



Financialization and Vertical Integration Enhance Renter-Perceived Property Owner Effectiveness

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Abstract

This work examines the impact of financialization and vertical integration on renter-perceived property owner effectiveness. Based on a sample of 1,186 renters in the U.S., the U.K., and Canada, the research addresses gaps in the literature regarding the implications of these corporate strategies on customers, specifically renters. In contrast to previous work that shows the negative implications of financialization, the results indicate that financialization is positively correlated with renter-perceived property owner effectiveness, challenging the prevailing narrative that it strictly benefits shareholders and the financial elite. Vertical integration's effect on renter-perceived property owner effectiveness was also shown to be positive and significant, enhancing the existing vertical integration literature that has not focused on real estate. A post-hoc interaction analysis revealed the benefits of vertical integration on renter sentiment are greater among highly financialized firms. The study offers managerial considerations for property owners seeking to enhance renter sentiment and satisfaction as well as contributes to real estate strategy and management literature.



Introduction

According to Davis and Kim (2015), “financialization refers to the increasing importance of finance, financial markets, and financial institutions to the workings of the economy” (p. 203). Financialization in real estate involves institutions and markets growing in size and influence through capital investment and management practices (Aalbers, 2008; Aalbers, 2015; Aalbers, 2016). This includes the increased emphasis on financial markets in real estate, the securitization and speculation of real estate assets, sophisticated management practices of owners and operators, and the utilization of debt and equity to finance real estate investments. These practices – the activities of financialization – have become widespread in the real estate industry (Aalbers, 2017; Christophers, 2015; Mader et al., 2020). August (2021) states that real estate financialization is designed for the financial elites “rather than being managed to prioritize the security and quality of life for the residents within” (p. 290). Critics of real estate financialization argue that it is a corporate strategy that only benefits shareholders (Huang et al., 2022; Xu & Guo, 2023), leading to increased home prices and housing inequities (Leijten & de Bel, 2020; Van der Zwan, 2014). Other research (Harford, 1999; Jin et al., 2019) has shown that financialization improves financial constraints, enhances firm operations, and enables vertical integration.

Vertical integration is an organizational growth strategy involving greater participation in levels of the value chain by a firm (Anderson & Weitz 1986; Harrigan 1983). In the context of a real estate owner, vertical integration could mean involvement in lending and financing property acquisitions or developments (upstream integration), property construction and development (upstream integration), property management and maintenance (downstream integration), or property security and monitoring (downstream integration), to name a few. Naturally, as real estate enterprises grow in size, resources, and sophistication – ultimately becoming financialized – they have more potential to integrate vertically. Although not without its costs, vertical integration has repeatedly been shown to enhance competitive positioning, create efficiencies, and increase revenue for firms (Anderson & Weitz, 1986; Buzzell, 1983; D’aveni & Ravenscraft, 1994; Capon et al., 1990; Lumsden, 2011; Porter, 1980).

Despite the apparent firm-level benefits of financialization and vertical integration, few studies have examined how these strategies impact customers. Furthermore, the financialization literature is relatively underdeveloped and researchers have called for more work related to its conceptualization and empirical outcomes (for shareholders and other stakeholders) (Christophers, 2015). This study seeks to address this gap in the literature by examining the relationships between financialization, vertical integration, and property owner effectiveness as perceived by renters – real estate customers. This research advances the literature by conceptualizing a renter-perceived financialization measure and testing its outcomes. Additionally, this work expands on the limited vertical integration literature, taking a unique customer viewpoint. The work offers academic and practitioner value, examining how financialization and vertical integration influence the renter and providing strategic directives for real estate owners to enhance customer value.

