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CORPORATE LANDLORDS AND RACIAL REDRESS

POLICY RESEARCH BRIEF
From The Redress Movement

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THE REDRESS MOVEMENT

OVERVIEW

In the summer of 2022, the House of Representatives' Committee on Financial Services held its first hearings on the rise of private equity investors in the single-family home market. As per a memo released by the committee prior to the hearings, there were multiple reasons for holding these hearings. During the pandemic housing boom, it was estimated that investors bought 24 percent of all single-family homes purchased in the U.S. 2021, and 1-in-7 homes purchased in the nation's top metropolitan areas.[1] By 2021, at least five companies owned over 30,000 homes, and three of these companies (American Homes for Rent, Invitation Homes, and Progress Residential) owned over 50,000.[2] The total percentage of single-family homes owned by corporate investors all across the U.S. remains in the low single digits, but their behaviors so far have raised a public outcry.[3] Research shows that corporate landlords tend to evict tenants at higher rates than "mom and pop" landlords, they charge a litany of fees uncommon to other rentals, and they tend to cluster purchases in certain areas to maximize the benefits of scale and power.[4] In Atlanta and Charlotte, for example, investors bought one-quarter of all homes sold in 2021, in certain zip codes they bought 50 percent of homes sold, and they already controlled nearly 15 and 7 percent of the single-family home markets in each of these markets, respectively, by 2018.[5] Corporate landlords also appear to be less responsive than other landlords to tenant complaints and maintenance requests.[6]

While the majority of literature to this date has focused on the effects of institutional investors on tenants, we believe that the principal issue of racial redress raised by single-family home rental purchases by investors lies in how they may affect Black and Brown homeownership rates in years to come. Institutional investors tend to buy homes in older, working-to-middle-class neighborhoods with higher proportions of people of color, where there are low home prices relative to rents, and historically higher proportions of homeowners.[7] To put it bluntly: these investors are buying up what remains of an already extremely limited and diminishing entry-level and affordable housing stock - the exact type of housing that has historically been among the only options for Black and Brown households to own rather than rent homes in most cities, and the segment of the housing market that is currently both the hardest to build and the most quickly disappearing.

Little literature exists that directly makes this claim through data,[8] though we can support it by weaving together three specific threads of prior research:

1. We can demonstrate that there is a limited supply of homes available for purchase in cities across the U.S. that are affordable for the majority of Black and Brown households.
2. We can demonstrate that both investor interest and buying power has placed them into direct competition for that limited number of affordable or "starter" homes, a competition in which institutional investors have a definite edge over Black and Brown homebuyers.
3. We can demonstrate that investor purchases both raise housing prices in these once-affordable neighborhoods and reduce affordable housing supply, feeding back into the first point of this list.

Limited Affordable Housing Supply Available for Purchase

To begin with, we know that the majority of homes available for purchase in the U.S. are now unaffordable to Black and Brown homebuyers (according to a real estate industry report quoted in the Washington Post, as of 2022 homes are unaffordable to mean wage earners in 67 percent of U.S. counties).[9]

In addition, Harvard's Joint Center for Housing Studies found that the monthly cost of a median-priced home in the U.S. rose 34 percent to over $390,000 from April 2021 to April 2022, meaning that the income needed to buy a median-priced home given the current interest rates would now be $108,000.[10] As we have already written, this number is well above the current U.S. median household income and more than double the median Black household income.[11] It is further unlikely that the new housing supply coming online will correct this issue any time soon. The numbers stun less than 2 percent of homes sold for under $200,000 in 2021.[12]

Unless there is a major intervention in the U.S. housing market, these trends suggest that homeownership gaps may expand between white households and households of color. There are two potential prongs to such an intervention, both of which likely require government partnership: 1) Increasing affordable housing supply as well as overall housing supply, 2) restricting and/or preserving existing "naturally occurring" (i.e. unsubsidized or unrestricted) affordable housing stock for households of color looking to move into homeownership.

Without that intervention, first-time homebuyers, low-to-moderate income households, and households of color looking to buy homes must compete against institutional investors in a market stacked against them.

