easier if you get the people in the right mindset. Most of the people who have suffered through hard times know how to beat the system. Once they learn how to beat the system, you have to play the game because the system is on their side....Need someone scared to move to the next level, who won’t run the game on you because they’re afraid to do it.*

This landlord, like every small property owner interviewed, managed his property himself, telling his interviewer he was personally responsible for putting his tenants into the “right mindset.”<sup>18</sup> Despite this, the same East New York landlord also lamented his tenants’ reluctance to report serious condition problems to him before those problems threatened the physical integrity of his properties:

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<sup>18</sup> While more than one owner reported this sort of tenant reluctance to report conditions issues, only one admitted to actively cultivating an atmosphere of fear.

*Less good tenants don't want any contact with you. The ceiling falls in and they sit right there. People behind on their rent are trying to avoid confrontation, so they don't say anything.*

If the increased landlord/tenant intimacy found in small buildings leads to an elevated fear of confrontation (and subsequent retaliation) among some tenants, those tenants may be reluctant to report problems with the units to their landlord or relevant municipal agencies.<sup>19</sup> Similarly, the more cooperative reciprocal understanding reported by other owners might suppress reporting rates relative to underlying conditions.

## **2. Lack of protection from eviction**

Tenants' attorneys report that the strongest protection against eviction is a written lease. Tenants with leases may only be evicted (during the term of the lease) for non-payment of rent or other substantial noncompliance with the terms of the lease (e.g. illegal activity or violation of a subletting clause). In contrast, tenants without leases may be evicted for nearly any reason, as long as they are given thirty days' notice.<sup>20</sup>

Under New York State law, landlords of rent-stabilized units are required to offer their tenants leases and generally required to offer lease renewals upon expiration.<sup>21</sup> Small rental buildings are not subject to rent regulation, however, and as Figure 1 shows, tenants in small buildings are nearly twenty times less likely to have a lease than tenants in large, stabilized buildings. Tenants in larger, unregulated buildings are also much more likely to have leases than tenants in smaller unregulated buildings. Tenants in small, owner-occupied buildings are the least likely to have leases—barely a majority report formalized tenancies. Our interviews suggest that this may be a consequence of the less formal, more intimate landlord/tenant relationships found in smaller

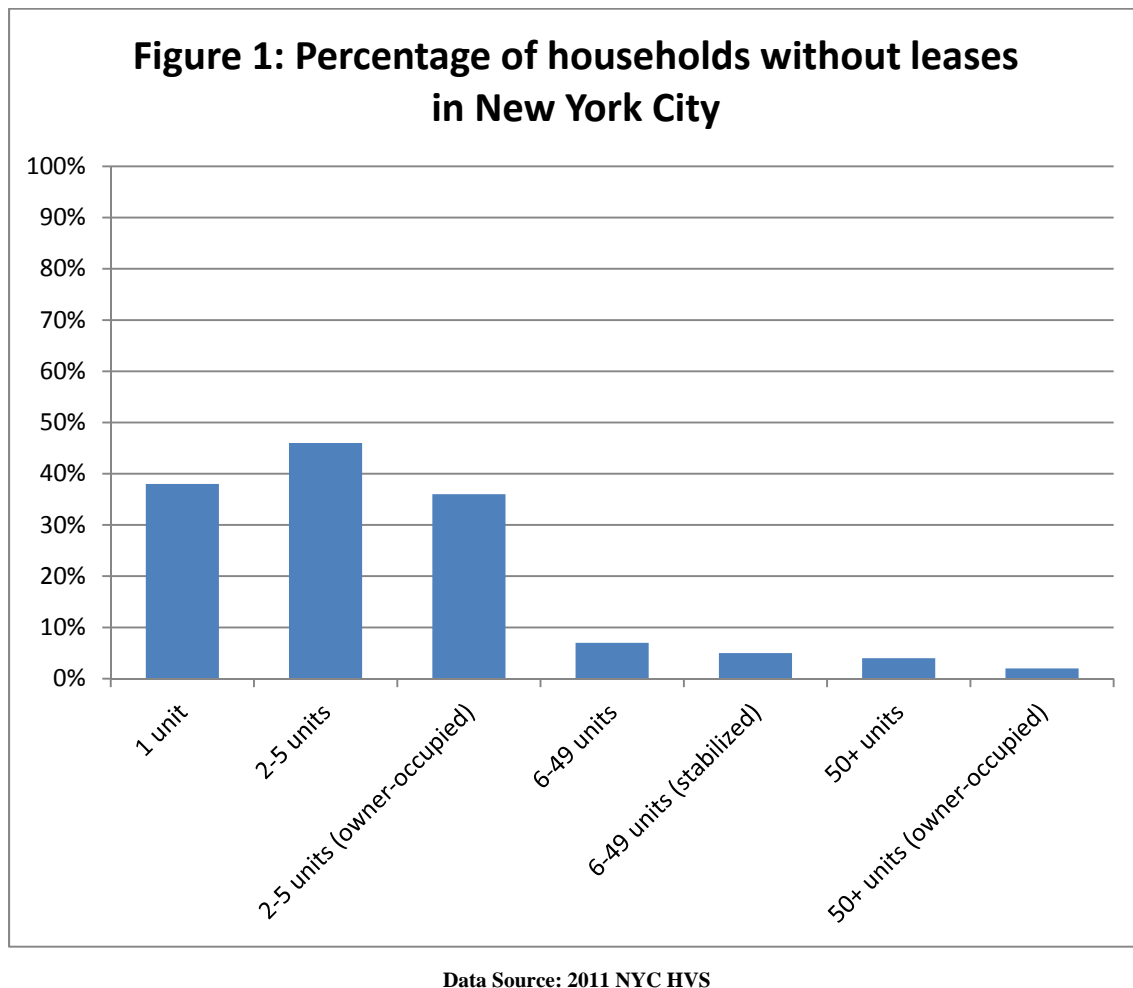
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<sup>19</sup> Although ENY owner also complained that sometimes he heard about problems from HPD for the first time

<sup>20</sup> Assuming they are paying rent on a monthly basis. The notice requirements for eviction of leaseless tenants are pegged to the frequency of rent collection.

<sup>21</sup> 9 NYCRR § 2500.1 and following.

buildings (especially when the owner lives in the building) as well as perhaps the related lack of professionalization among smaller property owners.



In the absence of a lease, landlords may evict tenants with thirty days' notice without explanation. Although many states (including New York)<sup>22</sup> have passed anti-retaliatory eviction laws designed to protect tenants without leases from being evicted simply for filing good faith complaints with municipal authorities, scholars and advocates have voiced skepticism about these statutes' effectiveness.<sup>23</sup> Even in New York, which has one of the strongest anti-retaliatory eviction statutes in the nation, the fact that tenants are nearly always unrepresented by counsel in

<sup>22</sup> N.Y. REAL PROP. LAW § 223-b (McKinney 2013).