Literature Review

The prevailing narrative argues that financialization in real estate strictly benefits shareholders of real estate investment firms in the short-term (Huang et al., 2022; Xu & Guo, 2023) and has negative microeconomic and macroeconomic implications (Aalbers et al., 2011; Aalbers, 2012; Gotham, 2006; Gotham, 2009; Hall, 2012; Leijten & de Bel, 2020; Newman, 2009; Palomera, 2014; Van der Zwan, 2014; Walks, 2013). Huang et al.'s (2022) study examined financialization among over 35,000 Chinese companies from 1998 to 2019. They found that financialization increased over time yet had negative long-term implications for firms, such as profitability, return on assets, and return on investment. Huang et al. (2022) go as far as offering policy implications that urge regulators to "impose policy restraints to lower the increase in firm-level financialization" (p. 1162). In a similar study of over 15,000 Chinese firms operating from 2009 to 2018, Xu and Guo (2023) found that financialization generally improved performance. However, their research showed that over time, the prioritization of financial investments – as opposed to research and development (R&D) or innovation investments – can put firms at competitive disadvantages that cause underperformance. Xu and Guo (2023) emphasized the short-term benefits of financialization but cautioned firms against overcommitments to financialization. Unfortunately, there are limited empirical examinations of firm-level consequences of financialization (Christophers, 2015), with the larger body of research centering on its societal and broader economic outcomes.

Financialization has been shown to lead to overpriced and overindexed loans (Aalbers, 2012; Newman, 2009; Palomera, 2014; Walks, 2013), permeating higher borrowing costs, increased risk of default, larger consumer debt, and greater market instability. Financialization has also increased home prices, exacerbating homeownership difficulties and housing affordability (Hall, 2012; Leijten & de Bel, 2020; Palomera, 2014; Van der Zwan, 2014). Others have shown that financialization leads to mortgage securitization (Aalbers et al., 2011; Gotham, 2006; Gotham, 2009), resulting in banking risk mismanagement, moral hazard, and widespread risk to the financial market. In fact, several scholars (Aalbers et al., 2011; Aalbers, 2012; Newman, 2009) have contended that sub-prime lending was a direct result of financialization and caused the Global Financial Crisis of 2008. Despite this notion, financialization has continued to grow by order of magnitude post-crisis (Aveline-Dubach, 2020; Waldron, 2018). Walks (2013) argues that increased financialization and modern capitalism produce vulnerabilities that pose significant risks, such as more and greater financial crises, in years to come.

Contrasting August's (2021) cynical view of financialization and the preceding literature, Aalbers et al. (2020) and Mader et al. (2020) argue that financialization is evolving to have a holistic and multi-stakeholder – not just shareholder – orientation. Given the changes to the corporate landscape and social license requirements, firms are increasingly emphasizing environmental, social, and governance (ESG), focusing on stakeholder value, and realizing the benefits (Cornell & Shapiro, 2021; Mercereau et al., 2022). However, empirical studies examining the implications of real estate financialization experienced by renters is nonexistent. Notwithstanding the potential change in perspective of real estate financialization to potentially benefit renters, the majority of evidence points to negative implications for those other than shareholders. Therefore, it is hypothesized that financialization will be negatively correlated with renter sentiment.

Financialization and renter-perceived property owner effectiveness will be negatively correlated

Vertical integration's benefits to firms and their customers are well-documented (Armour & Teece, 1980; Capon et al., 1990; Lind, 2017; Liu, 2016; Maddigan, 1981; Porter, 1985; Rumelt, 1982; Wernerfelt, 1984; Wilson et al., 2023a; Zhou & Wan, 2017). Specifically, vertical integration enhances coordination (Zhou & Wan, 2017), fosters innovation (Armour & Teece, 1980;

Liu, 2016), improves competitive positioning (Porter, 1985), enables knowledge creation and dissemination (Wernerfelt, 1984), strengthens strategic alliances (Harrigan, 1984; Rothaermel et al., 2006), lowers costs (Maddigan, 1981), and engenders profitability (Capon et al., 1990; Rumelt, 1982).

