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by Njo Anastasia

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Why do You Become a Landlord?

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ABSTRACT

The human population growth is not matched by the housing construction, so it makes the demand higher than the supply. It will increase the housing prices significantly. Some people with limited funds to buy a house will choose to rent a house for the first time. This creates opportunities for investors to gain profit from capital gain and income from renting out the house. This study intends to find out the factors taken into considerations for becoming a landlord. The data are collected by distributing questionnaires to owners who are renting out their houses (landlord) in Surabaya. The questionnaire obtained are from 113 respondents, then are processed using the factor analysis. The result of the factor analysis finds out that there are four financial factors to be considered by landlords, such as the inflow and outflow factors, investment factors, leasing fee and regulation factors, and interest in entrepreneurship factors. These three factors explain the beneficial for being a landlord, and one factor explains the loss. Therefore, becoming a landlord is more attractive.

Key Words: Investment, Landlord, Financial, Investment, Entrepreneurship.

INTRODUCTION

A house is the basic need for people to use for sheltering. With the increasing income and wealth, it will encourage people to invest. Investors choose to invest in property because it is perceived as a secure and stable investment which is not affected by volatile markets. Property can be used as long-term investments, because housing price is likely to increase every year [1]. Hartanto [2] stated other advantages to invest in the property because it can be used as collateral on credit for banks, inflation protections, capital gains, and received passive income by renting out the house. Erawan [3] stated individuals who invest in a house rentals are due to the high demand level and high profit level, so houses are still an attractive investment product.

The positive points of investing in residential houses encourage the owners to rent out their houses. First, it is as a diversification portfolio of investment. Second, it is the cost of tenant responsibility (user cost) such as electricity charges, water, and security costs [4]. Third, it can be used as the future retirement income. The rental income can be used for savings as the retirement fund [1]. Fourth, the influence of family and friends who have already rented their houses will push the owners to do the same thing. Fifth, it is also a consideration about the future home that can be used to elderly people who will retire [5]. Sixth, it is “your own business”, so the owners have freedoms to determine their own rules and requirements [6].

Based on pre-survey conducted to ten owners who rent out their houses in Surabaya, it can be seen that owners have different reasons to rent out. Some of the reasons are purchasing a house when the price is low, getting rental incomes, and receiving a tax incentive to land and building. Homeowners prefer to rent out their houses because they do not want their houses uninhabited. On the other hand, the owners also bear some losses, if tenants make a problem, and additional costs such as insurance, cost of agreement letter (legal who told), maintenance and repair cost, and addition rental income tax. Portman, Brey, and Stewart [7] state that avoiding further harm to another house renter, many rules must be understood when renting out their houses.

This study will focus on finding the factors that are considered when renting out a house. It is interesting to draw upon those homeowners or investors who will lease a house so that they can consider those factors before making the final decision.

LITERATURE REVIEW

A house can be used for consumption and investment [8]. Investment motives will be one of the reasons why homeowners rent their houses [9]. The owner who has decided to rent his estate is called a landlord. Tosh [10] defines a landlord as an owner (lessor) of a house who has agreed with the agreement written or not written to rent his house to others (called a lessee). According to Lord, Lloyd, and Barnes [11], a landlord is defined as one who receives an income lease from a second home, not of those who receives a leasing income from a house which he occupies. Furthermore, Prandial [12] explained about the push and barrier motivation in becoming a landlord.

Initial motivation in investing a house is because most buyers get low house prices, and also they find opportunities in a secure investment or asset appreciation. Property investment is a secure investment in the long term, because it forms in tangible assets compared to other investments such as stock. It can increase owner wealth, capital gains and rental return, as well as investment diversification. Income from rental is an important reason for landlord, because rental income can be used to relieve mortgage loan, expense payment, also future retirement income. This future retirement income is caused by owner's fear that the pension fund is not enough. The cost can be transferred to the tenant if landlord has a written tenancy agreement, namely user's cost of utility and land building tax.

On the other hand, the motivation barrier is that the rental income tax will increase the rental price. If a tenant bears the tax, the rental price will increase, so landlord may cancel that rental agreement. The other barrier is a problem between the tenant and time. Tenants have bad attitudes, such as not paying the rent on time, destroying the house, or annoying landlord constantly with other trivial things. Service time from a landlord to his tenants and prospective tenants is not a full-time job, but landlord must be prepared for 24 hours in emergency event, therefore sometimes the owners have no time for vacations.