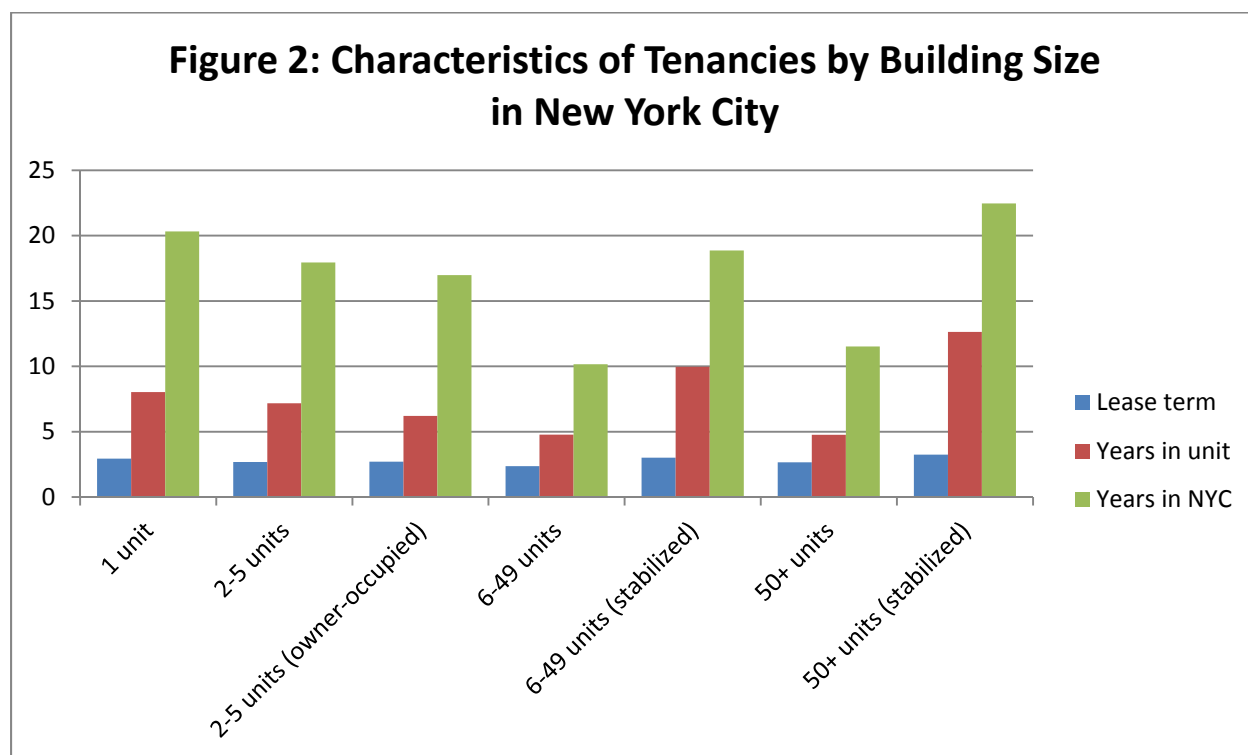
<sup>23</sup> Lauren A. Lindsey, Comment, *Protecting the Good-Faith Tenant: Enforcing Retaliatory Eviction Law by Broadening the Residential Tenant's Options in Summary Eviction Courts*, OKLA. L. REV. 101 (2010).

housing court greatly diminishes the protection afforded by the law.<sup>24</sup> Moreover, New York’s anti-retaliatory eviction law exempts units in small, owner-occupied unit buildings, granting these tenants no protection from retaliation for complaints.

In interviews, tenants’ attorneys reported rarely taking on eviction cases for tenants in small buildings, calling such cases “lost causes” due to the frequent absence of a lease. On the occasion that he does encounter tenants in small buildings facing conditions issues, one Queens-based tenants’ attorney said that he always advises them to avoid filing formal complaints about building conditions with the City, given that there would be little to stop their landlord from evicting them “the next day.”

### 3. Comparatively stable tenancies

Figure 2 below reports other variations in tenancies found in small rental properties when compared to larger buildings.



Data Source: 2011 NYC HVS

<sup>24</sup> *Id.* A rebuttable presumption of retaliation still requires court to be aware of the complaint.

While there is comparatively little variation in lease terms across building types (although leases in stabilized buildings do tend to be slightly longer), tenants in small buildings have been resident in their units, and in New York City, for much longer than market rate tenants in larger buildings. Tenants in small buildings report having been in their units well over a year longer than market rate tenants in larger buildings. Notably, tenants in small, owner-occupied, buildings report having been in their units (and in New York City) even longer—nearly a year more than tenants in 2- to 5-unit buildings with non-resident landlords. On average, tenants in small rental buildings report having resided in New York City for more than seventeen years, significantly more than market rate tenants in large buildings. In light of the frequent absence of leases in small buildings described above, the comparative stability of tenancies in small buildings (especially with resident owners) is particularly striking, and consistent with owner reports in interviews of informal but stable tenancies.

### **III. What are the Conditions of 1- to 5-Unit Buildings?**

In this section, we dive deeply into the conditions of units in small buildings in New York City and explore how they differ from those found in larger buildings. This analysis highlights the benefits of complementing administrative data with census survey data to accurately measure housing conditions.

#### **A. Official Reports of Conditions in Small Rental Properties**

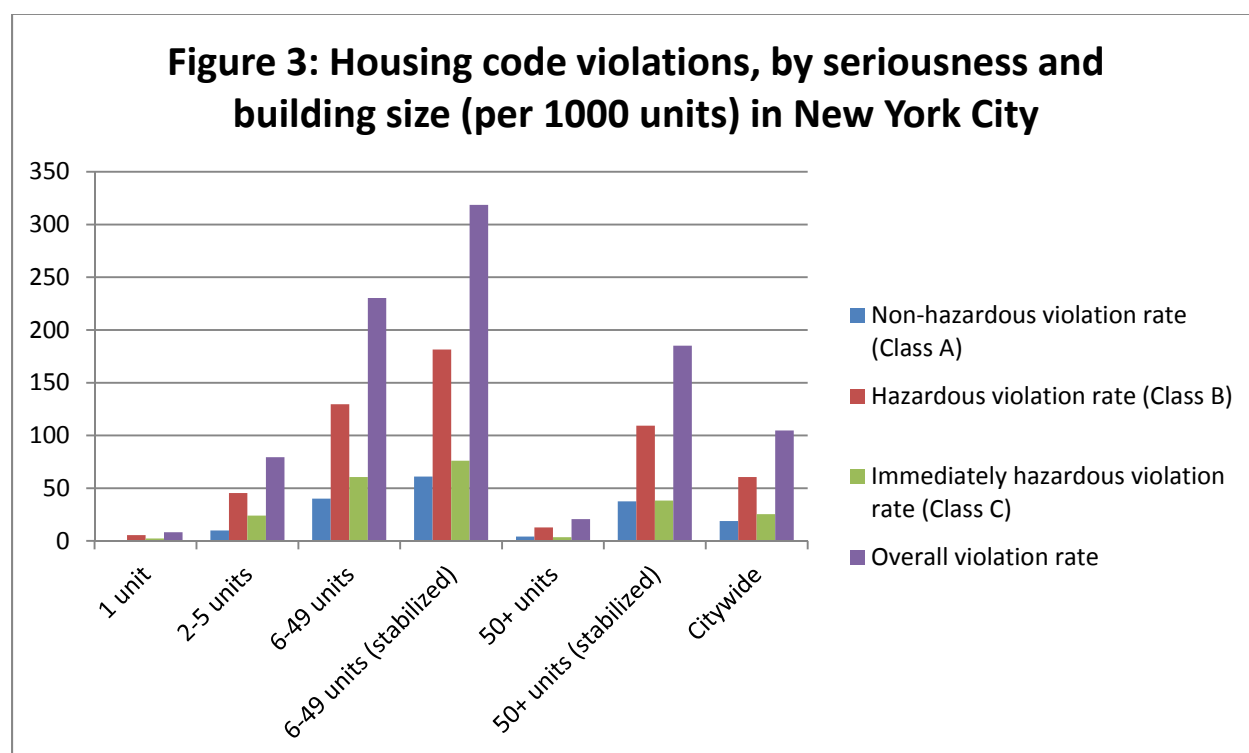
In New York City, the local Housing Maintenance Code<sup>25</sup> and the state's Multiple Dwelling Law<sup>26</sup> set the minimum housing quality standards for residential buildings. The Department of Housing Preservation and Development (HPD) is responsible for ensuring that property owners comply with these regulations. Enforcing these laws generally requires that, in the first instance, tenants report violations. Tenants seeking to file a complaint regarding their housing conditions contact HPD via the city's 311 telephone system. Upon receipt of a housing conditions complaint, HPD will determine if the complaint merits an inspection. This determination is based on the seriousness of the potential violation underlying the complaint.