Zhuo and Wan (2017) showed that vertical integration improves coordination and product development, ultimately creating competitive advantages over rival companies and products. Porter (1985) also describes how vertically integrated firms have better control over their inputs (e.g., quality, timing, reliability, etc.), enabling them to outperform their non-integrated competitors. The vertical integration and innovation link was first empirically shown by Armour and Teece (1980), as they found a positive correlation between vertical integration and R&D investments. Further to Porter's (1985) argument and Armour and Teece's (1980) findings, Liu (2016) showed that vertical integration "brings better coordination within the integrated firm, and boosts its investment incentive both upstream and downstream" (p. 90) resulting in innovations that contribute to superior performance. Anchored by the resource-based view of the firm, where a company has a unique mix of resources and capabilities that can be used to create a sustainable competitive advantage, Wernerfelt (1984) argues that vertical integration – greater participation in the value chain – can bring about new knowledge that permits greater value creation for customers that can position firms for success. Porter (1985) and Maddigan (1981) also discuss the efficiencies of being vertically integrated, resulting in cost savings. For example, one way vertically integrated firms can save on costs relates to the elimination of markups and transaction fees between the various stages of production. Finally, the most developed stream of research shows that vertical integration has both financial and non-financial benefits (Capon et al., 1990). In Capon et al.'s (1990) meta-analysis of corporate strategies and firm performance, vertical integration was positively associated with the growth of profits and the reduction of profit variability, suggesting it contributed to both growth and stability. Real estate-specific research has also underscored the benefits of vertical integration (Lind, 2017; Wilson et al., 2023). Although Lind (2017) delineated the benefits of vertical integration in real estate, Wilson et al. (2023a) were the first to show the link between vertical integration and renters' favourable perceptions of their property manager. Such that, the more vertically integrated the property manager, the more renters were trusting, loyal, committed, and desirable.

Despite the strategy's benefits, there are disadvantages and costs (Allain et al., 2016; Peyrefitte et al., 2002; Rumelt, 1982). Namely, Allain et al. (2016) argue that firms may not realize the potential of the strategy if their competitors are also vertically integrated. Peyrefitte et al. (2002) articulate that vertical integration can put firms at competitive disadvantages if they operate outside of their core competencies. Peyrefitte et al. (2002) defined this as "poor integration" that lead to dismal corporate performance. More generally, in Rumelt's (1982) study of 500 industrial corporations, it was found that vertically integrated firms performed the worst as compared to all other firms participating in a diversification strategy. The limitations of vertical integration should not be ignored. Not all firms are the appropriate size and have adequate capital to participate in vertical integration, nor should they. Wilson et al. (2023a) emphasize that there is no "one size fits all" strategy when it comes to vertical integration. But despite its drawbacks, vertical integration has been repeatedly shown to enhance firm and customer outcomes. Therefore, the second hypothesis posits that vertical integration will be positively correlated with renter sentiment.

Vertical integration renter-perceived property owner effectiveness will be positively correlated

Methods

SAMPLE

Prolific was used to survey U.S., U.K., and Canadian renters. These three countries were selected for investigation due to their advanced economies, developed and interconnected financial markets, rental market characteristics, and regulatory framework similarities (Anderson et al., 2003; Dimson & Marsh, 2001; Einhorn et al., 2004; Kryzanowski & Tcherednitchenko, 2007; Lui, 2016; Newell & Marzuki, 2016; Statistics Canada, 2022). Although nuanced differences exist, the U.S., the U.K., and Canada are developed economies that are generally considered financially stable (Lui, 2016). Similarities exist between the U.S., the U.K., and Canadian equity markets, as evidenced by historical positive returns and global market integration (Dimson & Marsh, 2001). Moreover, Canada's equity and debt markets are reliant on – and influenced by – the U.S. equity and debt markets (Anderson et al., 2003). Lui (2016) describes how central bank involvement in the U.S., the U.K., and Canada provides the necessary institutional architecture required for financial stability. Based on homeownership rates, the percentage of renters in the U.S., the U.K., and Canada are 34.5%, 32.7%, and 33.5%, respectively. This suggests that the renter populations and demand for rental housing are congruent across the three countries (Statistics Canada, 2022). In terms of real estate investments, the U.S., the U.K., and Canada have active and developed real estate investment trust (REIT) markets (Einhorn et al., 2004; Kryzanowski & Tcherednitchenko, 2007; Newell & Marzuki, 2016). REITs are firms that own, operate, or finance properties that generate income for investors (Beracha et al., 2019). REITs are securitized investments that provide indirect means for investors to participate in real estate without direct ownership (Anderson et al., 2015; Delcours & Dickens, 2004). The U.K. and Canada have adopted – and benefitted from – the U.S. REIT framework (Einhorn et al., 2004; Kryzanowski & Tcherednitchenko, 2007; Newell & Marzuki, 2016). Although there are some differences in housing finance across the three countries (Courchane & Giles, 2002), they are more similar than different. As further justification for investigating these three countries, real estate research often combines samples from the U.S., U.K., and Canada (Newell & Webb, 1996; Rehman et al., 2020; Wilson & Jogia, 2024; Wilson et al., 2023a; Wilson et al., 2023b).

