Reverse Selection: Landlords and the Sorting of HCV Renters

Eva Rosen

Scholars of poverty and residential mobility have long been interested in how the choices and preferences of low-income families interact with housing policy to create and reproduce high-poverty and racially segregated neighborhoods (Massey & Denton 1993; Mayer & Jencks 1989; Wilson 1987). However, both of these explanations ignore a critical intermediary force in distributing residents across urban space: the landlord. Recent research has revealed that landlords affect residential instability and the reproduction of poverty through eviction (Desmond 2012; Hartman & Robinson 2003). But how do landlord practices sort residents into homes across urban areas? Landlords function as gatekeepers, affecting where people end up living. In my work, I examine landlords as a missing piece of the puzzle, and find that landlord practices combine with structural forces and residential choices to unequally sort renters across urban space.

To show how policy, preferences and landlords meet, I consider the transformation in housing policy over the past two decades, which has brought about the demolition of large-scale public housing and the shift to tenant-based housing subsidies. The Department of Housing and Urban Development (HUD)’s Housing Choice Voucher (HCV) program, formerly “Section 8,” has been expanded to serve over 2.2 million low-income households nationwide (CBPP 2012), with the intent to provide opportunities for poor families to access new neighborhoods. Out of the five million households across the country that federal housing programs now assist, over half are now housed in privately owned properties (Schwartz 2010). But even though a voucher can be used in any neighborhood with an affordable unit (defined as 40-50% of Area Median Rent), voucher holders are concentrating in neighborhoods with moderate to high poverty rates (Galster 2005; Hartung and Henig 1997; Orr et al. 2003), and Black voucher holders live in poorer and more segregated neighborhoods than White voucher holders (Devine 2003; Galvez 2010; Pendall 2000). This raises an important puzzle: Why don’t renters move to better neighborhoods when they are provided the financial assistance to do so?

A rich body of research has considered the myriad obstacles to successful lease-up with a voucher, including bureaucratic barriers with the HCV program and problems with landlords (Boyd et al. 2010; DeLuca, Garboden & Rosenblatt 2013; Edin, DeLuca & Owens 2012; Pashup et al. 2005); discrimination (Freeman & Li 2013; Tegeler, Cunningham & Turner 2005); and social ties (Boyd 2008; Boyd et al. 2010). However, in order to understand why voucher holders end up in the neighborhoods they do, I argue that we must also look beyond those who are seeking housing, to focus on those who are supplying housing. I find that landlord strategies are linked to residential sorting patterns through three steps: 1) selection, where landlords favor certain types of tenants; 2) a matching process, where landlords cherry-pick certain types of tenants for certain types of units; and 3) the selective retention of tenants who do not have the means to leave. These decisions can have an important impact on which voucher holders end up in which properties and how long they stay.

The Baltimore Study

To explore this question, I lived in Baltimore for 15 months between 2011 and 2012, where I conducted ethnographic fieldwork and in-depth interviews with 20 landlords and 82 residents. All landlord respondents own one or more rental units, though some are also property managers (with whom tenants often interact as the landlord’s proxy), and I observed them in this capacity as well. The sample spans the range of types of landlords who rent to voucher holders, and also represents a significant portion of the units rented through the HCV program in Baltimore at this time. Together, these individuals and the companies they represent own and manage over 1,400 rental units.

We must focus on those supplying housing.

Eva Rosen (rosen.eva@gmail.com) is a Postdoctoral Fellow in the Harvard College Fellows program, in the Dept of Sociology at Harvard University.

A complete version of this article appears in the December 2014 issue of City & Community.

John Doar

We dedicate this issue of P&R to John Doar, who passed away in November, 2014 at the age of 92. Doar, Director of the US Justice Department’s Civil Rights Division, took courageous and effective action in the 1960s to utilize the federal government’s powers in the fight against racial discrimination and inequality in our nation’s South.
3,000 units in Baltimore city, over 1,600 of which are rented to voucher holders, meaning that they control over 14% of the nearly 12,000 units rented through the HCV program at the time of the study (HUD 2009). Below I describe some of the key findings from a forthcoming paper in City & Community, entitled “Rigging the Rules of the Game: How Landlords Geographically Sort Low-Income Renters” (Rosen 2014).

FINDINGS

The Appeal of the Voucher Program

The city now has one of the highest voucher rates in the country (HUD 2009; U.S. Census Bureau 2010). Baltimore landlords face a common set of challenges in the local housing landscape: vacancies, high turnover and rent collection. Evolving HCV policies, coupled with the financial crisis of 2008 and subsequent changes to Baltimore’s housing landscape, mean that the HCV program now offers a set of potential solutions to these problems. In particular, the burden of rent collection is eased with voucher tenants since the majority of their payments are issues directly and dependably to the landlord by the housing authority.