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<sup>25</sup> N.Y.C. ADMIN. CODE §§ 27-2001-27-2153 (McKinney 2010).

<sup>26</sup> N.Y. MULT. DWELL. LAW arts. 1-8 (McKinney 2011).

HPD divides violations into three categories: Class A violations are deemed “non-hazardous” and include minor leaks or peeling paint; Class B violations are deemed “hazardous” and include inadequate hallway lighting or failure to post a Certificate of Occupancy; Class C violations are deemed “immediately hazardous” and include rodent infestation or lack of heat, hot water, electricity, or gas.<sup>27</sup> When faced with a Class C violation, property owners have twenty-four hours to correct the condition and five days to certify the correction with HPD. Figure 3 below reports violation rates (per 1000 units) by building size and violation category. Small multifamily rental buildings received violations across all types at a rate under the citywide average. Overall, when compared to other market rate properties, 2- to 5-unit buildings received all types of violations at slightly more than one-third the rate of 6- to 49-unit market-rate buildings, but at nearly four times the rate of large (50+ unit) market rate buildings. Single-family rental buildings received violations at the lowest rate of all. The same basic pattern holds for the most serious violations, though the largest (market-rate) buildings received even fewer Class C violations—just 3.6 per 1000 units of housing.



<sup>27</sup> HPD ONLINE GLOSSARY, <http://www.nyc.gov/html/hpd/html/pr/hpd-online-glossary.shtml> (last visited Aug. 6, 2013)

Small multifamily buildings compare even more favorably to the larger, rent-stabilized stock. Overall, 2- to 5-unit buildings received violations at approximately one-fourth the rate of 6- to 49-unit stabilized buildings, and at less than half the rate of 50+ unit stabilized buildings. With respect to immediately hazardous violations, the same pattern holds, although with smaller differences between building types. Altogether, on a per-unit basis, small multifamily buildings receive fewer housing code violations than all other buildings types citywide, other than the very smallest (single family) and very largest (50+ unit) market-rate rental properties. To the extent that housing code violations correspond to underlying conditions in these properties, these data suggest that units in small multifamily buildings are in fact in significantly better shape than units in mid-size buildings and in larger rent-stabilized buildings.

The problem with relying solely on administrative data on code violations in order to assess housing conditions is that violations can only be recorded and observed in the data if a tenant (or perhaps a neighbor) reports them. Thus, the lower rate of violations observed for small multifamily buildings could potentially reflect reluctance on the part of the tenants living in those buildings to complain, rather than capturing underlying differences in conditions. In our focus groups, tenants' advocates and attorneys suggested two reasons why tenants in small buildings might be reluctant to report problems to municipal authorities (both discussed above). First, compared to those in larger buildings, tenants in small buildings are likely to be significantly more vulnerable to retaliatory eviction, due to the much lower probability that they have the protection of a lease and the relative difficulty they face in taking advantage of the legal protections afforded against such evictions by state law. If tenants in small buildings are sufficiently aware of this vulnerability, they may be disproportionately reluctant to file formal complaints with municipal authorities when compared to tenants in larger buildings. Second, the elevated level of landlord/tenant intimacy found in small buildings might suppress conditions reporting in two ways. It could lead to an elevated fear of confrontation (and subsequent retaliation) among some tenants, and those tenants may be reluctant to report conditions issues to their landlord or relevant municipal agencies. Similarly, the more cooperative reciprocal



understanding reported by other owners might similarly suppress reporting rates relative to underlying conditions.

## B. Anonymous Reports of Conditions in Small Rental Properties

Although tenants in small buildings may be disproportionately reluctant to report maintenance issues to municipal agencies for the reasons described above, those concerns are less applicable to anonymous survey responses like those collected in the triennial New York City Housing and Vacancy Survey (HVS), conducted by the Census Bureau on behalf of HPD. We use the HVS to generate estimates of unit conditions in buildings of different sizes that are not subject to differential reporting bias. A comparison of these estimates with those generated using administrative data on code violations can also shed some light on that bias.

<b>Table 11: Unit Conditions by Building Size and Stabilization Status in New York City</b>						
	1 unit	2-5 units	6-49 units	6-49 units	50+ units	50+ units
<b>Stabilized</b>	No	No	No	Yes	No	Yes
<b># Units</b>	39,669	499,024	102,306	553,989	170,998	391,301
<b># Deficiencies</b>	0.63	0.96	1.07	1.61	0.61	1.38
<b>Dilapidated/Deteriorating</b>	0.03	0.04	0.07	0.08	0.00	0.03
<b>Toilet problems</b>	0.07	0.08	0.08	0.10	0.10	0.11
<b>Kitchen problems</b>	0.02	0.02	0.02	0.03	0.03	0.03
<b>Heat breakdown</b>	0.09	0.10	0.12	0.19	0.07	0.15
<b>Rodents</b>	0.16	0.19	0.18	0.31	0.09	0.27
<b>Cockroach index</b>	1.17	1.25	1.24	1.48	1.18	1.44
<b>Cracks in wall</b>	0.07	0.10	0.13	0.20	0.05	0.17
<b>Cracks in floor</b>	0.01	0.05	0.05	0.11	0.01	0.07
<b>Cracks in plaster</b>	0.10	0.11	0.14	0.21	0.08	0.20
<b>Water leak</b>	0.06	0.14	0.20	0.27	0.11	0.24
Data Source: 2011 NYC HVS						

Table 11 reports summary statistics from the HVS for unit conditions by building size, for both stabilized and market rate units. Simply adding up the number of maintenance deficiencies, units in small buildings are in better condition, on average, than stabilized units in both medium and large buildings, as well as market rate units in medium sized buildings. Market rate rentals in

large and single-family homes have the fewest deficiencies, on average. This pattern holds for most of the individual measures of unit quality.

These findings are generally consistent with the housing code violation rates reported in Figure 3 above, inasmuch as units in small multifamily buildings appear to be in better condition, on average, than units in all other rental buildings aside from those in single-family and 50+ unit market rate buildings. Looking more closely at the data, however, provides some support for tenants' advocates' concern that problems with conditions are underreported in small buildings. A direct comparison of violation rates with tenant deficiency reports might be misleading since we cannot be sure that tenant reports of certain issues (e.g. cracks in walls, water leaks) necessarily represent a condition that would elicit a violation from a housing code inspector. By focusing on the more serious deficiency reports, however, we can be more confident that they represent conditions that would result in a violation, were the unit to be inspected. The HVS captures two deficiencies HPD would regard as immediately hazardous and would, upon inspection, result in the issuance of a Class C violation: inadequate supply of heat and rodent infestation. While units in medium-sized market rate buildings received Class C violations at a rate close to three times that of units in small multifamily buildings, tenants in those medium-sized buildings did not report (to the survey) heating breakdowns or rodent infestations at nearly that rate (compared to tenants in smaller buildings). Surveyed tenants in medium-sized properties reported heating breakdowns only 20 percent more often than tenants in small multifamily buildings, and reported rodent infestations slightly *less* frequently than tenants in smaller properties.

While it may be that looking at housing code violations alone tends to exaggerate the underlying quality of units in small multifamily buildings, there is no evidence to suggest that these units are in relative disrepair. As Table 11 shows, units in small multifamily buildings outperform units in larger stabilized buildings across all measures of individual unit quality.

