When Predator Becomes Prey: Rental Housing in Low-Income Minority Neighborhoods

Clément Théry

In the growing low-income rental market, predator and prey roles can shift, as landlords and tenants alike can fall victim to predatory cliques led by lawyers with local knowledge and a promise to help. Clément Théry's extensive research finds that affordable housing policy must recognize the threats low-income tenants face in the private market.

Most accounts of the rental housing market in low-income minority neighborhoods point to the role of major corporations with connections to political elites, to public and non-profit actors with the state's backing, and to large market forces that constrain myriad individual decisions. But on a micro scale, housing markets in low-income minority neighborhoods are also characterized by different circuits of power: cliques of small and independent landlords, real-estate brokers, lawyers, and maintenance workers who live and work closely together. The housing market in low-income minority neighborhoods looks like the bazaar economy described by Geertz (1978): aggressive searches for information asymmetries accompanied by adversarial bargaining bordering on predation. Similar practices exist in other segments of the rental housing market. In low-income minority neighborhoods, they are not marginal, but one of the central forms of economic behavior.[1] Recognition of cliques' predatory strategies reshapes our understanding of landlord–tenant conflicts, predator and prey, gentrification, and even subsidized housing.

Cliques are made up of diverse local housing actors: small-time landlords, handymen, building managers, brokers, and lawyers. Their business strategies do not rely on investment, credit, speculation or institutional connections. A clique's ordinary strategy is to search for local situations in which they can set up advantageous bargaining positions with other actors. Below I describe the market conditions under which these cliques flourish and explain certain aspects of their operations.

Market conditions: profits and cash flows for "money tree" and "cash poor" landlords

In low-income minority areas, most residents are tenants, often of apartment buildings, and rent payments constitute households' biggest expense.[2] It is not uncommon for a tenant to miss a rent payment. Between unpaid rents and the legal fees associated with eviction proceedings, landlords

1 The three main lines of the literature on the housing market have missed this bazaar-like character because the way in which they conceive their object makes small independent housing actors either unproblematic or irrelevant. These three lines are: (a) an amended-mainstream approach in economics, where the housing market works like any other market except for spillover effects and the limited supply of land, which drive most of the attention, as illustrated in Edward Glaeser's scholarship; (b) the "growth machine" perspective of Harvey Molotch, where small independent housing actors, and especially landlords, are similar to passive rentiers, by contrast with local elites, who are the real actors of the market; (c) the neo-Marxist views of David Harvey where the abstract logics of credit and housing govern any economic behaviors. See Glaeser (2011); Molotch (1976); Harvey (2010).

2 For the US in general, see Belsky and Drew (2008, pp. 29-35) and Rosenthal (2008, p. 59); for New York City, see Furman Center (2012).

estimate that they miss 10% of the total potential rent roll of a building.[3] At the same time, many buildings' operational costs are both high and unpredictable, owing to decades of neglect. Apartment buildings thus have low profit margins. Economic actors have learned that the promise of a 5% return on a building (i.e. before mortgage payments are made), is an overly optimistic picture.

Not all small independent landlords face these conditions to the same extent. Housing professionals make a distinction between two kinds of landlords: those who "own a money tree" and those who are "asset-rich, cash-poor". A money tree is a building free of any mortgage. It gives the landlord the security of a 3% to 4% profit margin directly in cash. The landlord can use that profit margin to weather unexpected costs and pay themselves a salary for managing the building. Owners of money trees have often inherited their buildings, and they are the envy of other local actors in the housing market.[4]

By contrast, a landlord who has a significant mortgage to repay is "asset-rich, cash-poor." She is asset rich because she owns a multi-unit building. Most buildings I observed during three years of fieldwork in central Brooklyn, New York, contained between 6 and 30 units. Each unit was valued at approximately $90,000, and rent ranged from $700 to $1,100 a month—rents on the lower end of the spectrum for New York City. The landlord is, however, cash-poor. Most of the operational profit is used to pay back the mortgage. It forces the landlord to have a full-time job and to manage her building on the side, doing repairs at night or on weekends, and trusting a lawyer to act in her interest in housing court rather than appearing herself.

Informal Cliques: A Response to Insecurity

The tensions within tenant–landlord relationships are increased by the limited organizational capacities of small independent landlords. These landlords need to hire housing lawyers, building managers, handymen, and real-estate brokers on the market, on a task-by-task basis. They find themselves in a series of principal–agent dilemmas that adds to the risk of their relationship with tenants. A landlord cannot monitor the work of the people she has hired, and there is a powerful drive to limit the cash payments made to them, triggering a downward spiral: the lower the payments, the more opportunistic lawyers, maintenance workers, and others need to be. It creates a significant turnover: landlords constantly hire and fire service providers.