Matching: “A Tenant for Every House”

What constitutes an ideal tenant? As I observed landlords interact with prospective tenants and carefully select which properties to show them and in what order, I learned that there is no universally “good” tenant. As one landlord pointed out, it depends on the property: “The thing is, you don’t need a lot of help when it’s a good area. But in the bad area, that’s when it’s hard. The key is you got to understand that everyone needs somewhere to live. There’s a tenant for every house. You’ve just got to find the right tenant.”

Landlords have an array of properties located in different neighborhoods, and a list of prospective tenants with varying traits and preferences. We might think about landlords responding to tenant demand by finding them a home that meets their needs.

Landlords strategically orient their businesses toward the voucher market.

But landlords have another, perhaps more pressing concern, which is to fill as many of their units as possible with tenants who are likely to stay over the long term. In a city with a high vacancy rate like Baltimore’s, near 16 percent of unit are vacant (U.S. Census Bureau 2010, includes available and abandoned properties). Landlords engage in a matching game: they sort residents into optimal units in order to minimize vacancies and turnover, while they maximize profit. Finding the right tenant for a property means matching tenant characteristics—such as age, family size, race, voucher status and financial risk—To property characteristics—such as size, condition and neighborhood location.

The most important criteria upon which landlords match are voucher status and geography. In disadvantaged neighborhoods, it can be hard to find and attract market tenants who pay their rent reliably. This provides an incentive for landlords to find voucher tenants to occupy units in these areas.

Not only does renting through the voucher program provide a rent that is paid reliably, there is also evidence that in some neighborhoods landlords can charge more than they would be able to obtain on the open market. In many poor neighborhoods landlords are obliged to lower their asking rents for market-rate tenants in order to fill units and accommodate the incomes of the local population. The voucher rent ceilings are based on Fair Market Rent (FMR) for a much larger geographic area, and may indeed be higher than other similar houses on the block or in the neighborhood.

Landlords also match on race, but since Baltimore’s voucher holder population is over 90% African-American (HUD 2009), landlords cannot practically use race as a criterion for selection if they want to have voucher tenants. However, landlords do use race as a criterion for determining which property, and where, they are likely to show homes to a prospective tenant. One tenant placement agent admits to this type of steering based on race:

Now, I know—this may be discrimination and I must openly admit that I may discriminate, but I won’t take a White client and put her right down in the middle of Park Heights... When we place Whites, it’s Whites on Section 8, and we [do] get Whites, but I’ll try to place them in a more safer type neighborhood... I won’t try to place a White down in the middle of the war zone. You can call it discrimination, but to me, it just wouldn’t be right.

What this agent describes as a “war zone” is a predominantly Black, moderately poor neighborhood in Northwest Baltimore. If landlords and agents like this one are prioritizing the placement of White voucher holders in the limited units they have in White neighborhoods, they are de facto unable to place Black tenants in such neighborhoods. This may be one explanation for the disparate locational outcomes we see for Black and White voucher holders in the quantitative research.
Reverse Selection: Building a Better Mousetrap

In some neighborhoods—particularly in disadvantaged or high-crime neighborhoods—landlords have difficulty attracting tenants with or without a voucher. Therefore, it is common to actively recruit and target desired tenants. For example, many landlords stand outside the Baltimore Housing Authority office, recruiting voucher tenants for their hard-to-rent properties in disadvantaged neighborhoods. Thus, voucher holders with fewer resources to conduct independent housing searches will be more likely to end up viewing these types of units. This is an important way in which voucher holders are internally sorted within the voucher market.

Another way to target desired tenants is to compensate for the neighborhood by offering enticements to the tenant. For example, a young Black landlord says he can capitalize on a property that is still under renovation in order to “lock down” the tenant:

You can ... put the tenant in a position where they are in control. So you come into a room and say, “What color do you want this room?” And they feel like now it belongs to them, so it makes them want the property even more. It makes them do the things they need to do to qualify for the property and then we rent it a lot faster.

Landlords have an arsenal of strategies to fill hard-to-rent properties. Another landlord takes the idea of “locking down” a tenant a step further. When showing voucher holders properties, he picks up families at their homes and personally drives them to see available units. He shuttles them directly in the door of the newly renovated home, emphasizing the quality of the unit over its surroundings, and effectively preventing prospective tenants from exploring the neighborhood. Once the tenant gets in the door, it is much easier to negotiate because the home is beautifully renovated with lots of amenities. “The house looks like anything that you might walk in in the suburbs on the inside of the house, so it’s beautiful... It’s like, if you build a better mousetrap, you know how they say that...” In other words, the landlord lures the tenant into the home, dazzles them with sparkling new renovations, and proposes a rental contract on the spot. The landlord’s financial investment in the home is rewarded by the ability to attract a voucher tenant.