### C. Unit Conditions and Landlord Residency

Much of the existing literature on maintenance and conditions in rental properties highlights landlord residency as an important factor affecting housing quality. George Sternlieb, in his pioneering study of slum landlords in Newark, concludes:

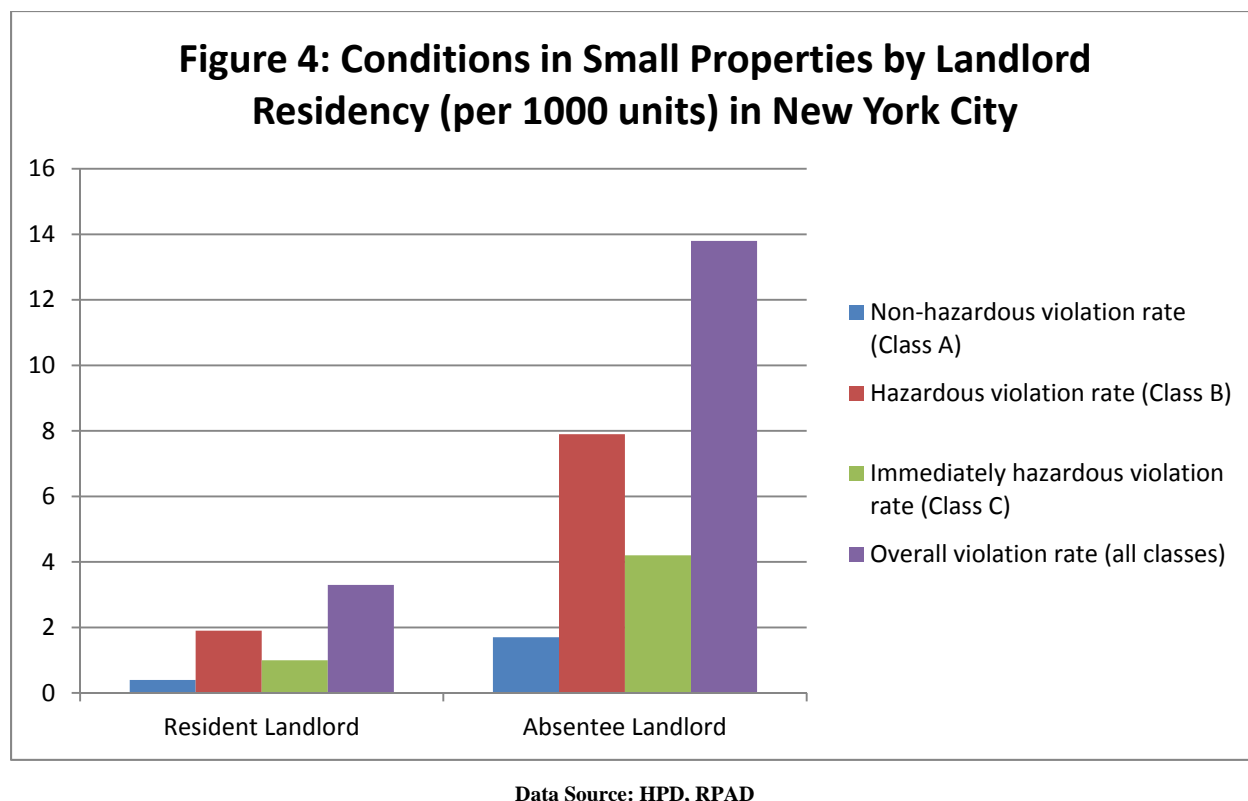
*The factor of ownership is the single most basic variable which accounts for variations in the maintenance of slum properties. Good parcel maintenance typically is a function of resident ownership.*<sup>28</sup>

Figure 4 drills down further into the administrative data on housing code violations, reporting violation rates per residential unit for 2- to 5-unit properties by landlord residency.<sup>29</sup> 43% of 2-5 family rental properties are owner-occupied. The data reveals a sharp contrast: small, owner-occupied properties receive all types of housing code violations at one-third the rate of small, non-owner-occupied properties and receive immediately hazardous violations at one-fifth the rate.

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<sup>28</sup> GEORGE STERNLIEB, *THE TENEMENT LANDLORD* 227 (1969).

<sup>29</sup> Owner occupied properties were identified as those for which a property tax exemption was claimed because of the prevalence of the STAR exemption for owner-occupied primary residences. The presence of an exemption is not a perfect proxy for landlord residency since owners may fail to stop claiming it if/when they move out of the property. However, since owners in New York City are required to re-register for the exemption annually, unintentional holdovers are unlikely.



Comparing these rates to those reported in Figure 3 above, we can observe that the violation rate associated with small owner-occupied properties most closely resembles that of large (50+ unit) market-rate buildings—a remarkable fact given the stratospheric rents demanded in these large properties (see Section I). Small non-owner-occupied properties, in contrast, mostly track the citywide averages across violation types. These data suggest that the prevalence of owner-occupants in the small rental stock may play a considerable role in explaining that stock’s comparatively low violation rate.

Concerns about underreporting, however, may be even more pronounced in owner-occupied properties due to the lack of statutory protection from retaliatory eviction and the elevated intimacy of the landlord/tenant relationship (see Section III.A above). Turning again to tenant survey results drawn from the HVS, Table 13 reports summary statistics for unit conditions by landlord residency for 1- to 5-unit properties. While the magnitude of the difference is diminished when looking at survey responses as opposed to violations, the overall trend again

matches that found in violations data (*i.e.* tenants with resident landlords report unit conditions superior to those reported by tenants in absentee-owned buildings).<sup>30</sup>

**Table 13: Conditions in Small Properties by Landlord Residency in New York City**

<b>Owner in Building</b>	<b>No</b>	<b>Yes</b>
<b># Units</b>	304,525	201,830
<b>Med.Rent</b>	1,225	1,150
<b># Deficiencies</b>	1.09	0.72
<b>Dilapidated/Deteriorating</b>	0.05	0.02
<b>Toilet problems</b>	0.08	0.09
<b>Kitchen problems</b>	0.02	0.02
<b>Heat breakdown</b>	0.14	0.06
<b>Rodents</b>	0.24	0.15
<b>Cockroach index</b>	1.31	1.21
<b>Cracks in wall</b>	0.14	0.07
<b>Cracks in floor</b>	0.07	0.03
<b>Cracks in plaster</b>	0.14	0.08
<b>Water leak</b>	0.17	0.11

Source: 2011 NYC HVS

In his 1985 study based on the American Housing Survey (AHS), Frank Porell identified four factors potentially responsible for the “acclaimed superiority” of resident landlords when it comes to housing quality: 1) an increased awareness of condition problems due to simple proximity, 2) an ability to better police and deter destructive tenant behavior, 3) the capacity to undertake more maintenance to the extent that they rely on lower priced “do-it-yourself” maintenance, and 4) a willingness to devote more resources to maintenance than the market demands due to a more ineffable “pride in dwelling.”<sup>31</sup> Porell cautions, however, that superior observed quality in owner-occupied rental properties may not necessarily be attributable to the maintenance/investment behavior of resident landlords. For example, resident landlords may

<sup>30</sup> Although this Section is concerned with the possibility of underreporting to municipal authorities in owner-occupied rental buildings (and small buildings generally), it also is possible that resident landlords screen to secure tenants more likely to notice and report problems with their units (to the landlord). If that is the case, our HVS analysis may understate the comparative quality of units in small, owner-occupied properties. See Section IV.A below.

<sup>31</sup> F.W. Porell, *One Man’s Ceiling is Another Man’s Floor: Landlord/Manager Residency and Housing Condition*, 61 LAND ECON. 106, 106 (1985).

have a comparative advantage with respect to selecting tenants less likely to damage units.<sup>32</sup> In his analysis of AHS data, and consistent with the preliminary findings reported here, Porell concluded that landlord residency was indeed associated with improved housing conditions in small rental properties.

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<sup>32</sup> *Id.*; STERNLIEB, *supra* note 20; Larry L. Dildine & Fred A. Massey, *Dynamic Model of Private Incentives to Housing Maintenance*, 41 S. ECON. J. 93 (1975). Resident landlords may also have more government-sponsored financing options and, in some cities, benefit from expedited permitting.