Competition for Limited Affordable or "Starter" Housing

Though variations in portfolio-building strategies certainly exist among institutional investors in terms of their single-family home rentals, there are some broadly visible patterns. To quote one study, institutional investors "focus on areas with middle-of-the-road characteristics–areas that are not so poor that residents will not provide a steady income stream, but not so rich that residents will choose to buy homes rather than rent."[13] Looking at the data collected for the Committee on Financial Services' hearing, we can build out a more robust version of this picture. The average ZIP code in which investors bought single-family homes contained a Black population percentage three times that of the U.S. (40.2 percent versus 12.6 percent); median household incomes were slightly above the national average but average household incomes were just below the national average (meaning that these neighborhoods are solidly middle- or working-class, rather than inclusive of a broader spectrum of incomes); and homes valued at roughly 13.5 percent less than the national median but median rents 14.9 percent higher.[14]

There are numerous ways to explain why the neighborhoods these investors focus on might have higher price-to-rent ratios than others or less variability in income than others. However, given the marked difference in the average racial composition of neighborhoods where investors have made purchases, we hypothesize two things: 1) that investors are capitalizing on the devaluation and disproportionate foreclosure of homes in Black neighborhoods to acquire clusters of undervalued homes in hot markets at a discount, and 2) that investors are capitalizing on how the racial wealth gap, biased credit scoring, and unequal lending restrict home purchases for the economically stable enough Black households who would otherwise buy homes in those neighborhoods.[15]

A fair deal of anecdotal evidence exists to support this hypothesis. Institutional investment into single-family homes skyrocketed after the Great Recession, enabled by low interest rates and the ability to purchase foreclosed homes en masse, rather than through the inefficiency of property-by-property acquisition.[16] As we know, Black homes and neighborhoods disproportionately felt the impact of the foreclosure epidemic and were prime spots for investors to buy homes in bulk.[17] We also know that the devaluation of Black homes–which affects home appraisals as well as home sales–has made mortgage financing a problem for potential homeowners looking to purchase houses even in upper-income Black neighborhoods.[18] As the selling price of even a moderately-priced home in a Black

neighborhood may exceed its appraised value for a mortgage, it can discourage individual homebuyers by forcing them to purchase the home with higher down payments.[19] Institutional investors, however, do not exclusively rely on mortgage financing like most individual homebuyers. Institutional investors can also leverage private equity or issue bonds backed by future rental incomes to finance their home purchases.[20] In addition to the advantages granted to investors through the all-cash purchases enabled by these alternate types of financing, such financing also allows investors to work around the mortgage financing issue that holds up many home sales in Black neighborhoods. This power imbalance has led to vigorous protests against institutional investors from Black homeowner communities squeezed in terms of sale and purchase options.[21] It also supports our hypothesis, though, again, more research remains to be done on the subject.

Problematic Effects on Housing Markets

By shrinking the supply of entry-level and affordably priced homes, investors effectively corner demand and raise the prices of other housing in the neighborhoods where they make their investments. Given how institutional investor presence skyrocketed through bulk foreclosure purchases enabled by the Great Recession, one study from the Federal Reserve Bank of Philadelphia found that "the significant rise in institutional buyers in the single-family residential market contributed to 58 percent of the increase in the real house price growth" from 2006 to 2014.[22] Controlling for neighborhood and housing characteristics, another more recent study in the Journal of Real Estate Finance and Economics covering 2000-2015 also found that housing prices appreciated more rapidly in neighborhoods with buy-to-rent investor purchases. It also confirmed that those purchases often ultimately reduced the supply of housing available for purchase in those neighborhoods. The segment of the housing market most impacted was, by no coincidence, the same "starter" or mid-tier homes that investors target in acquisition.[23]

Though studies of institutional investor behaviors and their effect on the housing market do not appear to cover the more recent COVID housing market boom, it seems reasonable to assume that mass purchasing by investors during the pandemic aided in the low-interest-rate-aided demand shock that researchers say sent housing prices skyward over the short-term.[24] Long-term, the continued supply crunch in U.S. housing combined with investors' ability to potentially work around the cost of high-interest rates bodes poorly for the already diminishing stock of affordable, entry-level homes available for purchase.[25] To quote directly from a peer-reviewed 2022 article by Gregg Colburn, Rebecca J. Walter, and Deirdre Pfeiffer: "The increasing participation of institutional investors raises broader concerns about competition for moderately-priced single-family housing that is becoming increasingly scarce.... individual households seeking to purchase relatively low-priced single-family homes now face potential competition from

well-capitalized firms that want to acquire the same properties."[26] Blackstone, which helped found one of the foremost single-family rental home investors, Invitation Homes, has explicitly named such a supply shortage and scarcity-induced market power as a key reason for its initial investments in the single-family rental home market.[27]