Prolific is regularly used to collect data on consumers and the general public for economics, finance, and psychology research (Marreiros et al. 2017; Mosleh et al. 2021; Palan & Schitter 2018; Sherf & Morrison, 2020; Wilson et al., 2023a; Wilson et al., 2023b). Moreover, Prolific was selected as it is a reliable method of obtaining quality data (Porter et al., 2019). Panelists were eligible to participate in the study if they resided in one of the three countries, were 18 years or older, and lived in a private rental accommodation. Participants received the equivalent of 11.43 USD per hour for completing the five-minute questionnaire.

MEASURES

Based on Aalbers' (2008) definition of financialization, a four-item measure was created to assess the perceived level of property owners' financialization. Based on a five-point Likert scale from one "strongly disagree" to five "strongly agree," renters were asked if their property owner 1) manages multiple properties, 3) operates in multiple geographies, 3) manages its operations with sophistication, and 4) utilizes various methods and systems to operate its assets. Based on the works of Wilson et al. (2023a), renter-perceived vertical integration of the property owner was assessed with a four-item measure. A five-point Likert scale, similar to that of financialization, assessed a property owner's 1) involvement in multiple areas of the rental market, 2) extent of external partners that help create value for tenants, 3) coordination across all departments for tenant value creation, and 4) integration of various departments and business units within its operations. Seven items evaluated property owner effectiveness including renters' 1) trust in property owner, 2) pride in rental accommodation, 3) loyalty toward property owner, 4) overall satisfaction, 5) belief that property owner operates in the best interest of tenants, 6) perception that property owner is a top performer in the industry, and 7) perception that property owner has a competitive advantage over its competitors. These items were also assessed through the use of a five-point Likert scale (similar to the other measures) and based on existing work that has subjectively assessed firm performance (Cano et al., 2004; Narver & Slater, 1990; Slater & Narver, 2000; Wilson & Dobni, 2022). Additionally, participants were asked several personal and property-related questions including their age, gender, income, marital status, country of residence, rent expenditure as a percentage of gross income, property size, and property age. All personal and property-related questions were multiple choice questions with the exception of gross income spent on rent, of which was measured using a percentage slider from 0% to 100%.

Data analyses, including descriptives, correlations, country comparisons, regression analyses, homoscedasticity tests, and robust regression analyses, were performed with SPSS and SAS.

Results

DESCRIPTIVES

Data collection occurred on March 28, 2024, and resulted in 1,186 usable responses. Of the 1,186 responses, 479 (40.1%) were from the U.S., 571 (48.1%) were from the U.K., and 136 (11.5%) were from Canada. In terms of gender, 645 (54.4%) identified as female, 511 (43.1%) identified as male, 22 (1.9%) identified as non-binary, and eight (0.7%) preferred not to say. Age of respondents ranged from 18 to over 70 years old (Table 1) with incomes from less than 10,000 USD to over 120,000 USD (Table 2). The marital status of respondents was diverse, including married (25.6%), widowed (1.8%), divorced (7.3%), separated (2.0%), and single (61.0%), with some (2.3%) preferring not to say. The average gross income spent on rent was 36.4%, with 58.1% of respondents spending more than 30%. Property age was categorized into three groups including 1969 to 1979, 1980 to 1999, and 2000 to present, with 493 (41.6%), 327 (27.6), and 366 (30.9%) responses, respectively. Property size ranged from 1 to 5 units to 200 or more units (Table 3).

TABLE 1: RESPONDENT'S AGE

AGE RANGE	NUMBER (%)
Under 20	19 (1.6)
21 to 25	190 (16.0)
26 to 30	255 (21.5)
31 to 35	212 (17.9)
36 to 40	144 (12.1)
41 to 45	111 (9.4)
46 to 50	68 (5.7)
51 to 55	81 (6.8)
56 to 60	49 (4.1)
61 to 65	20 (1.7)
66 to 70	17 (1.4)
Over 70	20 (1.7)
TOTAL	1,186 (100.0)