METHOD

This research is using data from questionnaires collected from landlords in Surabaya. Sampling data is collected by a cluster method on five regions, in the City Center, North, South, East, and West housing area of Surabaya. The questionnaires obtained are from 125 respondents, but only 111 respondents are selected that can be used in research. Next, the data are analysed by Factors Analysis and concordance Kendall Test. Factor Analysis is used to reduce variables researched into variants, with KMO and Bartlett's test, Anti-Image Matrix, factor rotation, variance explained, factor loading, and labelling [13]. The concordance Kendall is used to test ranking answers from respondents in assessing attributes.

FINDINGS

The data analysis is divided into three parts: descriptive analysis, concordance Kendall and factors analysis. The results shows the profile of the landlords; the genders are 47.8 % women and 52.2 % man, mostly 49.6% from age 45 to 54 years old, and 28.3 % from 55 to 64 years old. The education background are 52 % at a bachelor degree, and 29% at high school level. The largest income is 38.9% above Rp. 26 million per month and 30.1% around Rp. 13-26 million per month. They have become a new landlord since one year ago (20.24%) and they have experienced as a landlord between 2-3 years (16.8%), then experienced around 5 years (15%).

Table 1. shows that concordance Kendall is used to see the ranking attributes perceived from the most important reasons. The first reason is why someone investing in houses. The second reason is the driving motivation to be a landlord, and finally the third reason is the motivation barrier to be a landlord. The test shows a mean value rank 1 (one) for the most important attributes and 5 (five) for the least important attributes.

Table 1. Reason to Become Landlord

Reason 1		Reason 2		Reason 3	
Attributes	Mean Rank	Attributes	Mean Rank	Attributes	Mean Rank
Capital Gain	2.49	Rental Income	2.35	Expenses	2.41
Appreciation	2.80	Future Rental Income	3.28	Problem Tenant	2.57
Low House Price	3.07	Tax (PBB)	3.75	Income Tax	2.88
Secure Investment	3.23	It's Your Own Business	4.15	Time	3.42
Investment Diversification	3.40	Influenced by Families or Friend	4.50	Rental Regulation	3.73
		User Cost	4.73		
		Future Home	5.23		

To find the factors that a landlord considers by reducing variables that motivates landlord, whether positive and negative, factors analysis is used. The process begins in table 2., it is to look at the matrix anti image that expresses validity if the correlation value is more than 0.5, then all variables can proceed to further analysis. KMO value shows $0.824 > 0.5$; Bartlett test value significantly $0.000 < 0.05$; Cronbach's alpha $0.875 > 0.6$ indicates that all variables are reliable and can be used in factors analysis.

Table 2. Factor Analysis Assumption

Attributes	Anti-Image Correlation	Validation
Appreciation	0.702	Valid
Capital Gain	0.790	Valid
Low House Price	0.887	Valid
Secure Investment	0.813	Valid
Investment Diversification	0.849	Valid
Rental Income	0.885	Valid
Future Retirement Income	0.847	Valid
Influenced by Families or Friend	0.856	Valid
Future Home	0.754	Valid
It's Your Own Business	0.653	Valid
User Cost	0.811	Valid
Land and Building Taxes	0.865	Valid
Expenses	0.860	Valid
Income Taxes	0.828	Valid
Problem Tenants	0.787	Valid
Rental Regulation	0.890	Valid
Time	0.809	Valid
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.824
Cronbach's Alpha		.875
Bartlett's Test of Sphericity	Approx. Chi-Square	690.598
	Sig.	(0.000)

The factor formation is using the rotation varimax to reduce the numbers of attributes, in order to arrange and reduce to smaller variables. The factors are stated good when eigenvalue > 1 . The set analysis results are four (4) factors that have eigenvalue over 1, so the process is continued to attributes determination by each factor. Loading factor is then used to evaluate every attribute factors that are formed, and this loading factors are > 0.5 . The output analysis shows that out of 17 attributes, there are only 15 factors that are presented as the new factors as the loading factors are above 0.5. The factors are named as follow: in and out cash flow, investment, cost and regulations of lease, and entrepreneur interest.

