



The value of community: Evidence from the CARES program

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ABSTRACT

Renters of multi-unit housing structures report weaker ties to their community than other renters and owner occupants. In response to the lack of a sense of community in multi-unit rental structures, owners and managers of these properties have implemented planned programs to establish stronger community ties for residents. We examine the effect of one such program, the CARES (Community Activities and REsident Services) program, on the rental price of apartments using both a standard hedonic approach as well as matching techniques designed to limit unobservable differences between treated and comparison units. Our results using propensity score matching to identify comparison units, suggest that monthly rents are between 5.7 and 9.3 percent higher for apartment units that offer the CARES program. We also find the effect of the CARES program to be stronger in larger apartment complexes, suggesting that renters are willing to pay a premium for a sense of community rather than just the increased services from the program.

1. Introduction

One-third of Americans live in rented housing units, with over half of these renters occupying multi-unit structures (American Community Survey, 2013). This is in stark contrast to owner-occupied housing occupants, where only five percent of residents live in multi-unit structures.¹ Multi-unit structures inherently create density, a traditional driver of face-to-face interpersonal interactions (Glaeser, 2008) which increases the number of social links for residents (Helsley and Zenou, 2014). However, renters in higher density areas consistently report weaker community connections (Sampson, 1988; Wilson and Baldassare, 1996), and density relates negatively to social interactions among neighbors (Hawley, 2012). Despite the large literature dissecting the spillover and externality effects of homeownership through social capital, involvement, or interaction,² little research exists that quantifies the value of community—particularly for renters.

In response to the lack of community connections in multi-unit rental housing structures, owners and managers of these facilities have explored ways to build community through organized programs. One such program, operated through a private entity and sold as a service to multi-unit structures is the CARES (Community Activities and REsident Services) program. CARES provides residents with on-site services aimed at building a sense of community. Examples of the specific tasks

performed by CARES include welcoming new residents, planning community events, pet watching, and providing occasional transportation.

We investigate the extent that residents value the sense of community built through CARES, which more generally sheds light on the value of community as a component of housing services. Using data from a sample of over 5,000 rental housing units, we examine the effect of the CARES program on rental prices. We use two types of methods to determine the value of community for renters in multi-unit structures. The first method is a standard hedonic regression modeling rents as a function of community/social management and a set of unit and structure-level attributes. We also use a set of matching methods to compare rental prices of the treated (CARES) apartments with those of a comparison group that do not use third party community management. The first matching method relies on the location of the structures and matches CARES units to geographically close comparison apartment complexes. The second matching method uses an estimated propensity score conditional on the same set of attributes in the hedonic specification to determine the average treatment effect on the treated.

We estimate the effect of the CARES program using data on the asking rent for site-specific unit types in apartment complexes. Our unit of observation is an apartment type, for example a one-bedroom, one bathroom 750 sqft. apartment, and our primary outcome of interest is

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¹ US Census Bureau, 2013 American Community Survey. Multi-unit developments are defined as 2+ unit structures.

² See Engelhardt et al. (2010) for a summary and recent measurement of the social benefits of homeownership.

the asking rent for that unit type. The hedonic model results yield a statistically significant premium in rents paid for CARES units of 3.4–6.8 percent per month. The propensity score matching estimates are also statistically significant, but substantially larger in magnitude than the standard hedonic estimates—showing that the CARES premium is 5.7–9.3 percent per month. We find the effect of the CARES program to be stronger in larger apartment complexes, suggesting that renters are willing to pay a premium for a sense of community rather than just the increased services that result from the program.

This work differs from the previous literature that mainly focuses on the link between social capital or community involvement and homeownership³ or on the value of public or low-income housing in communities.⁴ The literature typically compares the levels of social capital or community involvement across tenure status; finding homeownership increases social capital, but is void of estimates that show renters' willingness-to-pay for such an amenity.

The remainder of the paper is organized as follows. In Section 2, we discuss third party community management in rental housing and describe the CARES program. Section 3 outlines our empirical methodology used to estimate the value of the CARES program. Section 4 details our unique dataset, and Section 5 presents the results of our empirical estimation. Section 6 offers concluding comments.

2. Community and social interactions literature and the CARES program

Traditionally, owners of real estate rental property choose between two management structures, the property is managed by the owner or a third-party management company. G.S. Sirmans et al. (1999) show owners choose third party management only when the management company is sufficiently more productive than the owners at managing the property.