To limit this dynamic, small landlords do a lot by themselves. This explains why there is a disproportionate number of manual workers among small independent landlords in these neighborhoods. Becoming a landlord is a recognized pathway for wealth accumulation among the working-class stratum of these communities. However, such internalization has limits and many landlords use a complementary strategy. They create informal cliques with a few housing lawyers, real-estate brokers, maintenance workers, building managers, and other small independent landlords. Within cliques, services are traded at a lower price than on the market and opportunism is suspended, saving landlords significant operating costs.

In exchange, landlords provide several benefits to members of their clique. For maintenance workers, they guarantee stable arrangements, in which in-cash and in-kind payments (e.g. allowing the worker to sleep in a basement) complement each other. In addition, maintenance worker's contact with a clique of small landlords and trusted real-estate brokers and lawyers offers the worker critical access to the resources, both financial and practical, necessary to become a landlord.

[3] The potential rent roll is the sum of all rent collected in a year if there are no vacancies, no court-ordered rent payment stoppages, and no crises preventing low-income tenants paying their rent.

[4] There is evidence that white flight after World War II created vacancy in low-income minority neighborhoods, and some minority families were therefore able to become homeowners or landlords (Boustan and Margo 2013). In central Brooklyn, my fieldwork suggests that it was Afro-Caribbean immigrants who benefited from this migration and vacancy effect, and subsequently passed on their property to their descendants.

For real-estate brokers and housing lawyers, belonging to an informal clique has a different and particular value. It gives steady access to the one lucrative and rare event on the housing market of these neighborhoods: transactions over whole buildings. Regular yet small income is generated by fees on rentals and eviction cases, but exceptional monetary windfalls happen when they participate in the buying or selling of big buildings. Furthermore, the clique enables moneymaking strategies that the official definitions of brokers' and lawyers' professional roles in the housing market normally exclude.

An implicit long-term contract binds the members of a clique, and exclusion is the group's regulatory mechanism. However, not all small independent housing actors in these neighborhoods belong to cliques. Many choose the formality of arm's-length market transactions.

A particular threat to the asset-rich, cash-poor landlord and her clique is the figure known as the "professional tenant". A professional tenant is someone who is seen as being capable of skillfully manipulating tenants' rights and housing regulations so that she can stay put without paying rent.[5] Even if it happens rarely, legal battles with professional tenants can stretch over several years, and the cost, in unpaid rents and legal fees, can amount to tens of thousands of dollars. To avoid such a nightmarish situation, some landlords negotiate a buy-out with people they see as professional tenants. This means paying a tenant to leave an apartment while waiving unpaid rents and legal fees.

The flip side of these circumstances is the incivility of tenant–landlord relationships. Landlords display their unbending forcefulness in pursuing their interests through verbal violence with tenants (Make the Road New York 2011; see also Desmond 2012).

Moneymaking strategies: predators searching for prey

Strategies for making money out of the housing market in low-income minority areas vary. Large corporations use their connections with local political elites or their easier access to credit to implement strategies unavailable to small and independent housing actors, whom scholars have previously relegated to the role of *passive rentiers* (Logan and Molotch 2007). Non-profits are involved in both an economic and political game (Marwell 2009). By contrast, independent housing actors who belong to cliques gain access to different economic strategies.

Informal cliques look for local situations in which they can set up a positive bargaining position at the expense of someone else. For instance, a clique may know that a professional tenant is fighting an eviction, preventing a landlord from upgrading a building. The strategy then involves discreetly subsidizing the tenant to stay put, and making an agreement with her, while negotiating the sale of the building at a discount rate because of the difficult tenant. Clique members, through extended neighborhood communication networks, could also help a landlord learn, for example, that a tenant who is negotiating a buy-out with his landlord happens to be living in a different building with his girlfriend. The credibility of the tenant's demand is then compromised: his several-thousand-dollar buy-out demand is exposed as a bluff. Or the clique might loan a few thousand dollars to a heavily indebted landlord, secured by a property title on the building. The expectation is that the landlord will not pay back the loan, the property title will be transferred and the new owner will repay the mortgage, becoming the full owner of the building for a fraction of the market price.

