Financialization of rental market threatens future of home ownership in US

Michelle Ryan
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For the past several years, financial firms, including major banks, hedge funds and private equity companies, have spent over $20 billion on the purchase of distressed or foreclosed single-family homes in the United States. Many of these acquisitions are made in bulk, sometimes a thousand homes at a time, and at bargain prices.

Though it is claimed that the initial strategy was to buy the houses at low prices and resell them for a profit when the housing market rebounded, that concept has changed to one in which speculators purchase the homes in order to convert them into long-term rental units from which they hope to extract exorbitant profits.

Since 2009, media pundits and bourgeois economists have repeatedly pointed to increased home sales and prices as evidence of a housing market recovery in the US. However, these claims are called into question by the role of investment firms—many of them directly responsible for the subprime mortgage collapse of 2008—which are purchasing thousands of homes in stressed markets and causing prices to increase as they compete against each other for the same properties, often paying in cash.

With financing from pension fund investors and major banks, including Wells Fargo and JP Morgan Chase, private equity firms such as Blackstone Group and Colony Capital have purchased nearly 200,000 homes over the past two years, the majority in cities where the foreclosure crisis hit hardest, such as Phoenix, Atlanta and Miami.

The firms are looking to profit from a significant rise in demand for rentals, caused in part by the foreclosure crisis that began in 2008, which led to millions of Americans losing their homes. According to a report published last July, as part of the "Homes for All Campaign" by the Right to the City Alliance, "As a result of the U.S. foreclosure crisis and the impact of the Great Recession, the national homeownership rate fell from its 2005 peak of 69.1% to 65.2% at the end of 2013."

The increase in rental demand is also a result of chronic unemployment and underemployment, decreasing wages, and enormous levels of student loan debt, meaning that millions more are ineligible for mortgages.

Exacerbating the crisis for the millions of Americans forced into the rental market is the lack of affordable apartments. As investment in cities is increasingly geared toward the needs of the wealthy and the upper-middle class, low-rent apartment units and single-family housing are more difficult to find. Where they exist, competition for them is intense. In addition, housing subsidies for low-income families have been repeatedly cut in recent years.

The massive wave of home foreclosures, precipitated by the subprime mortgage crisis, was not only the result of poor lending practices to borrowers who did not have the means to meet the usurious terms of the subprime loans, It was also the consequence of outright criminality brought about by the deregulation of the financial industry over previous decades under both Republican and Democratic administrations.

However, in spite of the acknowledged criminality and claims of "mistaken" government policies, the Obama administration refused to provide any meaningful relief to homeowners, while the bankers were made whole with trillions of dollars in taxpayer bailouts. Many homeowners who were the victims of fraudulent foreclosure proceedings were given no means of redress and lost their homes. In addition, no public works programs were created nor were students relieved of suffocating college loan debt.

To this day, according to a November report by *Al Jazeera America*, "Five million homes and counting have been lost to foreclosure since 2008 as a result of predatory lending practices and poor financial regulation. Two million more homes are teetering on the edge of the same fate." In this same period, the rate of conversions of single-family homes from owner-occupied to rentals has risen by nearly 150 percent.

The *New Republic* reported in 2013 that "Hedge funds and private equity firms seek out foreclosed properties at public auctions, or purchase them through short sales, where a bank agrees to let an underwater buyer sell the home for less than the balance of his or her mortgage." Nearly 55 percent of these distressed sales are paid for in cash, leaving traditional homebuyers, who depend on mortgages and small down payments, unable to compete. As one critic stated in the report, "'It's weird that we have this housing recovery with no homeowners involved.'"

Under the Obama administration, investors were given an additional impetus to purchase foreclosed homes when, in

2012, Fannie Mae and Freddie Mac, both government-sponsored enterprises which buy mortgage loans from banks, offered to sell distressed and foreclosed properties in bulk to investors at bargain-rate prices.

Bloomberg News reported earlier this year that "About 5.4 percent of mortgages, or almost 2.2 million loans on U.S. homes, are at least 90 days delinquent or in foreclosure. … Investors buying NPLs [non-performing loans] to increase their rental portfolios is a cause for alarm because they stand to profit by pushing people out of their homes..." In fact, many former homeowners are now renting their foreclosed homes from the banks.