## IV. Discussion

Our survey of 1- to 5-unit properties in New York City has revealed a number of differences in the tenant composition, affordability, location, and quality of that housing stock, compared with larger rental buildings. Among small buildings, we find significant differences between buildings that are owner-occupied and those that are not. In broad strokes, units in small buildings tend to be in relatively good condition and they also tend to have lower rents than larger buildings—although we find that only small buildings with resident landlords actually offer lower rents after controlling for building location. The unusually intimate landlord/tenant relationships in small buildings also create the context for more informal, but more stable tenancies. Tenants in small buildings, particularly those with a live-in owner, are far less likely to have a lease, but have lived for longer in New York and have lived for longer in their units. Small buildings with live-in owners also appear to be in exceptionally good condition, as measured by both administrative and survey data.

Understanding the reasons for these differences is critical, especially given the importance of the small building stock as a source of affordable housing. Below we list a number of reasons why the managers and tenants of small buildings may behave differently.

### A. Factors Affecting Housing Quality

Buildings inevitably deteriorate over time. The pace of this decline can be slowed considerably however, by timely repairs and investments in maintenance. But a manager cannot be effective on his or her own; her effectiveness depends critically on the behavior of her tenants. Specifically, whether and when these property repairs and investments are made depend on: (1) awareness of the underlying issue (the “monitoring” problem), (2) reporting of the issue to the person/entity with the responsibility for fixing the problem (the “reporting” problem), and (3) the actual investment in repair or maintenance (the “investment” problem). As a consequence, differences in observed housing quality are a function of the underlying frequency with which issues arise, but also differences in monitoring, reporting, and accountability. Theory, informed by the qualitative and quantitative data we have summarized in this report, suggests a number of

reasons why these four factors affecting housing quality may vary between small residential properties and larger properties, and why small buildings may be in relatively good condition.

#### *Monitoring*

- Live-in managers or property owners are likely to be more aware than the typical absentee owner of property issues.
- Live-in managers or property owners may screen for tenants who are more likely to be vigilant about building conditions.
- Live-in managers or property owners may perform a police-like function that deters tenants from abusing the property.

#### *Reporting*

- Live-in managers or property owners may screen for tenants who are more likely to report property issues.
- Tenants may be more likely to report housing issues (to owners/managers) if they know the property manager or owner and see them more frequently.

#### *Investment*

- Live-in managers or property owners may be more willing to perform maintenance and repair of reported issues because they:
  - Experience some of those problems, or the spillovers they generate, themselves.
  - Know their tenants personally.
  - Will find it more difficult to avoid persistent tenants.
  - Take more pride in their buildings because they live there.
- Live-in managers and managers of small buildings may be able to respond more quickly and directly, without having to rely on other agents.

## **B. Factors Affecting Affordability**

A tenant's rent will depend upon local market conditions, including competition in the provision of rental housing. To the extent that there are market frictions, such as moving and search costs, asymmetric information about the tenant's ability to pay her rent or care for the unit and the



landlord's reliability in maintaining the property, supply constraints due to zoning or other regulations, and the lack of perfect substitutes for rental units, the final rent will also depend on the bargaining positions of the landlord and the tenant. For a variety of reasons, these factors are likely to differ for 1- to 5-unit properties.

#### *Market Conditions*

- Small properties will tend to be clustered in different areas than larger buildings, with potentially different demand conditions, as well as supply restrictions, such as zoning, that affect equilibrium rents.
- Due to scale, lost rental income from vacancy is likely to represent a larger share of total income for small landlords when compared to larger owners. Small landlords may also face longer vacancies after a tenant moves out, greater costs of identifying tenants, greater costs of eviction. All of these factors should make them more risk averse and may lead them to keep rents low in order to retain reliable tenants.

#### *Information*

- Live-in managers and property owners may be able to collect more information on tenants, resulting in more effective tenant screening.
- Live-in managers or property owners may have their own preferences about the characteristics of their tenants qua neighbors, rather than as renters, which could also affect the selection of tenants (and raise concerns about race-motivated decisions and other prejudice).

While our report provides suggestive evidence regarding these issues, further research would build our understanding of the mechanisms that might drive the differential conditions found in smaller rental properties, particularly those that are owner-occupied. Armed with a better understanding of these mechanisms, policy makers will be better able to identify policy levers for incentivizing small building quality and affordability. Further, understanding these mechanisms might help policy makers understand how to incentivize similar behavior in larger buildings as well

# **Small Rental Properties in Baltimore**

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## **Introduction**

The story of Baltimore’s rental housing is the story of small properties with fewer than five rental units (“small rentals”). This stock represents approximately 95 percent of the city’s rental properties, houses half of the city’s renters, and includes 52 percent (24,000) of the city’s affordable housing units.<sup>1</sup> The majority of these small rentals are held and operated by “mom and pop” owners, more than 90 percent of whom own fewer than five rental properties (“small owners”). Thus, Baltimore’s rental market is not concentrated among a few large owners. As described below, arguably the most noteworthy change of the last decade is the substantial turnover in ownership, though small owners still predominate.

Our previous research on small rentals describes the tenants, physical characteristics, rents, and affordability of these units using the Baltimore metropolitan supplements of the American Housing Survey (AHS) (Newman 2005; Garboden & Newman 2012). However, these data are collected infrequently, include a sample of only 100 units of the City of Baltimore’s small rentals, and exclude information on sales, ownership and neighborhood location.

To fill this gap, we accessed the city’s rental registration database, merged it with administrative data on sales history, renovation permits, and code violations, and linked rental addresses via geocode to Census data. In this brief, we use this unique dataset to develop a profile of the rental stock’s ownership.

The next section provides an overview of our data sources. We then set the context by describing the cost, tenant, unit and neighborhood characteristics of small rentals in Baltimore using the 2007 Baltimore metro AHS data for the city. The third section presents data on the ownership, neighborhood poverty, sales history, renovations, and code violation citations of these properties. We end with some concluding observations on today’s small rental property market in Baltimore.

## **Data and Approach**

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<sup>1</sup> Defined as renting for 30 percent or less than the median rental household’s income, equal to \$625 per month.

The core of the database constructed for the analysis presented here consists of the 2011 Baltimore rental registration list, which theoretically contains all properties that are not exclusively owner-occupied (N = 72,995). We reviewed each entry to remove duplicates and correct errors, removed vacant lots and abandoned structures that are unfit for human habitation, and edited ownership information to correct for alternative spellings (see Technical Appendix for further details). The final, cleaned list contains 54,450 properties that comprise the city's rental stock. Of these 54,450 properties, 52,337 are small rentals containing fewer than five units, and constituting 96 percent of registered properties. We merged these data with records of all sales (1981-2011), construction permits (2002-2011), and code violation citations (2009-2011), and geocoded them in ArcGIS with a match rate of over 96 percent.

In 2005, city officials believed the city's rental registration data represented 80-85 percent of all properties (Newman 2005). Although this estimate has not been updated, Table 1 shows that the distribution of properties by number of units in structure is similar to that in the 2007 American Housing Survey.<sup>2</sup> This suggests the city's data may have become more complete over time.

To set the context for the analysis of ownership of Baltimore's small rentals, the next section highlights the rent, tenant, unit and neighborhood quality characteristics of small rentals using the 2007 Baltimore metro AHS data for the city. Although there is a five-year difference between the two datasets, residential mobility rates slowed down dramatically during the Great Recession, suggesting only modest tenant turnover during these five years. With essentially flat inflation, we expect that rents have remained stable, with little if any change in units and neighborhoods.