This same placement agent often advises landlords that offering tenants enticements or “promotions,” on an apartment in an unattractive neighborhood can help it to rent more quickly, and makes it easier to attract the coveted voucher tenant: “I tell owners ... look, you want to get your place rented. Okay. All right, now, this girl is on Section 8, okay? Her annual income is $6,000 a year. For real. You want a $1,000 security deposit? You want one sixth of her annual income.” The security deposit is not usually covered by the housing voucher, so waiving the deposit is a particular enticement to voucher tenants and others on fixed incomes for whom it would be very difficult to come up with a large lump sum of money. An understanding of voucher holders’ financial circumstances allows landlords to make offers that are so good, they are hard to refuse. Fifteen out of the twenty landlords selectively used some form of “move-in special” or security deposit waiver to entice desired tenants.

Some landlords market properties specifically toward the “lower end” of the voucher market. This less advantaged segment is more susceptible to landlord tactics: tenants who have bad credit histories, unfavorable residential references, or criminal records have fewer rental options, and are more likely to accept the first unit a landlord offers them. Voucher holders who have little money saved up for a security deposit are more likely to accept a unit if the landlord offers to waive it. Those who have only lived in rental units with rodent infestations, dysfunctional kitchens or persistent water leaks might be more susceptible to the allure of a newly renovated kitchen or the landlord’s offer of a dishwasher. Those with few resources for learning about new and different neighborhoods are more likely to be swayed by the physical features of the unit than by the less tangible characteristics of the neighborhood. Landlords capitalize on these vulnerabilities, attracting the tenants they want by “building a better mousetrap,” in one landlord’s words. I call this process “reverse selection,” where, rather than tenants selecting homes and neighborhoods, landlords are selecting tenants. This has important implications for where voucher holders end up.

Selective Retention: Leveraging the Voucher

Previous research has demonstrated that eviction is a means through which landlords selectively purge residents (Desmond 2012; Edin, DeLuca & Owens 2012; Hartman & Robinson 2003; Stegman 1972). I find evidence that landlords also play a role in the selective retention of renters. In a majority of cases, landlords have a strong financial incentive not to evict tenants (especially voucher tenants, whose rent is paid mostly by the government). Eviction is costly to the landlord, and most go out of their way to avoid it unless absolutely necessary. In fact, much of the time, landlords are scheming of ways not to rid themselves of tenants, but to hold on to tenants, taking measures to discourage and prevent them from leaving. Landlords have at their disposal a number of strategies to get desirable tenants to stay in hard-to-rent units, ranging from enticements and incentives, to strategic implementation of the HCV rules surrounding inspections and the terms of the lease, to threats of voucher loss and financial entrapment.

In this study, one of the biggest challenges landlords face is tenant turnover. In one landlord’s perception:

(Please turn to page 6)
“Every tenant wants to move all the time. That is the one bad thing about Section 8 ... They all want to move, all the time.” Turnover incurs significant costs. Every time a tenant moves, expenses include repainting, re-carpeting, and the loss of valuable time and money looking for a new tenant.

The so-called “teeth” of the HCV program can help landlords to combat this challenge. Landlords exploit the intricacies of the voucher rules to attenuate the movement of voucher holders out of their properties. The HCV program does not allow a tenant to be issued a new voucher to move if the landlord is owed any money, as explained by one landlord: “If they owe money for damages, they can’t move until they make good on it. The old way, they used to be able to just pack up, move, and be irresponsible... Essentially, it’s not really that you’re holding them... [it’s] that they’re accountable.” Furthermore, by permitting small, unpaid rental portions to accrue over time, landlords can facilitate a situation where the tenant owes more money he or she can repay, and therefore cannot leave the home without losing the voucher. A landlord explains how this works:

[Certain landlords] game the Section 8 system back to the tenant... If someone owes them money or if someone doesn’t pay their $100 portion... [they] would let them not pay, and then hold that over their head. So when they say, “I want to leave,” “No, you owe me $1500.” And they are never coming up with $1500.

This practice may serve as a broader mechanism that keeps tenants “stuck in place” (Sharkey), preventing them from moving on to newer homes and neighborhoods.