More generally, cliques look for small independent housing actors who have not mastered the economic management of their businesses, and set up bargaining situations that can benefit its members. These strategies are collective. They require the pooling of various resources: financial resources from a clique's small landlords, legal knowledge from lawyers, and negotiation skills with lawyers and banks and in face-to-face relations. These strategies also demand furtiveness: ambiguity about who acts in coordination with whom. Deniability must be maintained. The

[5] However weakened, New York City has tighter rent and housing regulations than most cities in the US.

informal nature of a clique is a decisive strength. Finally, the strategies assume that detailed private information on particular situations is collected and transmitted to a clique. A clique needs spotters. This role is fulfilled by religious leaders, community leaders, landlords' advocates, or superintendents, who receive payments and free services from the clique in exchange for confidential information.

Even in the case of an adversarial relationship, bargaining requires some amount of communication. This explains why cliques are often multiracial or multiethnic. Ethno-racial differences can be used to racialize economic conflicts and to cut off communication.[6] People regularly claim they are the victims of racially biased treatment or call upon other co-ethnics' solidarity. Belonging to a multi-ethnic clique helps housing actors avoid such problems. In the sale of a building in central Brooklyn, the typical structure of race relations is chiastic: a minority seller (whether Hispanic, Afro-Caribbean or African-American) will pair with a white, often Jewish, real-estate broker, and a white buyer (often Jewish Orthodox) will pair with a minority real-estate broker. Such matches neutralize the racial tensions that could block bargaining.

Cliques' strategies reveal the latent predatory nature of the housing market in low-income minority areas. Looking for some bargaining advantage, cliques develop practices that are often duplicitous, especially in relation to informal credit.[7] While the predator is a clique, the prey is not what is usually assumed to be the most vulnerable element of the housing market—the tenant. The tenant may even be an adjuvant in a predatory scenario. Rather, the prey must be a resource-rich entity: an insurance company, a bank, or another landlord who does not belong to a clique. Predators look for rich, fat objects of prey, not deprived and skinny ones. There are more resources to be seized by preying on a landlord or a bank than by targeting low-income minority tenants.

How cliques profit from gentrification

The cliques' bazaar-like strategies shed new light on major urban processes.

Gentrification is thought to displace tenants while enriching landlords.[8] In fact, gentrification displaces a whole economic system, including cliques and both their unpleasant aspects (incivility and predation) and more positive attributes (a significant pathway for wealth accumulation for the local working class). One key is to explore the exact role of cliques in the gentrification process, especially their ambivalent relationship with larger real-estate developers.

Second, analysts often assume the subprime boom and bust (2000–2008) happened because inexperienced minority households were duped by tricky subprime brokers (Rugh and Massey 2010; Hyra *et al.* 2013). An alternative hypothesis is that the housing market in low-income minority neighborhoods *mostly* works on predation and informality, not only when subprime lenders enter the scene. Subprime mortgage brokers may have found a clientele already accustomed to dealing with predators, not a naïve clientele. This perspective would offer an alternative narrative of the crisis that navigates between the patronizing story of duped and uneducated consumers and the Machiavellian tale of hyper-rational households who were speculating like everyone else from Main Street to Wall Street.

Third, recognizing the extent of predation suggests a different take on Section 8 housing vouchers. The policy's justification is to give poor people access to the market and access to choice. This view is too convenient: the trade-off is not between the forced settlement and bureaucracy of

[6] This argument is consistent with Lee (2002).

[7] There are several ways of defining an economic practice as predatory. One definition is when information is so incomplete that one party's consent to transact is problematic. There is a continuum between looking for a positive bargaining situation and such predatory practices (Stinchcombe 1997).

[8] There is a vast literature on this point; a good starting point is the debate between Freeman and Braconi (2004) and Newman and Wyly (2006).

public housing authorities on the one hand, and the freedom of the market on the other. The housing market that voucher-holders navigate is marked by discrimination,[9] incivility and predation.

The attention to informal cliques illuminates economic life in low-income minority neighborhoods. The housing market is a major source of jobs and income in these communities (construction and maintenance jobs); it is a pathway for wealth accumulation (homeownership and landlordship); and it is the major item of expenditure for households (rent). To understand how these circuits work together can offer tremendous insights into the economic life of poor and near-poor minorities.

Bibliography

Beck, P. 1996. "Fighting Section 8 discrimination: the Fair Housing Act's new frontier", *Harvard Civil Rights–Civil Liberties Law Review*, vol. 31, pp. 155–186.