### **Rents, Tenants, Unit and Neighborhood Characteristics**

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<sup>2</sup> The largest discrepancy is the AHS's report that 5-49 unit properties represent two percentage points more of the market than is shown by the rental registration data.

Table 2 provides information on rents, tenants, unit and neighborhood attributes of small rentals. The median rent is \$741, though it is substantially higher for single-family rental properties.<sup>3</sup> However, because half of Baltimore renters have incomes below \$27,000 and nearly a quarter have incomes below \$10,000, 61 percent spend more than 30 percent of their income on housing and 37 percent pay more than half. Tenants of small rentals are predominantly black and female.

This stock is relatively old. The median property was built more than 70 years ago and only 10 percent was constructed since 1970. The age of the stock may be associated with the prevalence of minor maintenance problems; 57 percent of units in small rentals had evidence of rats, and 43 percent experienced water leakage over the previous 12 months. But major systems failures such as heating and plumbing breakdown are rare.<sup>4</sup>

Nearly one-quarter of small properties are located in neighborhoods with poverty rates of 30 percent or greater, and 14 percent are in low-poverty census tracts (see Table 3).<sup>5</sup> Crime and the presence of vacant and abandoned units on the block are common: 44 percent of tenants living in small rental properties reported crime as a problem in their neighborhood, and 40 percent of properties shared their blocks with vacant and abandoned units.

In summary, the plurality of Baltimore city renters are black, poor, and live in moderate- to high-poverty neighborhoods. The city's rental market is relatively loose, with low rents and many vacant and abandoned properties. A substantial share of small rentals have maintenance and possibly structural problems. By and large, Baltimore renters reside primarily in the small, single-family housing constructed for families in the 1940s and 1950s.

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<sup>3</sup> All dollar figures are adjusted to 2012.

<sup>4</sup> We avoid using the American Housing Survey's constructed adequacy index because it distinguishes only the most inadequate units (Newman & Garboden 2013). Instead, we have selected a number of measures to capture minor maintenance problems, possibly more serious structural problems, and breakdowns of systems.

<sup>5</sup> Large properties are distributed similarly.

## Ownership Profile

As shown in Table 4, most small rentals are owned by small owners: 44 percent of properties are owned by individuals or companies who own only a single property, and 30 percent own 2-5 properties. Thus, nearly 75 percent of the rental stock is held by what is commonly termed “mom and pop” owners.<sup>6</sup> A much smaller share, nine percent, is owned by entities with 31 or more properties in their real estate portfolios. Within this subgroup of 58 owners, only six own more than 100 properties (“large owners”), accounting for less than five percent of the market.<sup>7</sup> The remainder is held by mid-size owners who own 31-99 properties.

Small owners’ greatest market share is in higher-income neighborhoods; 86 percent of rental properties in neighborhoods with poverty rates of less than 10 percent are owned by small owners. By contrast, 70 percent of properties in high-poverty tracts are held by small owners (see Table 5).<sup>8</sup> As the poverty rate increases, the share of large owners increases, shifting from just over two percent in the lowest-poverty neighborhoods to 11 percent in the highest. As shown in Table 6, the majority of owners (68 percent) are individuals, not corporations. Among corporate owners, 73 percent are LLCs and LLPs, 13 percent are corporations, and the remainder includes non-profit entities such as religious institutions.<sup>9</sup>

Because corporations are often larger owners, corporate ownership is more common in high-poverty tracts where they own 35 percent of the stock. In low-poverty areas, their holdings drop to 22

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<sup>6</sup> Because there is no precise way to determine ownership of each LLC, this figure is likely a slight overestimate. However, even if a single individual owned all LLCs and LLPs, the prevalence of mom and pop owners would not drop below 50 percent.

<sup>7</sup> Property owned by government entities or educational institutions are excluded. (See Technical Appendix.)

<sup>8</sup> This is especially pronounced among owners with only a single property. These smallest of owners represent 60 percent of the small rental market in low-poverty neighborhoods compared to 36 percent in the highest-poverty tracts.

<sup>9</sup> Throughout we use the broad term “corporation,” which includes for-profit entities, non-profit organizations, and partnerships.

percent of small rentals (see Table 7). In general, although small owners dominate at all neighborhood poverty levels, a slight concentration of large owners exists in the lower end of the rental market. This may be explained by the explicit business strategy of several of the large owners of small rentals in Baltimore to focus on the low-end rental market where they can buy and renovate properties cheaply (The Dominion Group 2010).

### **Sales History**

There are two prevailing images of small owners in Baltimore. The first is that of long-term owners who either lived in the home themselves before renting it out, or who inherited it as a rental property from a family member. The second image is of small investors who acquired properties in hopes of either cash flow or appreciation. The sales history of current small rentals suggests the latter motivation has become more prominent. Sales of small rentals increased substantially during the boom-bust cycle of the 2000s. As shown in Table 8, 69 percent of small rental properties were acquired by their current owners between 2002 and 2011, and nearly 40 percent were acquired between 2004 and 2008. This rate of churning in the ownership of small rental properties during the 2000s is much higher than in the past two decades. Between 5-10 percent of the small rental stock changed ownership each year in the 1980s and 1990s, compared to more than 14 percent each year between 2004-2007, peaking at 18.5 percent in 2005. After 2008, the rate dropped back to below 10 percent each year. Of note, 40 percent of small rental properties sold more than once during the last decade. This suggests property flipping and a focus on short-term appreciation rather than long-term cash flow.

As shown in Table 9, the rate of ownership turnover does not differ appreciably by the neighborhood poverty rate. By a slight margin, the highest turnover rate is in moderate- to high-poverty neighborhoods, while the lowest rate of turnover occurs in low-poverty neighborhoods.

Table 9 also shows the relationship between sales history, ownership size and type. Nearly half of all small rentals owned by the largest owners were acquired in the last five years compared with 33-38

percent by small or mid-size owners. This recent increase in market share held by large owners may reflect an attempt to capitalize on the depressed property values in the wake of the housing market collapse. The differential, by ownership size, in purchase activity over time largely disappears over longer periods because smaller owners were more active than large owners before and during the housing boom. Closely related, there is a similar differential in purchases by corporate versus individual owners depending on the time horizon chosen. Viewed over the last 20 years, corporations and non-profits purchased properties at only a slightly higher rate than individuals. But viewed over the last five years, current corporate owners are almost one-third more likely to have acquired their properties compared with individual owners (46 percent versus 32 percent, respectively). These trends suggest that, after the housing bubble, more corporate owners entered the market, although most acquired fewer than five properties. Properties now owned by individuals experienced fewer sales. The longest duration of ownership is among mid-size owners who control 31-99 properties.

One plausible motivation for the increased investor market share is the quest for value appreciation. Baltimore rental properties are relatively inexpensive. In 2011, the median sale price was \$54,060, and the 75<sup>th</sup> percentile price was \$122,400. These modest prices may tempt purchasers to buy and hold. However, rental real estate in Baltimore has not been a particularly profitable investment in inflation-adjusted terms over the past 30 years. As shown in Table 10 and Figure 1, appreciation in the early 1980s was entirely negated by losses through the 1990s, and the recent spike in 2007 was neutralized by 2011. Of note, the median sales price in 1981, in real terms, is roughly the same as it was in 2011.

## **Renovation Permits**



Baltimore requires owners to obtain a permit for major property renovations and additions, though permits are not required for routine maintenance and repairs.<sup>10</sup> Six percent of the city's rental properties were issued a renovation permit over the last 10 years, with a median renovation cost per property of \$10,600.<sup>11</sup>

Tables 11 and 12 demonstrate that permits are more prevalent in low-poverty tracts than elsewhere (19 percent compared with approximately 2 percent in higher-poverty areas). This is understandable, because major renovations in high-poverty areas, where rents are also low, are unlikely to make economic sense, particularly in a soft rental market.