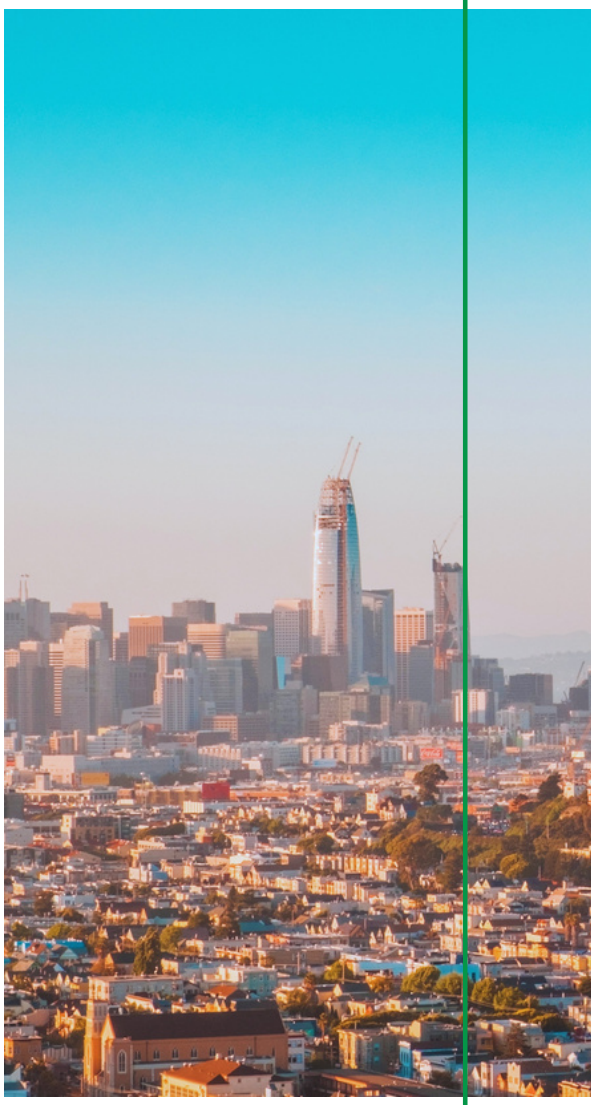
Here, it is also worthwhile to note that while most institutional investors tend to focus their purchases in cheaper but upward-trending home markets in the Southern and Western "Sun Belt" (like Atlanta, Charlotte, and Las Vegas) the effects that they have on "soft" markets have been understudied but also appear to be detrimental if done in a different fashion.[28] Examining neighborhoods in the city of Detroit from 2005 to 2013, researcher Eric Seymour found that investor purchases of foreclosed homes had a detrimental impact on nearby property values compared to owner-occupier purchases.[29] Combined with how investors also advantageously compete against potential Black and Brown homeowners for the limited number of affordable "starter" homes in neighborhoods where homes might be undervalued but trending upward in demand, Seymour's study suggests that institutional investor behavior presents a double-edged sword: Either Black homeowners buy homes in "soft market" but affordable areas where investor purchases drag down property values, or rent rather than own their homes in neighborhoods where they have a diminishing chance of building equity, let alone staying given the rental hikes and excessive fees charged by investors. In addition to poor signals for the state of the racial homeownership gap, then, the behavior of institutional investor landlords across the board stands to have an adverse effect on the racial wealth gap as well.

WHAT IS HAPPENING IN OUR PARTNER CITIES

Charlotte is one of the most active cities in the country in terms of institutional investor purchases of single-family homes. Per the Congressional hearing's data, Charlotte was third in the total share of investor-owned single-family homes of any metro area in the country and was second only to Atlanta for the highest share of investor home purchases in 2019-2020 (Atlanta held the highest share of investor-owned properties, too).[30] A joint News & Observer and Charlotte Observer report from 2022 found that investors owned roughly 25,000 rental homes in Charlotte-Mecklenburg–or a total of one-quarter of the combined metropolitan area's total rental homes.[31] A Washington Post analysis found that investors made up 25 percent of purchases in the area in 2021–up from 11 percent of total purchases in 2015.[32]

Much in line with the Congressional investigation's findings, institutional investors in Charlotte are targeting starter or "entry-level" homes under $400,000 that would normally be ideal for first-time homebuyers, and are often paying all-cash for homes to outbid their competition.[33] They are also targeting historically Black neighborhoods such as Potter's Glen (located just north of Charlotte in Huntersville) and Hidden Valley, with investors purchasing nearly half of all homes sold in many North and West Charlotte ZIP codes in 2021.[34] Their relationships with tenants have also been subject to scrutiny across the state. Between at least 80 consumer complaints to the state attorney general and through dozens of interviews with institutional investor tenants, investigators from the Charlotte Observer and News & Observer confirmed that Charlotte's corporate landlord behaviors align with previously documented stories about corporate landlords' neglect of tenant maintenance requests and their extortionary fees.[35] They also found that Investor landlords evicted hundreds of North Carolina residents during the eviction moratorium, a shocking discovery found to be a national pattern among institutional investors during the U.S. House committee investigation. [36]