TABLE 2: HOUSEHOLD INCOME

INCOME RANGE	NUMBER (%)
Less than \$10,000	74 (6.2)
\$10,000 to \$19,999	128 (10.8)
\$20,000 to \$29,999	176 (14.8)
\$30,000 to \$39,999	195 (16.4)
\$40,000 to \$49,999	146 (12.3)
\$50,000 to \$59,999	124 (10.5)
\$60,000 to \$69,999	70 (5.9)
\$70,000 to \$79,999	72 (6.1)
\$80,000 to \$89,999	43 (3.6)
\$90,000 to \$99,999	40 (3.4)
\$100,000 to \$109,999	34 (2.9)
\$110,000 to \$119,999	17 (1.4)
\$120,000 or more	43 (3.6)
Prefer not to say	24 (2.0)
TOTAL	1,186 (100.0)

TABLE 3: PROPERTY SIZE

UNITS	NUMBER (%)
1 to 5	563 (47.5)
6 to 19	212 (17.9)
20 to 49	151 (12.7)
50 to 199	166 (14.0)
200 or more	94 (7.9)
TOTAL	1,186 (100.0)



CORRELATIONS

The unweighted mean scores of the major constructs (e.g., financialization, vertical integration, and performance), as well as individual control variables (e.g., age, income, percentage of income spent on rent) and property control variables (e.g., property size, and property age), were included in a bivariate correlation analysis (Table 4). Financialization (FIN) was positively and significantly correlated with vertical integration (VI) ($r = .699, p < 0.01$), property owner effectiveness (POE) ($r = .604, p < .01$), income (INCOME) ($r = .106, p < .01$), and property size (SIZE) ($r = .200, p < .01$). FIN was negatively and significantly correlated with individual age (IAGE) ($r = -.071, p < .05$), individual percentage of income spent on rent (RENT) ($r = -.062, p < .05$), and property age (PAGE) ($r = -.201, p < .01$). VI was positively and significantly correlated with POE ($r = .699, p < .01$), INCOME ($r = .081, p < .01$), and SIZE ($r = .219, p < .01$). VI was negatively and significantly correlated with IAGE ($r = -.097, p < 0.01$) and PAGE ($r = -.221, p < .01$). VI was not correlated with RENT. POE was positively and significantly correlated with INCOME ($r = .069, p < .05$) and SIZE ($r = .094, p < .01$). POE was negatively and significantly correlated with RENT ($r = -.099, p < .01$) and PAGE ($r = -.205, p < .01$). The relationship between POE and IAGE was not significant. The relationship between IAGE and PAGE was positive and significant ($r = .155, p < .01$). IAGE was not correlated with INCOME, RENT, or SIZE. INCOME was positively and significantly correlated with SIZE ($r = .177, p < .01$). INCOME was negatively and significantly correlated with RENT ($r = -.295, p < .01$) and PAGE ($r = -.159, p < .01$). The relationship between RENT and PAGE was positive and significant ($r = .059, p < .05$). SIZE was not correlated with RENT or PAGE.

TABLE 4: CORRELATION MATRIX

	FIN	VI	POE	IAGE	INCOME	RENT	SIZE	PAGE
FIN	1							
VI	.699**	1						
POE	.604**	.699**	1					
IAGE	-.071*	-.097**	-.016	1				
INCOME	.106**	.081**	.069*	.029	1			
RENT	-.062*	-.056	-.099**	-0.008	-.295**	1		
SIZE	.200**	.219**	.094**	-.046	0.177**	.001	1	
PAGE	-.201**	-.221**	-.205**	.155**	-.159**	.059*	-.261**	1

COUNTRY COMPARISONS

A one-way ANOVA was conducted to compare the major constructs (e.g., FIN, VI, and POE) across countries (e.g., U.S., U.K., and Canada). There were no significant differences among the FIN scores ($F(2, 1,183) = 2.051, p = 0.129$), VI scores ($F(2, 1,183) = 0.631, p = 0.532$), or POE scores ($F(2, 1,183) = 0.030, p = 0.971$) based on country. Per Hox et al., (2017), responses from the U.S., U.K., and Canada were pooled for further analyses, as no group-level differences were observed.

HYPOTHESIS TESTING

A regression analyses was completed to examine the hypotheses (Table 5). The regression analysis included all major constructs (e.g., FIN, VI, and POE), individual control (e.g., IAGE, INCOME, and RENT), property control variables (e.g., SIZE and PAGE), as well as new dummy variables for the countries (e.g., CAN, US, UK). The results of the regression analysis showed that FIN had a positive and significant effect on POE ($\beta = .412, p < .01$), failing to support the first hypothesis. The results of the regression analysis supported the second hypothesis, as VI had a positive and significant effect on POE ($\beta = .275, p < .01$). The results suggest that controlling for individual age, income, percentage of income spent on rent, property size, property age, and country, FIN and VI had positive and significant relationships with POE.