Belsky, E. S. and Drew, R. B. 2008. "Rental housing challenges and policy responses", in Retsinas, N. P. and Belsky, E. S. (eds.), *Revisiting Rental Housing: Policies, Programs, and Priorities*, Washington, DC: Brookings Institute Press, pp. 14–56.

Boustan, L. P. and Margo, R. A. 2013. "A silver lining to white flight? White suburbanization and African–American homeownership, 1940–1980", *Journal of Urban Economics*, vol. 78, pp. 71–80.

Desmond, M. 2012. "Eviction and the Reproduction of Urban Poverty", *American Journal of Sociology*, vol. 118, no. 1, pp. 88–133.

Freeman, L. and Braconi, F. 2004. "Gentrification and displacement New York City in the 1990s", *Journal of the American Planning Association*, vol. 70, no. 1, pp. 39–52.

Furman Center for Real Estate and Urban Policy. 2012. *State of New York City's Housing and Neighborhoods 2012*, New York: Furman Center for Real Estate and Urban Policy, New York University.

Geertz, C. 1978. "The bazaar economy: information and search in peasant marketing", *The American Economic Review*, vol. 68, no. 2, pp. 28–32.

Glaeser, E. 2011. *Triumph of the City: How our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier and Happier*, London: Pan Macmillan.

Harvey, D. 2010. *Social Justice and the City* (revised edition), Atlanta: University of Georgia Press.

Hyra, D. S., Squires, G. D., Renner, R. N. and Kirk, D. S. 2013. "Metropolitan segregation and the subprime lending crisis", *Housing Policy Debate*, vol. 23, no. 1, pp. 177–198.

Lee, J. 2002. *Civility in the City: Blacks, Jews, and Koreans in Urban America*, Cambridge, Mass.: Harvard University Press.

Logan, J. R. and Molotch, H. L. 2007. *Urban Fortunes: The Political Economy of Place*, Oakland: University of California Press.

Make the Road New York. 2011. *Home Court Advantage: How Landlords are Winning and Tenants are Losing in Brooklyn Housing Court*, December, New York: Make the Road New York. Available online at the following URL: www.maketheroad.org/pix_reports/Home_Court_Advantage_12.13.11.pdf.

Marwell, N. P. 2009. *Bargaining for Brooklyn: Community Organizations in the Entrepreneurial City*, Chicago: University of Chicago Press.

Molotch, H. 1976. "The City as a Growth Machine: Toward a Political Economy of Place", *American Journal of Sociology*, vol. 82, no. 2, pp. 309–332.

9 See Beck (1996) and Popkin and Cunningham (2000); and, more generally on the experience of housing voucher-holders, Oakley *et al.* (2013).

Newman, K. and Wyly, E. K. 2006. "The right to stay put, revisited: gentrification and resistance to displacement in New York City", *Urban Studies*, vol. 43, no. 1, pp. 23–57.

Oakley, D., Ruel, E. and Reid, L. 2013. "'It was really hard… It was alright… It was easy.' Public Housing Relocation Experiences and Destination Satisfaction in Atlanta", *Cityscape: A Journal of Policy Development and Research*, vol. 15, no. 2, pp. 173–192.

Popkin, S. J. and Cunningham, M. K. 2000. *Searching for Rental Housing with Section 8 in the Chicago Region*, February, Washington, DC: The Urban Institute.

Rosenthal, S. 2008. "Where poor renters live in our cities: dynamics and determinants", in Retsinas, N. P. and Belsky, E. S. (eds.), *Revisiting Rental Housing: Policies, Programs, and Priorities*, Washington, DC: Brookings Institute Press, pp. 59–92.

Rugh, J. S. and Massey, D. S. 2010. "Racial segregation and the American foreclosure crisis", American Sociological Review, vol. 75, no. 5, pp. 629–651.

Stinchcombe, A. L. 1997. "On the virtues of the old institutionalism", *Annual Review of Sociology*, vol. 23, no. 1, pp. 1–18.

Clément Théry received his PhD in sociology from Columbia University. His research focuses on the economic life of low-income minority neighborhoods, and in particular the informal aspects of the housing market in these areas.

To quote this article:

Clément Théry, "When Predator Becomes Prey: Rental Housing in Low-Income Minority Neighborhoods", *Metropolitics*, 2 February 2015. URL : http://www.metropolitiques.eu/When-Predator-Becomes-Prey-Rental.html.