So far little has been done by state and local government to address the issue, though the Mecklenburg Board of County Commissioners recently put $500,000 towards studying how to address the explosion in institutional investor activity in the Charlotte area.[37] For the most part, local action to curb the influence of institutional investors has come through HOAs that have passed bylaws limiting the percentage of homes that can be rented in an area and the conditions under which homes can be rented–if they can be rented at all.[38] (In Potters Glen, for example, homes can only be turned into rentals if owners have occupied them for two years beforehand, while in places like Avalon and Highland Creek HOAs are inserting covenants that require a 12-month waiting period before renting.[39]) Some home sellers have furthermore taken on individual initiative to make sure their homes go to families, though that might represent a legal issue (it is unclear if buyers "love letters" pass fair housing muster.[40]) and involves invoking a big ask on sellers' ends–for example, foregoing tens of thousands of dollars in equity gains and offers with upfront cash.[41]



Indirect solutions, however, are taking place in Charlotte. In Mayor Vi Lyles' limited comments to the Observer on corporate landlords, she did refer reporters to the city's support of local homeownership and said that the issue was in the process of being taken up by the city's housing department.[42] In November 2020, a group of investors including Truist created a $58 million Housing Impact Fund to help preserve naturally occurring affordable housing units, though so far the fund has mostly focused on apartments, like the Shamrock Gardens complex it acquired last year, which will be leased to households.[43] That said, the strategy of purchasing naturally existing affordable housing could be made to complement the city's House Charlotte program, which recently expanded its down payment assistance program for qualifying households to $30,000 from $17,000, as well as the housing department's pilot program to build affordable housing for purchase through its Housing Impact Fund.[44] (Local affordable housing provider DreamKey Partners has also been building affordable developments with a mix of for-rent and for-purchase units.[45]) The basic point is this: Charlotte's chief possibility for pushing back against institutional investors from local governments' end if it slightly altered some of its current housing programs, could be out-foxing them in the process of acquisition, or creating homes to purchase for households that might be pushed into renting through investors' pressures on an already tight market. The other option, discussed below, would be to expand tenants' rights and protections.

POLICY/PROGRAM RECOMMENDATIONS

Any solution for dealing with investor landlords will have to deal with these key factors that advantage them in the housing market:

1. They lower their costs and raise power over tenants through economies of scale and bulk home purchases that individual home purchasers and small landlords can't muster.
2. They leverage financing separate from mortgages to swiftly acquire properties, including in neighborhoods of color where most homebuyers cannot themselves procure mortgages. Through this financing, they can also often buy homes at discounts and in cash.
3. As home values continue to exceed the incomes of many Americans through the effects of an ongoing housing supply crunch especially pronounced in high-growth metropolitan areas, an increasing share of the population must turn to rentals to secure what formerly would have been affordable or moderately-priced owner-occupied homes.[46]

Economies of Scale and Bulk Purchases. As far as bulk home purchases go, the federal government has already tried to scale back its contribution to corporate landlords after mass sales of GSE foreclosures during the Great Recession spurred a dramatic jump of institutional investors into the market for single-family homes. This year, the Biden Administration announced it would extend the amount of time during which foreclosed homes held by government entities (known as real estate-owned, or REO) are reserved for acquisition by owner-occupants and non-profits to 30 days. It also is maintaining a target of transferring at least 50 percent of REO properties to owner-occupants and non-profits.[47] Local governments and mission-driven organizations could follow this tack by taking actions that either reduce/divert foreclosures, or that ensure that homes foreclosed upon by local governments due to tax delinquency or building violations are prioritized for owner-occupancy and/or nonprofit management.[48] One potential way of doing this would be to create a land bank that can then divert foreclosed homes to specified, equitable uses like low-cost owner-occupied housing or community land trusts.[49] Another way would be to foster tenants' right of first refusal to purchase affordable/foreclosed-upon properties in a cooperative fashion through counseling or the provision of low-cost loans. Increasing tenants' rights in a way that makes absentee landlords cost ineffective–whether through rent control or strict enforcement of maintenance or the organizing of large-scale tenants unions–would also disincentivize investor purchases.[50] In annual reports to investors submitted to the Securities and Exchange Commission, Invitation Homes and American Homes 4 Rent have both named how local laws and regulations that would restrict tenant fees and enforce maintenance could adversely affect their business models by making them less cost-effective.[51]