TABLE 5: HYPOTHESIS TESTING

R	R ²	DEPENDENT VARIABLE	INDEPENDENT VARIABLE(S)	UNSTANDARDIZED COEFFICIENTS		β	t	SIG.
				B	STD. ERROR			
0.646	.417	POE	(Constant)	0.031	0.155		0.201	0.840
			FIN	0.509	0.039	0.412	13.129	0.000
			VI	0.364	0.042	0.275	8.727	0.000
			IAGE	0.023	0.010	0.053	2.301	0.022
			INCOME	-0.007	0.008	-0.020	-0.833	0.405
			RENT	-0.003	0.001	-0.059	-2.530	0.012
			SIZE	-0.053	0.019	-0.068	-2.743	0.006
			PAGE	-0.106	0.030	0.085	3.566	0.000
			CAN	0.098	0.079	0.030	1.244	0.214
			US	0.015	0.062	0.007	0.234	0.815
			UK	-0.003	0.054	-0.002	-0.059	0.953



POST-HOC TESTS

Using the White (1980) test, the regression model was tested for heteroscedasticity. The results (Table 6) showed significance ($p < 0.05$), meaning a failure to meet the homoscedasticity of errors assumption. Using SAS, the regression model was re-specified to adjust for heteroscedasticity and the results were similar to the original results presented in Table 5. Table 7 presents the results of the full model and includes the heteroscedasticity consistent standard errors.

TABLE 6: TEST OF FIRST AND SECOND MOMENT SPECIFICATION

df	CHI-SQUARE	PR > CHISQ
44	71.24	0.0058

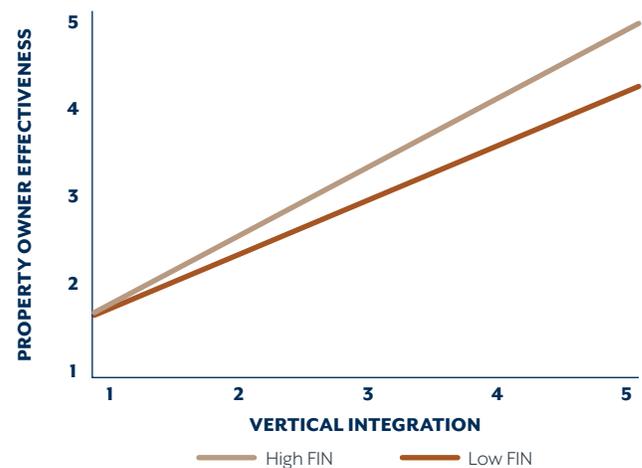
TABLE 7: PARAMETER ESTIMATES

VARIABLE	df	PARAMETER ESTIMATES	STANDARD ERROR	t VALUE	PR > t	HETEROSCEDASTICITY CONSISTENT		
						STANDARD ERROR	t VALUE	PR > t
INTERCEPT	1	0.57897	0.15508	3.73	0.0002	0.16594	3.49	0.0005
FIN	1	0.50470	0.03861	13.07	<.0001	0.04351	11.60	<.0001
VI	1	0.36453	0.04175	8.73	<.0001	0.04761	7.66	<.0001
IAGE	1	0.02166	0.00965	2.24	0.0250	0.01009	2.15	0.0321
INCOME	1	-0.00589	0.00772	-0.76	0.4456	0.00752	-0.78	0.4333
RENT	1	-0.00332	0.00133	-2.49	0.0128	0.00129	-2.57	0.0104
SIZE	1	-0.05005	0.01828	-2.74	0.0063	0.01737	-2.88	0.0040
PAGE	1	-0.10767	0.02958	-3.64	0.0003	0.02955	-3.64	0.0003

