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A dilapidated apartment complex in the Carrick section of Pittsburgh, which had been shut down by the county health department, in 2014. The Pennsylvania state attorney general filed a lawsuit against the then-landlord, saying he rented unsafe and uninhabitable apartments, many of them to refugees. // Keith Srakocic/AP

## How Poor Americans Get Exploited by Their Landlords

RICHARD FLORIDA MAR 21, 2019

**American landlords derive more profit from renters in low-income neighborhoods, researchers Matthew Desmond and Nathan Wilmers find.**

Do the poor pay more for housing?

That's the question at the heart, and in the title, of a detailed paper published in the *American Journal of Sociology* on the actual housing costs paid by Americans in low-income urban neighborhoods. Its two authors, Princeton's Matthew Desmond—who wrote the award-winning 2016 book *Evicted*—and MIT's Nathan Wilmers, track the rent burdens and levels of exploitation faced by those living in concentrated poverty. They also uncover the staggeringly high profit margins made by the landlords who own properties in these areas.

Desmond and Wilmers orient their research around the concept and reality of exploitation. Exploitation is something that is usually associated with workers and the workplace. Marx famously theorized that capitalists derived their profits by exploiting the working class. He encapsulated this in his notion of surplus value: Workers are paid for only a fraction of the value they actually generate, and the surplus is in effect handed over to the capitalists.

Desmond and Wilmers invoke the definition of exploitation by the brilliant late Marxist sociologist Erik Olin Wright, who updated Marx's theory of class for modern knowledge economies. Wright defined exploitation as occurring when a dominant and more powerful group enriches itself by excluding a less powerful and more subordinate group from a key productive resource, like technology, machinery, or land.

Henry George theorized long ago that land was a key nexus of exploitation. Where Marx saw capitalists making off with the surplus, George saw all the surplus—that from workers and capitalists—ultimately making its way back to land. This was reflected in the high rents and land prices that were ultimately paid to landowners, real-estate developers, and landlords.

It is a mistake, Desmond and Wilmers argue, to see slums as a byproduct of the modern city, rundown areas that occur by accident. Instead, they contend that the slum has long been a “prime moneymaker” for those who profit from land scarcity, racial segregation, and deferred maintenance. “If labor exploitation is understood to be getting paid less than the market value of what one produces,” they write, “we can extend this definition to the housing market by operationalizing exploitation as being overcharged relative to the market value of what one purchases, paying more for less.”

They define housing exploitation as the amount of rent paid relative to the market value of that housing, and measure this exploitation as the ratio of annual rents from rental housing units over their combined property value. The level of exploitation rises as the ratio of rent to property value grows. (The study methodology accounts for the costs of upkeep and maintenance.) Desmond and Wilmers make use of two key sources of data: a large-scale national survey of rental properties, and a detailed set of surveys of renters and rental properties in Milwaukee.

Ultimately, they find consistent evidence that the poor, and especially the minority poor, experience the highest rates of housing exploitation. In their most basic formulations, they find that renters in high-poverty neighborhoods experience levels of exploitation that are more than double those of renters in neighborhoods with lower levels of poverty. Neighborhoods with a poverty rate of less than 15 percent have an exploitation rate of 10 percent—meaning that rents cover 10 percent of the actual cost of that housing. (In other words, the actual cost of that rental housing can be paid off in 10 years.) But in high-poverty neighborhoods, those where 50 to 60 percent of residents live in poverty, the exploitation rate is 25 percent, meaning that 25 percent of the value of the property is paid back in a single year of rent.

The housing-exploitation rate is also higher in majority-black neighborhoods (20 to 25 percent) compared to minority-black neighborhoods (10 to 15 percent). These results are backed up by the study's more high-powered statistical models.

With the detailed Milwaukee data, the researchers find that an increase of 10 percentage points in neighborhood poverty increases the rate of housing exploitation by more than 2 percentage points overall, and that a 10-percentage-point increase in black residents increases the housing-exploitation rate by nearly 1 percent.

The story doesn't end there. Landlords are making a bundle from poor renters. The poor pay a considerable amount of money in rent: Nationwide, median rents in poor neighborhoods are \$511 per month, compared to \$674 in non-poor neighborhoods. In Milwaukee, the gap is much narrower: \$600 in poor areas versus \$650 in non-poor areas. When Wilmers and Desmond control for regular expenses in the form of mortgage payments, property taxes, property insurance, utilities, and property management fees, they find the actual profits that landlords make to be significantly higher in poor neighborhoods.

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### **Landlords in poor neighborhoods derive a median profit of \$298 monthly, compared with \$225 in middle-class neighborhoods and \$250 in affluent ones.**

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Nationally, landlords in poor neighborhoods derive a median profit of \$298 monthly, compared with \$225 in middle-class neighborhoods and \$250 in affluent ones. In Milwaukee, the profit differential is even greater, with landlords in poor neighborhoods raking in \$319 per month, more than double the profit (\$174 per month) of landlords with properties in non-poor neighborhoods.

And the same basic pattern holds when expenses including maintenance and repairs are factored in. Across the nation, landlords with units in poor neighborhoods average nearly \$100 a month in net profit, compared to about \$50 in affluent neighborhoods, and just \$3 in middle-class areas. In Milwaukee, landlords again do even better, taking home about \$150 per month, compared to roughly \$20 a month in non-poor neighborhoods.

Those are whopping margins, and the reason for this discrepancy is that rental markets have very different dynamics in expensive cities like New York and San Francisco than less expensive cities like Milwaukee. In low-cost cities, landlord profit rates rise steeply alongside neighborhood poverty. But in expensive cities, the reverse is true. In expensive cities, landlords make money through appreciation and gentrification (which is bad enough for the poor). In lower-cost, more economically hard-hit cities, they make it on the backs of the poor.

“If exploitation relies on the exclusion of a disadvantaged group from a productive resource,” Desmond and Wilmers write, “that resource is housing located outside of poor neighborhoods.” They add, “Renters in poor neighborhoods are excluded from both home ownership and apartments in middle-class communities on account of their poverty, poor credit, eviction, or conviction history, or race (through discrimination).” Ultimately, they conclude, “renters are exposed to exploitation on account of their reliance on housing and their lack of options for securing it.”

When all is said and done, the poor suffer not only in the labor market. They suffer again in the rental housing market, paying more of their lower incomes for housing, and facing the double whammy of labor and housing exploitation.

*CityLab editorial fellow Nicole Javorsky contributed research and editorial assistance to this article.*