Conversely, to tenants' rights, certain HOAs like those in Charlotte have achieved some success in curbing corporate landlord activity by passing by-laws or covenants that limit rentals in their jurisdictions. This may present an immediate solution to curbing investor power, but it is not clear if it is necessarily an equitable or long-term one. Single-family homes already make up a majority of the housing stock in the "rental deserts" that comprise nearly one-third of U.S. neighborhoods - areas of limited or non-existent rental housing where low-income residents and households of color are largely excluded ("rental deserts" are nearly 80 percent white according to recent research) since more than 50 percent of households of color rent rather than own homes due to historic discrimination.[52] For this reason, HOA rental bans may also run afoul of protections afforded by the Fair Housing Act and fail to hold up to legal scrutiny in court.[53]

Sources of Financing. The pressure points related to sources of financing for institutional investors are admittedly more limited than those related to curbing their advantages won through economies of scale. However, two pressure points in particular stick out. First, so long as interest rates on home purchases exceed the costs of SFR-backed bonds, investors will always have an advantage over individual purchasers in terms of financing home acquisitions. Whether through special low-interest rate mortgage programs or by creating their competitive affordable housing bonds, cities can help residents out-compete institutional investors by leveraging their own complex financing capabilities to acquire homes. Secondly, many public pension programs and funds have injected significant dollars into SFR companies. The Texas Teacher Retirement System, Austin, partnered with Pacific Life Insurance and others to invest over $1 billion in Tricon Residential in 2021; the Indiana Public Retirement System has put at least $30 million toward a single-family rental investment fund; and CalPERS has also invested in single-family home rental companies.[54] In the home state of one of our partner cities, the North Carolina Retirement System has invested over $20 million in institutional investor-created rental-backed securities, as well as roughly $58 million in SFR companies.[55] They represent but one share of the growing amount of capital being directed toward various chains of SFR investment. The amount of money in funds dedicated to covering the sector increased by more than 3,000 percent from 2020 to 2021, or from $440 million to $14.4 billion.[56]

Activists and organizations have already put pressure on CalPERS and the State of Minnesota to enforce better tenant laws and building code standards as a condition of their investments into SFR housing. Naturally, public sector funds may be the easiest source of investment to place pressure on SFR companies to improve practices, but private sector actors are also not immune. Again, both American Homes 4 Rent's and Invitation Homes' annual reports to investors list bad publicity as a potential issue for the viability of their business. When the progenitors of modern-day institutional investors first had the chance to invest in single-family homes following the savings and loan crisis of the 1980s, an existing zeitgeist among industry professionals that the single-family home was an inviolable place to manipulate in terms of finance helped deter large investors from entering the housing market.[57] Now with a growing emphasis on ESG as part of companies' bottom lines, ensuring that companies' investments are not exacerbating a pre-existing housing crisis might be an effective public relations campaign for organizers in the field and working digitally. Some of the largest investors in American Homes 4 Rent, like JP Morgan Chase, have shared commitments to equitable investment for which they can be held accountable, while others like Vanguard have already been chastised for the hollow nature of their ESG investments and already face public pressure to do better.[58]

Supply Crunch and Demand for Entry- and Mid-Level Homes. As stated earlier, investor landlords are mostly targeting middle-income households who might otherwise buy entry-level homes if not for an overheated housing market. Though it might take decades, increasing the supply of affordable homes available for purchase and rent would thus remove a factor good for the single-family rental business by practitioners' own admission.[59] Such an intervention would well be worth it, since, as one study has compellingly argued, institutional investors have entered the SFR game with the idea of holding portfolios of homes for the long haul.[60] Less than 1 percent of SFR homes held by large investors were sold to owner-occupiers as of 2021.[61]

In any case, cities and mission-driven organizations can act to curb the crunch in the supply of affordable housing available for purchase and rent in two ways. One would be to aggressively acquire existing unsubsidized affordable housing stock ahead of investor purchases to then rent or sell that housing themselves.[62] The other option would be to create a counter-cyclical public housing developer that would build towards alleviating the supply crunch while also producing the types of homes not currently being created by the market - that is, starter- and mid-level homes - to compete directly with SFR companies for their typical customers. Colorado is currently piloting a program to do exactly this.[63] It is one of many local and state governments that are now foraying into what some call "social housing" to help restore the "missing middle" to today's heated housing market.[64]

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