Dependent Variable = POE

As a post-hoc test, the interaction effect of FIN and VI on POE was examined. To reduce multicollinearity, centered variables (cFIN and cVI) were created by subtracting the sample FIN and VI means from each of the FIN and VI observations. Next, an interaction variable (FINVI) was created by multiplying cFIN and cVI. To test for an interaction effect, cFIN and cVI as well as FINVI were included as independent variables, with POE as the dependent variable in a regression analysis. The results showed that cFIN ($\beta = .428, p < .01$), cVI ($\beta = .278, p < .01$), and FINVI ($\beta = .104, p < .01$) had positive and statistically significant effects on POE. This suggested that the combined effect of FIN and VI – the interaction between the two variables – positively influenced POE. To test this another way, the dataset was sorted into two groups, cases of low and high FIN. Next VI's correlation with POE was explored in cases of low and high FIN. In the low FIN cases, VI's correlation with POE was positive and significant ($r = .267, p < .001$). In the high FIN cases, VI's correlation with POE was also positive and significant ($r = .482, p < .01$). Given the Pearson correlation coefficient between VI and POE was greater in high FIN cases ($r = .482$) as compared to low FIN cases ($r = .267$), it can be concluded that when FIN is high, VI's effect on POE was stronger (Figure 1).

FIGURE 1: VI & POE (HIGH VS. LOW FIN)





Discussion

The correlation analysis yielded several interesting correlations – beyond those of the main constructs. Financialization was positively correlated with property size. This was not surprising, as financialization is – in part – measured by growth and size (Aalbers, 2008). Vertical integration was also positively correlated with property size, meaning the larger the building, the more vertically integrated the property owner. As vertical integration is a form of business expansion (Anderson & Weitz, 1986; Harrigan, 1983; Porter, 1980), vertical integration and property size are naturally linked. Financialization was negatively correlated with property age, such that the newer the property, the more likely the property owner was financialized. As financialization is becoming widespread in real estate (Aalbers, 2017; Christophers, 2015; Mader et al., 2020), it was expected that owners of new properties utilize various forms of capital to finance operations – another measure of financialization. Similarly, it was found that vertical integration and property age were negatively correlated, suggesting that “mom and pop” or smaller property owners were less vertically integrated. This makes sense as institutionalized or larger real estate owners grow their participation in the value chain, becoming vertically integrated. According to Berry (2000), the institutionalization of real estate firms is growing and should be a consideration for future rental economics, real estate, and housing research. Another interesting correlation was between individual age and property age. It was found that the older the renter, the more likely they were to live in an older building. This is particularly noteworthy, as it suggests there may be life-long renters. Per Wilson and Giuffre’s (2022) work, these renter segments are unlikely to be homogeneous (e.g., affordability renters, lifestyle renters, workforce residents, and returners), requiring different property management considerations for each group.

The series of regression analyses (main effect models and controlled models) failed to support the first hypothesis, as evidenced by the positive and statistically significant relationships between financialization and property owner effectiveness. These relationships suggested that the more financialized the property owner, the more favourable the renter’s sentiment toward their property owner. More specifically, when renters perceived their property owner to manage multiple properties, operate in multiple geographies, manage operations with sophistication, and utilize various methods and systems to operate assets, renters were more trusting of the property owner, loyal toward the property owner, proud of their rental accommodation, etc. These results are novel, as previous research has not empirically shown financialization to elicit benefits for broader stakeholder groups. In fact, most research suggests that financialization only benefits shareholders (Huang et al., 2022; Xu & Guo, 2023) and has negative implications for other stakeholders including higher borrowing costs (Aalbers, 2012; Newman, 2009; Palomera, 2014; Walks, 2013), increased homeownership difficulties (Hall, 2012; Leijten & de Bel, 2020; Palomera, 2014; Van der Zwan, 2014), and intensified financial market instability (Aalbers et al., 2011; Aalbers, 2012; Newman, 2009). The work directly contrasts August’s (2020) perspective that financialization strictly benefits financial elites at the detriment of all other stakeholders and supports the evolvment of financialization to encapsulate a multi-stakeholder perspective (Aalbers et al., 2020; Mader et al., 2020).

The series of regression analyses involving vertical integration and property owner effectiveness showed support for the second hypothesis that posited a positive and statistically significant relationship. The positive correlation between vertical integration and property owner effectiveness contributed to the large body of research that articulates the benefits of a vertically integrated strategy (Armour & Teece, 1980; Capon et al., 1990; Lind, 2017; Liu, 2016; Maddigan, 1981; Porter, 1985; Rumelt, 1982; Wernerfelt, 1984; Wilson et al., 2023a; Zhou & Wan, 2017). The results showed that vertical integration of property owners – those involved in multiple areas of the rental market, collaborating with multiple external partners, coordinating activities across all departments, and integrating operations for value creation – was associated with positive renter sentiment (e.g., loyalty, trust, pride, etc.). This supported Lind’s (2017) argument that vertical integration is beneficial in real estate and aligns with Wilson et al.’s (2023a) findings that showed the positive relationship between vertical integration and property manager performance.