Table 3. New Factors

Factors Group	Formed Factors	Loading Factors	% Variance
1	Low House Price	0,663	17,405
	Rental Income	0,796	
	User Cost	0,745	
	Land and Building Taxes	0,722	
2	Appreciation	0,689	15,576
	Capital Gain	0,720	
	Secure Investment	0,703	
	Investment Diversification	0,678	
3	Expenses	0,688	14,728
	Income Taxes	0,672	
	Problem Tenant	0,649	
	Rental Regulation	0,526	
4	Time	0,561	10,608
	Influenced by Families or Friend	0,678	
	It's Your Own Business	0,775	

DISCUSSION

The profile of the respondents are men, aging from 45 until 54 years old, having an undergraduate degree, having an occupation as entrepreneurs, and having new experiences to rent a house for one year. The respondents have a large income, above Rp. 26 million per month, in order to be able to buy a second house or more for their investment. They expect a profit when selling the house in the future (capital gain). The landlord reason for rent out his other house is to receive some rental incomes. However, when renting out their houses, the landlords also bear the burdens, such as housing repairs and notary fees to make a tenancy agreement. Before they meet the troublesome tenants, they have to anticipate by making a clear agreement and buying insurances for their houses.

The first dominant consideration from the factor analysis is the in and out cash flow. The first attributes consist of low house price, user cost, land and building taxes, and rental income. Low values in property are investment opportunities, because the property can be leased to get repayment gradually from the rent income. Landlord can gain benefits from reducing the mortgage payment or increasing the income routine when retired. Landlords are also able to distribute the utility costs, such as water bills, electricity bills or security costs, and then transform those utility costs to the tenants.

The second factor is the investment, which consists of the appreciation of housing values, capital gains, secured investment, and investment diversification. When the owners choose to invest in properties, they expect to gain from increasing housing values. The owner gets the profit when selling the house with higher prices. Furthermore, they can use the property as an investment combination, because investing in a house is low risk and good return. Seelig et al. [1] declare that someone who invests rental housing hopes additional wealth through investment diversification and capital gains. Memery & Kerrins [5] state that investing a house gives more benefit because of the appreciation from the property value while it is more secure investment than other investment products.

Third factors is the cost and regulation lease. These factors consist of some expenses, income taxes, tenant problems, regulations, and time. Those costs are additional costs that must be borne by present owners who rent out their houses. The rental regulation is considered as a form of landlord's responsibility. A tenant who does not have good attitudes sometimes takes additional costs, for example paying for the house improvements. The owners sometimes spend time for repairing the house if the destruction is intentionally or not deliberately by a tenant. Portman, Brey, and Stewart [7] state that the hard parts when renting out their houses are the time when a tenant having problems with other tenants, an additional charge (expenses), and regulations to be learned and accounted for responsibility.

Finally, the interest of becoming an entrepreneur is also necessary to put into considerations. As "it's your own business" can be defined as a freedom to prescribe rules and regulations according to the

owners, because renting out a house is running one's own business. Influences from friends can also encourage people to engage in this business. Entrepreneurship can develop if the family and friends support this idea and give positive experiences to others when renting out a house [14].

CONCLUSION AND SUGGESTION

This research is showing the four factors that motivate owners to decide to rent their houses. The first factors include in and out cash flow, low house prices, rental incomes, user costs, and land and building tax. Second factors are investment factors, which consist of an appreciation, capital gains, a secure investment, and an investment diversification. The third factors are costs and regulations tenancy factors, consisting of expenses, income tax, problematic tenants, and rental regulations. The final factors are about the interest in entrepreneurship, which consist of family or friend influences and "it's your own business" ideas.

Investors who own two or more houses can consider to rent out their houses, and receive additional incomes from the rental fees, then swift the burden of operational costs to the lessees. However, there are also some negative reasons that are important to consider and find a solution. The development for the next research are possibly into analysing the difference or the influencing factors that has formed for making a decision to rent out. Another further investigation can be conducted in the view of psychological factors such as landlord or tenant behaviour regarding overconfidence, personal traits, and others.

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