### **Code Violations**

Unfortunately, rental registration data cannot be linked to measures of unit quality. The only available proxy is code violation citations. Baltimore does not inspect small rentals on a regular, systematic basis. Instead, it responds to citizen complaints, including those reported to the city's 311 telephone hotline. As such, more than 95 percent of citations are for exterior maintenance and sanitary issues rather than interior problems.<sup>12</sup>

Between 2009 and 2011, 48 percent of small rental properties were cited for code violations by the city, and approximately 20 percent were cited more than once. Table 13 shows that the rate of citations generally increases with increasing neighborhood poverty rates. As Table 14 demonstrates, although ownership size has little relation to code violation citations for the city as a whole, stratifying the

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<sup>10</sup> Work that requires a permit in Baltimore city includes additions, decks, electrical work, excavation, framing, HVAC, mechanical work, new construction, plumbing, pouring concrete for a foundation, footing or wall, structural work, under pinning, curbing, formstone removal, and any work that requires a licensed professional.

<sup>11</sup> 25<sup>th</sup> percentile: \$2,800; 75<sup>th</sup> percentile: \$41,500.

<sup>12</sup> Reports of interior problems would have to be reported by existing tenants. Both the transaction costs of lodging a complaint and possible reprisals by landlords may contribute to the low rate of such reports.

city by neighborhood poverty presents a more nuanced picture. In the highest-poverty neighborhoods, large owners receive significantly fewer citations than small owners, possibly because of more professional property management practices. Interestingly, mid-size owners (31-99 properties) have the highest rate of code violation citations in the high-poverty tracts. This pattern largely reverses itself in low-poverty tracts. Although the total volume of citations is lower, it is the large owners in these tracts who receive the most citations and the mid-size owners the fewest. As noted earlier, mid-size owners also hold onto their properties the longest.

## **Discussion**

Baltimore's rental housing stock consists largely of small rentals owned by "mom and pop" landlords who acquired their properties during the 2000s. Although a few large operators seem to be expanding in the highest-poverty neighborhoods, large owners with more than 100 rental properties, who include both individuals and corporations, control less than four percent of the rental market.<sup>13</sup> Much has changed since 1968, when Stegman (1972) reported that the top 50 owners in Baltimore controlled 25 percent of the market.

Ownership turnover accelerated over the decade of the housing boom and bust. Nearly 70 percent of small rentals were acquired in the last 10 years, with a spike between 2004 and 2008. By and large, few owners are making substantial improvements to their properties. This is particularly true in the highest-poverty areas, where less than one percent of properties have received permits to build additions to their properties or renovate them over the last decade. Yet these are presumably the areas most in need of renovation. Large owners are apparently better able to negotiate the challenges of high-poverty areas given their substantially lower rate of exterior maintenance and sanitation citations for violations of city housing codes.

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<sup>13</sup> Excluding properties owned by government entities and educational institutions.

## **Technical Appendix:**

### **Cleaning Baltimore's Rental Registration Data**

We conducted extensive data cleaning to increase the odds that the owners' names represent a unique identifier in our dataset. We removed punctuation from each name, corrected obvious spelling errors,<sup>14</sup> and then manually combined names that appeared to be the same individual or corporation.<sup>15</sup> One challenge is the common practice of some owners to create separate LLCs for each property in their portfolio. When it was clear that multiple LLCs pertained to the same owner,<sup>16</sup> we combined them under a single owner name.<sup>17</sup> In total, we manually edited 5,595 entries.

We also did a case-by-case review to identify properties owned by governmental entities and educational institutions. To distinguish between individual and corporate owners when this was not evident, we searched for key words in the owner names.<sup>18</sup>

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<sup>14</sup> For example, "Management."

<sup>15</sup> For example, we combined names such as "Pretty Home Corp, The" and "The Pretty Home Corp." or "Carlos F. Fitzgerald" and "Carlos Fredrick Fitzgerald."

<sup>16</sup> For example, "AJ Smith 1, LLC," "AJ Smith 2, LLC."

<sup>17</sup> Although we believe this process was sufficient, readers should keep in mind that for the 22 percent of properties that are owned by LLCs or LLPs, there may be slightly more ownership concentration than we can identify.

<sup>18</sup> These key words are: LLC, INC, TRUST, ASSOCIATES, ASSOC, HABITAT, CONGREGATION, PARTNER, LIMITED, LTD, PROFIT, CHURCH, GROUP, 1, 2, 3, 4, 5, 6, 7, 8, 9, PROPERTIES, BANK OF, CORPORATION, CORP, LP, LLP, ENTERPRISES, MANAGEMENT, COMPANY, REALTY, MINISTRY.

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**TABLE 1: Properties by Number of Units in Baltimore, MD**

<b>Property Size</b>	<b>2011 Rental Registration</b>		<b>2007 AHS</b>	
	<b>Freq.</b>	<b>Percent</b>	<b>Freq.</b>	<b>Percent</b>
1 unit	43,190	79.6	40,207	80.15
2 units	6,224	11.47	4,643	9.26
3 units	2,052	3.78	1,582	3.15
4 units	871	1.61	1,093	2.18
5-49 units	1,594	2.94	2,498	4.98
50+ units	327	0.6	141	0.28
<b>Total</b>	<b>54,258</b>	<b>100</b>	<b>50,164</b>	<b>100</b>

*Sources: 2011 Baltimore Rental Registration Data; 2007 American Housing Survey*

**TABLE 2: Characteristics of Small Properties in Baltimore**

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**Cost and Affordability**

median monthly rent (\$)	741
median housing burden (%)	37.2
% tenant paying >30% of income	60.6
% tenant paying >50% of income	36.7

**Tenant Demographics**

median income (\$)	27,751
female headed household (%)	60.3
median head of household age	43
black head of household (%)	67.9
children in household (%)	39.77

**Housing Quality**

median year built	1940
evidence of rodents in unit (5)	57.1
interior water leak (%)	29.3
exterior water leak (%)	24.7
heating system failure (%)	4.1
without running water for a period (%)	6.1
toilet breakdowns in last month (%)	4.1

**Neighborhood Characteristics**

crime present in neighborhood (%)	43.9
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abandoned buildings on block (%)	40.0
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*Source: American Housing Survey, 2007 Baltimore Metro File*

Notes:

(1) All values are weighted to account for non-response and new construction.

(2) 2012\$

**TABLE 3: Small Properties By Tract Poverty Rate**

<b>Tract Poverty Rate</b>	<b>Freq.</b>	<b>Percent</b>
less than 10% poverty	7,219	14.4
10-20% poverty	14,524	28.97
20-30% poverty	16,574	33.06
more than 30% poverty	11,813	23.56
<b>Total</b>	<b>50,130</b>	<b>100</b>

*Source: 2011 Baltimore Rental Registration Data*



**TABLE 4: Properties By Number of Properties Owned by Owner**

<b>Properties Owned by Owner</b>	<b>Freq.</b>	<b>Percent</b>
1 property	22,989	43.92
2-5 properties	15,591	29.79
6-30 properties	9,174	17.53
31-99 properties	2,577	4.92
100+ properties	2,006	3.83
<b>Total</b>	<b>52,337</b>	<b>100</b>

*Source: 2011 Baltimore Rental Registration Data*

**TABLE 5: Owner Size By Tract Poverty Rate**

Properties Owned by Owner		Tract Poverty Rate				Total
		< 10 %	10-20%	20-30%	> 30%	
1-5 properties	count	6,212	11,239	12,140	8,297	37,888
	%	86.05	77.38	73.25	70.24	75.58
6-30 properties	count	827	2,344	2,720	2,191	8,082
	%	11.46	16.14	16.41	18.55	16.12
31-99 properties	count	125	592	993	521	2,231
	%	1.73	4.08	5.99	4.41	4.45
100+ properties	count	55	349	721	804	1,929
	%	0.76	2.4	4.35	6.81	3.85
Total	count	7,219	14,524	16,574	11,813	50,130
	%	100	100	100	100	100