Landlords imagine the rental process as a game between landlord and tenant, in which the voucher is in jeopardy and can be used to manipulate behavior. But the rules are rigged. Landlords have superior access to information and resources, they know the rules of the game and how to use them. In contrast, many voucher holders are not aware of their own bargaining power and do not have the resources to employ it effectively. Landlord retention tactics effectively hold the most disadvantaged voucher holders—those behind on their rent—into some of the worst quality units in the poorest neighborhoods.

**IMPLICATIONS & CONCLUSION**

There are several ways to improve current policy and to address these problems within the voucher system. Better information and housing counseling for families, transportation for housing searches, and security deposit assistance would all minimize the effect of the landlord’s targeted recruitment tactics that attract and retain vulnerable voucher holders. It is essential for families to be informed of their rights as tenants so they can report necessary repairs or request to move without fear of losing their voucher.

Another potential area of intervention is in the calculation of Fair Market Rent and the perverse incentives that are created its definition. New research finds that when the FMR is defined at the zip-code level rather than at the metropolitan level, voucher holders move to better neighborhoods with no additional costs (Collinson & Ganong 2013). This has important implications for the cost effectiveness of voucher administration. If housing authorities spend less on rent, they could help a larger number of families, which is key, since only one in four qualified families currently receives housing aid (Turner & Kingsley 2008).

The shift in American housing policy in the last two decades towards individual subsidies has been touted as a way to let the private market solve the problem of concentrated poverty—in which federal housing policy has been historically complicit—by providing opportunities for poor families to move to neighborhoods of their choosing. However, without studying how landlords mediate market forces, we miss an important mechanism shaping residential inequality. Rather than providing low-income families with the opportunity to make informed decisions about which neighborhood would be best for them, the system has...
been turned on its head. Instead of tenants selecting neighborhoods, landlords are recruiting, selecting, and then sorting tenants into the units and neighborhoods where the greatest profit can be made. Despite its potential to facilitate the mobility of low-income households, the HCV program has in some cases done the opposite. In this process of reverse selection, supply actually creates demand, landlords’ actions shape and constrain residents’ choices. This reversal illuminates an important mechanism in processes of residential sorting and selection. The voucher case demonstrates the ways in which landlord practices intervene to pervert the process of residential choice, revealing the limits of a market-based solution to a complicated and entrenched social problem. The set of landlord practices described here form a powerful sorting instrument that channels the most disadvantaged voucher holders into some of the worst neighborhoods, thus reproducing spatial inequality and concentrated poverty.

**Works Cited**


POVERTY and RACE RESEARCH ACTION COUNCIL
Board of Directors/Staff

CHAIR
John Charles Boger
University of North Carolina
School of Law
Chapel Hill, NC

VICE-CHAIR
José Padilla
California Rural Legal Assistance
San Francisco, CA

SECRETARY
john a. powell
Haas Institute for a Fair and Inclusive Society
University of California-Berkeley
Berkeley, CA

TREASURER
Spence Limbocker
Neighborhood Funders Group
Annandale, VA

John Brittain
University of the District of Columbia School of Law
Washington, DC

Sheryll Cashin
Georgetown University Law Center
Washington, DC

Craig Flournoy
University of Cincinnati
Cincinnati, OH

Rachel Godsil
Seton Hall Law School
Newark, NJ

Damon Hewitt
Open Society Foundations
New York, NY

David Hinojosa
Mexican American Legal Defense and Educational Fund
San Antonio, TX

Camille Holmes
National Legal Aid & Defender Assn.
Washington, DC

Olati Johnson
Columbia Law School
New York, NY

Elizabeth Julian
Inclusive Communities Project
Dallas, TX

Demetria McCain
Inclusive Communities Project
Dallas, TX

S.M. Miller
The Commonwealth Institute
Cambridge, MA

ReNika Moore
NAACP Legal Defense Fund and Educational Fund
New York, NY

Don Nakanishi
University of California
Los Angeles, CA

Dennis Parker
American Civil Liberties Union
New York, NY

Gabriela Sandoval
Insight Center for Community Economic Development
Oakland, CA

Anthony Sarmiento
Senior Service America
Silver Spring, MD

Theodore M. Shaw
University of North Carolina School of Law
Chapel Hill, NC

Brian Smedley
National Collaborative for Health Equity
Washington, DC

Philip Tegeler
President/Executive Director

Chester Hartman
Director of Research

Megan Haberle
Policy Counsel

Gina Chirichigno
Co-Director
One Nation Indivisible

Michael Hilton
Policy Analyst

Etienne Toussaint
Law & Policy Fellow

Sarah Clayman
Administrative Assistant

David Looesberg
Law & Policy Intern

Kamisha Cassidy
Policy Intern

[Organizations listed for identification purposes only]