Adding to concerns that a new bubble is forming around the rental property boom, "Wall Street has created a new security by bundling the rent payments of the tenants in those properties," with some analysts estimating a $1.5 trillion potential for the market. Rental-backed securities, which were nonexistent a year ago, are now worth over $5 billion. While gains from securitization will enable further purchases of homes, major investment banks are providing hundreds of millions of dollars in loans for additional acquisitions. Finally, rental companies are now going public as real estate investment trusts (REITs) in order to raise more capital.

According to the *New Republic*, investors in these securities are "routinely promise[d] … annual returns from the rental revenue income of anywhere between 6-10 percent…." This raises a number of questions. If the rental revenue does not meet expectations, will firms raise rents to unsustainable levels to increase yields? Or will they dump homes in large quantities back onto the market, sparking another crisis? In that case, will tenants be evicted through no fault of their own, or will their homes be turned over to another institutional landlord who can impose new rental agreements without any recourse for the tenants?

Because the institutional single-family rental home market is new and growing so rapidly, analysts lack adequate information to predict its potential consequences. *Al Jazeera* poses two possible outcomes: either increased gentrification in cities where investors "upgrade properties and increase rents, thus worsening affordability issues and contributing to displacement…," or "investors' lack of management experience and their investment practices [will] contribute to housing decline and neighborhood instability…"

The financialization of rental housing will have major effects on renters and communities. For renters, the threat of exorbitant increases by firms seeking maximum returns is very real. The Right to the City Alliance reported that "While median rents in the Atlanta metropolitan area are $1,050, among a group of 25 tenants of Invitation Homes [operated by Blackstone] interviewed recently, the typical rent was $1,300 a month; in February 2014 a number of its tenants received lease renewal offers that would set monthly rent at $1,785 for the first year (37% increase) and $1,856 for the second year (43% increase), or $2,050 for a month-to-month lease (53% increase)." Such scenarios are common in other cities where investors have bought up rental homes.

Additionally, there are widespread reports of problems typically associated with absentee landlords. These are compounded by the financial power of these companies, allowing them to skirt rules and laws governing tenant-landlord relationships. Complaints from tenants of Blackstone's Invitation Homes include "broken air conditioning in sweltering heat, vermin infestations, [and] shoddy quick fixes that don't last." Tenants also complain that the company is "impossible to contact and unwilling to initiate needed repairs."

Renters are pre-screened by many of these firms, and must meet a set of "risk criteria" to be accepted. Criteria for exclusion may include eligibility for housing subsidies, criminal records including misdemeanors, immigration status, income-to-rent ratio, credit history, past foreclosures, evictions, and rental, utility and cell phone payment histories.

The effects on communities are also dire. Contrary to claims made by government defenders of this speculation, investors do not have a long-term stake in the maintenance of the properties or the neighborhoods in which they are located. Maximum return on investment for shareholders requires that as little as possible be invested in the properties, while as much profit is extracted in as short a period of time as possible.

Another risk, noted in the *Al Jazeera* report, "is that entities like Blackstone will have the incentive, expertise and political power to successfully demand reduced appraisals on their large holdings of thousands of homes." Therefore, local taxes, which are desperately needed to maintain neighborhood schools, fire departments, libraries and other public services, will decline.

While luxury home sales are at record levels in some parts of the country, tens of millions of Americans do not have access to affordable housing. Millions have lost their homes, while others do not earn enough money to buy one. With Wall Street firms buying up hundreds of thousands of single-family homes, already desperate people will be squeezed further, leading to an increase in those moving in with extended family members, or to outright homelessness.

The "American dream" of home ownership is another expectation that youth must increasingly abandon. The profit system has nothing to offer young people but debt, low-wage jobs, war, and insecurity on every level. The most basic rights of food, water and shelter cannot be guaranteed under the capitalist system, which allows a minuscule layer of the super-rich to monopolize society's resources.