*Source: 2011 Baltimore Rental Registration Data*

**TABLE 6: Ownership Type (by Property)**

<b>owner type</b>	<b>Freq.</b>	<b>Percent</b>
individual	35,754	68.31
corporation or non-profit	15,810	30.21
education	69	0.13
government	704	1.35
<b>Total</b>	<b>52,337</b>	<b>100</b>

*Source: 2011 Baltimore Rental Registration Data*

**TABLE 7: Owner Type by Tract Poverty (All Properties)**

Owner Type	Tract Poverty				Total
	< 10%	10-20%	20-30%	> 30%	
individual	5,609	10,455	10,721	7,371	34,156
	<i>77.7</i>	<i>71.98</i>	<i>64.69</i>	<i>62.4</i>	<i>68.13</i>
corporation or non-profit	1,587	3,937	5,532	4,184	15,240
	<i>21.98</i>	<i>27.11</i>	<i>33.38</i>	<i>35.42</i>	<i>30.4</i>
education	0	0	63	6	69
	<i>0</i>	<i>0</i>	<i>0.38</i>	<i>0.05</i>	<i>0.14</i>
government	23	132	258	252	665
	<i>0.32</i>	<i>0.91</i>	<i>1.56</i>	<i>2.13</i>	<i>1.33</i>
<b>Total</b>	<b>7,219</b>	<b>14,524</b>	<b>16,574</b>	<b>11,813</b>	<b>50,130</b>
	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

*Source: 2011 Baltimore Rental Registration Data*

**TABLE 8: Most Recent Purchases of Small Properties**

<b>Time Period</b>	<b>% Purchased</b>	<b>Mean # of Sales</b>
last year (2011)	7.5	0.09
last five years (2007-2011)	46.7	0.77
last 10 years (2002-2011)	68.8	1.42
last 20 years (1992-2011)	81.5	2.25

*Source: Merged 2011 Baltimore Rental Registration Data and Property Sales Database*

**TABLE 9: Most Recent Purchases of Small Properties**

	<b>% Purchased, Last 5</b>	<b>% Purchased, Last 10</b>	<b>% Purchased, Last 20</b>
<b>Poverty Rate</b>			
less than 10% poverty	33.86	64.72	79.54
10-20% poverty	34.14	67.12	80.88
20-30% poverty	37.6	71.38	83.19
more than 30% poverty	38.04	69.69	81.49
<b>Owner Type</b>			
Individual	31.78	66.79	80.23
corporation or non-profit	46.13	73.33	84.76
<b># Properties Owned</b>			
1 property	38.04	69.80	81.15
2 to 5 properties	33.20	71.16	84.26
6 to 30	34.87	66.94	81.95
31 to 99	37.72	51.51	66.78
100+	46.48	67.06	81.09

*Source: Merged 2011 Baltimore Rental Registration Data and Property Sales Database*



**TABLE 10: Median Sales Price for Small Rental Properties Sold**

<b>Year Sold</b>	<b>Median Sales Price (2012\$)</b>
1981	56,925
1982	57,120
1983	69,300
1984	70,720
1985	76,680
1986	76,285
1987	76,760
1988	77,600
1989	73,075
1990	70,400
1991	67,600
1992	59,778
1993	57,240
1994	62,000
1995	52,850
1996	56,940
1997	57,915
1998	60,630
1999	62,100
2000	57,190



2001	44,702
2002	44,800
2003	49,875
2004	59,591
2005	73,160
2006	85,500
2007	91,464
2008	72,653
2009	62,060
2010	68,250
2011	54,060

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*Source: Merged 2011 Baltimore Rental Registration Data and Property Sales Database*

*Notes:*

*(1) 2012\$*

*(2) Reflects last sale in each year for a property*

**Table 11: Permits Pulled By Tract Poverty Rate**

<b>Tract Poverty</b>	<b>% with permits last 10 years</b>	<b>% with permits last 5 years</b>
< 10%	19.23	10.22
10-20%	9.08	4.61
20-30%	2.36	1.37
>30%	0.60	0.23

<b>All</b>	<b>6.23</b>	<b>3.31</b>
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*Source: Merged 2011 Baltimore Rental Registration Data and Permit Database*

**Table 12: Permits Pulled By Ownership Size**

<b>Properties Owned By Owner</b>	<b>% with permits last 10 years</b>	<b>% with permits last 5 years</b>
1 property	8.56	4.72
2 to 5 properties	4.62	2.33
6 to 30	3.65	2.03
31 to 99	4.79	1.05
100+	2.89	1.22
<b>All</b>	<b>6.23</b>	<b>3.29</b>

*Source: Merged 2011 Baltimore Rental Registration Data and Permit Database*

**Table 13: Citations By Tract Poverty Rate**

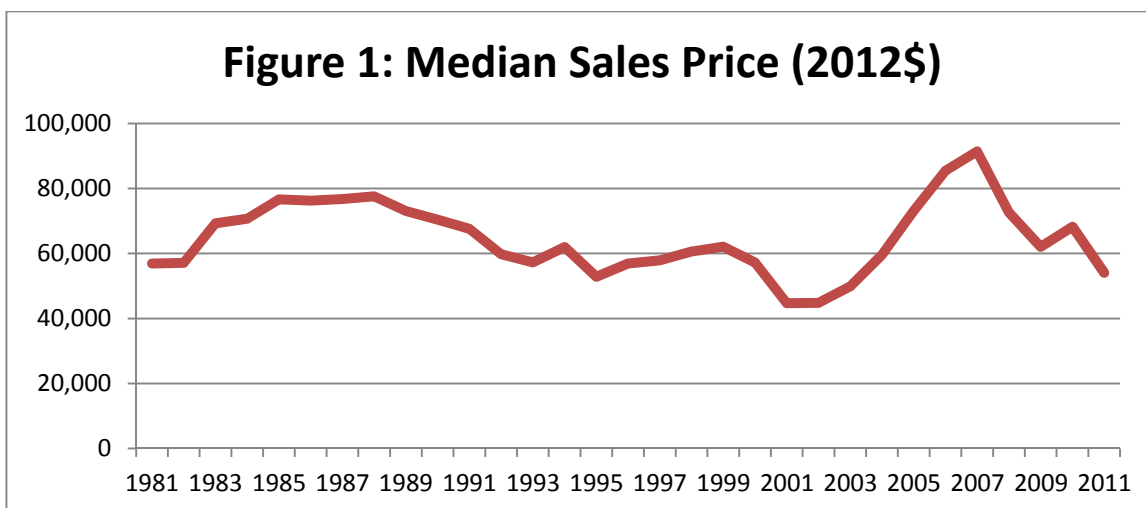
<b>Tract Poverty</b>	<b>% with at least one citation</b>
< 10%	37.33
10-20%	49.15
20-30%	55.27
>30%	53.14
<b>All</b>	<b>50.38</b>

*Source: 2011 Baltimore Rental Registration Data and Code Violation Citations Database*

**Table 14: Citations By Ownership Size**

<b>Properties Owned By Owner</b>	<b>% with at least one citation</b>		
	<b>entire city</b>	<b>high-poverty tracts</b>	<b>low-poverty tracts</b>
1 property	46.29	53.23	35.86
2 to 5 properties	51.39	53.88	39.38
6 to 30	52.60	53.75	41.99
31 to 99	49.96	60.08	26.4
100+	44.85	38.6	45.71
<b>All</b>	48.96	53.14	37.33

*Source: 2011 Baltimore Rental Registration Data and Code Violation Citations Database*



*Source: Merged 2011 Baltimore Rental Registration Data and Property Sales Database*

*Note: 2012\$*