Management in this traditional sense includes selecting tenants, rent collection, security, maintenance, and other daily activities. Another aspect of the management's duties is resident retention; as residents are likely to stay with a community in which they have stronger ties, this responsibility may translate into providing or maintaining a sense of community.

Residents' feelings of community, be it depth of connections with neighbors or collective action toward local improvements, require attention and are often difficult for managers who traditionally focus on other aspects of the business. Renters move more frequently than homeowners move, and may respond to a poor community match by relocating; hence, building a strong sense of community may help improve the match and reduce tenant turnover. Owners recognize the importance of resident retention and some focus their attention toward managing the sense of community in their complexes. This compounds the traditional choice of management for owners to include an option to allow an additional (sometimes different) third party to manage the social aspects of the community. Following G.S. Sirmans et al. (1999), the owner's profit maximizing choice is to hire a third party community management company only when the company is more productive at caring for the social environment of the complex.

G.S. Sirmans et al. (1999) cast a theoretical model of the rental property management choice, assuming owners and third party management companies are profit maximizers; thus, the choice of third party management only occurs when it is more profitable for owners. We use the intuition from the theoretical result in G.S. Sirmans et al. to motivate our empirical work.

³ See DiPasquale and Glaeser (1999) and Putnam (2000) for classic examples, Engelhardt et al. (2010), Roskrug et al. (2013), and Rohe et al. (2013) for more recent examples.

⁴ For examples, see Reingold et al. (2001) and Curley (2010).

2.1. CARES program

The non-profit Apartment Life⁵ designed the CARES program to establish a sense of community in apartment developments and thus help property owners retain more of their tenants and improve the welfare of residents.⁶ In addition to lower resident turnover, CARES claims to reduce turnover costs (through savings from lower unit preparation costs when a new tenant enters). The largest non-retention benefit, and a major focus of this work, is increased residential value.⁷ One interpretation of the estimates of rent premiums for CARES units is the value that renters place on living in a stronger community. CARES highlights community building on their website, describing resident experiences such as organized dinners, painting classes, and craft beer clubs. They also have testimonials from property management companies that claim CARES helps directly in building a community among residents.

CARES operates in rental units with a team (usually two single adults or a family) that works with the management of the complex to generate openings for residents to build community.⁸ The CARES team lives onsite and delivers opportunities to welcome, familiarize, involve, and cooperate with residents. Examples of the specific tasks the team performs include personally welcoming each new resident and planning community enhancing events for residents. The CARES team may also provide assistance to the residents such as watching a pet while the resident is away or providing rides to and from the airport.

Each apartment complex that partners with Apartment Life to establish CARES on the property incurs costs. The largest cost of the program is to supply the CARES team with a rent-free apartment (typically two bedrooms and two bathrooms).⁹ In addition, the apartment owner must pay a monthly fee to Apartment Life for administration of the program. Lastly, the complex must provide a monthly activity budget from which the CARES team funds community events.¹⁰

3. Estimation methods

One way to view the value of CARES is that the program should be valued like any other characteristic of real property. The benchmark for valuing a particular attribute for real property is the hedonic method. Following Rosen (1974), the estimating equation for this method generates implicit prices for each known characteristic of a rental housing unit:

⁵ Apartment Life's website provides more information about the company and its objectives, <http://www.apartmentlife.org>. Apartment Life is a faith-based non-profit organization. In previous years, Apartment Life highlighted Christian values, but that is no longer apparent on its webpage. Touring Apartment Life's current website, it is not overtly religious, and highlights that all of its programs are Fair Housing compliant.

⁶ The CARES program's web site provides additional details about the program. <http://www.CARESprogram.org>

⁷ Location equilibrium implies the demand for CARES units should rise while simultaneously the demand for non-CARES units should fall; increasing CARES unit rents while lowering non-CARES unit rents. See Alonso (1964) and Muth (1969) for the foundational urban economics models that relate the relative rental price of housing with differential amenity values.

⁸ While the goal of the CARES program is to reduce resident turnover and increase resident value, this is accomplished through establishing relationships among residents and between residents and the team. The CARES team typically signs a two-year agreement to enter the program.

⁹ The management provides the apartment to Apartment Life who essentially sub-leases the apartment to the CARES team. While the apartment is technically provided rent free, the CARES team must provide a monthly financial investment to Apartment Life. This payment is typically discounted compared to the asking rent for the apartment. The team is responsible for other costs of living including utilities.

¹⁰ The apartment complex typically provides \$1 per unit per month as an activity budget.

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