Given both financialization and vertical integration were positively correlated, a post-hoc test examining the interaction of financialization and vertical integration with property owner effectiveness was undertaken. The results showed that in cases of low financialization, vertical integration’s effect on property owner effectiveness was positive and significant, but the effect size was lower as compared to cases of high financialization. This suggests that vertical integration is correlated with property owner effectiveness, but the relationship is stronger among those that are highly financialized. These results offer important managerial considerations for property owners seeking to enhance their effectiveness. As one interpretation of these results could be that financialization – access to capital and resources – allows for greater and more sophisticated vertical integration that enhances effectiveness. Such that property owners should seek to acquire multiple properties in a variety of geographies to better understand the rental market that could in turn allow them to see areas for business integration and renter value creation. In contrast, property owners with few assets in a select market or two may be less able to realize a holistic market perspective necessary for vertical integration and customer orientation.

Based on the apparent importance of financialization and vertical integration to property owner effectiveness – as shown through a number of correlations – these strategies should be considerations for real estate owners and operators as they seek growth opportunities to maximize tenant experiences and satisfaction. With respect to pursuing financialization, real estate firms should focus on transforming how they obtain capital. This means shifting from internal equity realized by restructuring the firm in a way that allows of indirect equity from a more diverse investor group (e.g., private or public REITs). Accordingly, these investors could include private individuals, retail capital markets, or institutional investors. This process connects the real estate firm to the global financial markets, permeating further investment and growth. Through the process of financialization, real estate firms are better able to pursue – due to the growth of financial means – vertical integration. Moreover, as firms grow in size and influence – thus becoming financialized – opportunities for vertical integration or value chain participation become more apparent and plausible. Financialized firms should seek greater participation in the real estate value chain such as development, financing, property management, asset management, and investment management.



Limitations

As with all research, this work has several limitations, including sample size and scope, measurement instruments, cross-sectional data, and data collection method. Although the sample exceeded 1,100 renters, this represents a small number of renters in the U.S., the U.K., and Canada. Prolific's representative sample function was utilized to increase the generalizability of the findings. This function permits the researcher to have demographically representative samples of each country's census data. However, all sample data is subject to generalizability critiques as it is – by definition – a sample of the larger population (Walliman, 2022). Future research could examine larger samples in these countries, as well as other regions of the world. Although financialization and vertical integration were correlated with property owner effectiveness in a variety of analyses, there are other strategies and practices that may be more or less important in enhancing renter sentiment and satisfaction. Future research should examine other measurement instruments in addition to and with financialization and vertical integration. The cross-sectional nature of the data limits the ability to determine causality. Therefore, it cannot be concluded that financialization and vertical integration cause property owner effectiveness; instead, it can only indicate correlations. Finally, data was collected using Prolific, and while it is a widely used platform (Marreiros et al. 2017; Mosleh et al. 2021; Palan & Schitter 2018; Sherf & Morrison, 2020; Wilson et al., 2023a; Wilson et al., 2023b), it may be biased toward younger and more technology savvy renters. Despite these limitations, this work is among the first to explore customer (e.g., renter) perceptions of financialized and vertically integrated firms, offering a unique and important perspective.

Conclusion

This study explores the roles of financialization and vertical integration on renter-perceived property owner effectiveness. The work contributes to the growing body of vertical integration and performance literature, validating it in the context of real estate and property management. Both financialization and vertical integration were found to be positively correlated with property owner effectiveness, contrasting previous findings that claimed financialization only benefits the financial elite or shareholders, at the expense of all other stakeholders. Interestingly, vertical integration's greatest benefit was achieved in high financialization contexts. The work suggests that property owners seeking enhanced tenant experiences may consider first financialization and, subsequently, vertical integration as growth strategies due to the resulting benefits for tenants. This research supports investment efforts in financialization and vertical integration, as they benefit more than shareholders, creating value for other stakeholders like renters.

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