THE RISE OF THE CORPORATE LANDLORD

THE INSTITUTIONALIZATION OF THE SINGLE-FAMILY RENTAL MARKET AND POTENTIAL IMPACTS ON RENTERS

A Report by the Homes For All Campaign of Right To The City Alliance

July 2014

THE RIGHT TO THE CITY ALLIANCE

The Right To The City Alliance seeks to create regional and national impacts in housing, human rights, urban land, community development, civic engagement, criminal justice, immigrant rights and environmental justice. Right To The City was born out of a desire by members, organizers and allies around the country to have a stronger movement for urban justice. The Right To The City Alliance asserts that everyone — particularly the disenfranchised — not only has a right to the city, but that all inhabitants have a right to shape it, design it, and operationalize an urban human rights agenda.

HOMES FOR ALL CAMPAIGN

This report was written as part of Homes For All, a national campaign that is broadening the conversation of the housing crisis beyond foreclosure and putting forth a comprehensive housing agenda that also speaks to issues affecting public housing residents, homeless families, and the growing number of renters in American cities. The growing influence of Wall Street firms and big banks, as well as the rise of the corporate landlord in the single-family market, is central to understanding the housing crisis renters face today.

Homes For All works to protect, defend, and expand housing that is truly affordable and dignified for low-income and very low-income communities. The campaign engages those most directly impacted by this crisis through local and national organizing, winning strong policies that protect renters and homeowners, and shifting the national debate on housing. Right To The City is working collaboratively across sectors to develop national housing policy that ensures that our communities and future generations have homes that are truly affordable, stable, and dignified. Homes For All has grown to include 25 grassroots community organizations in 19 cities and 14 states across the country. The National Low Income Housing Coalition is a campaign partner.

Visit us online at righttothecity.org and homesforall.org

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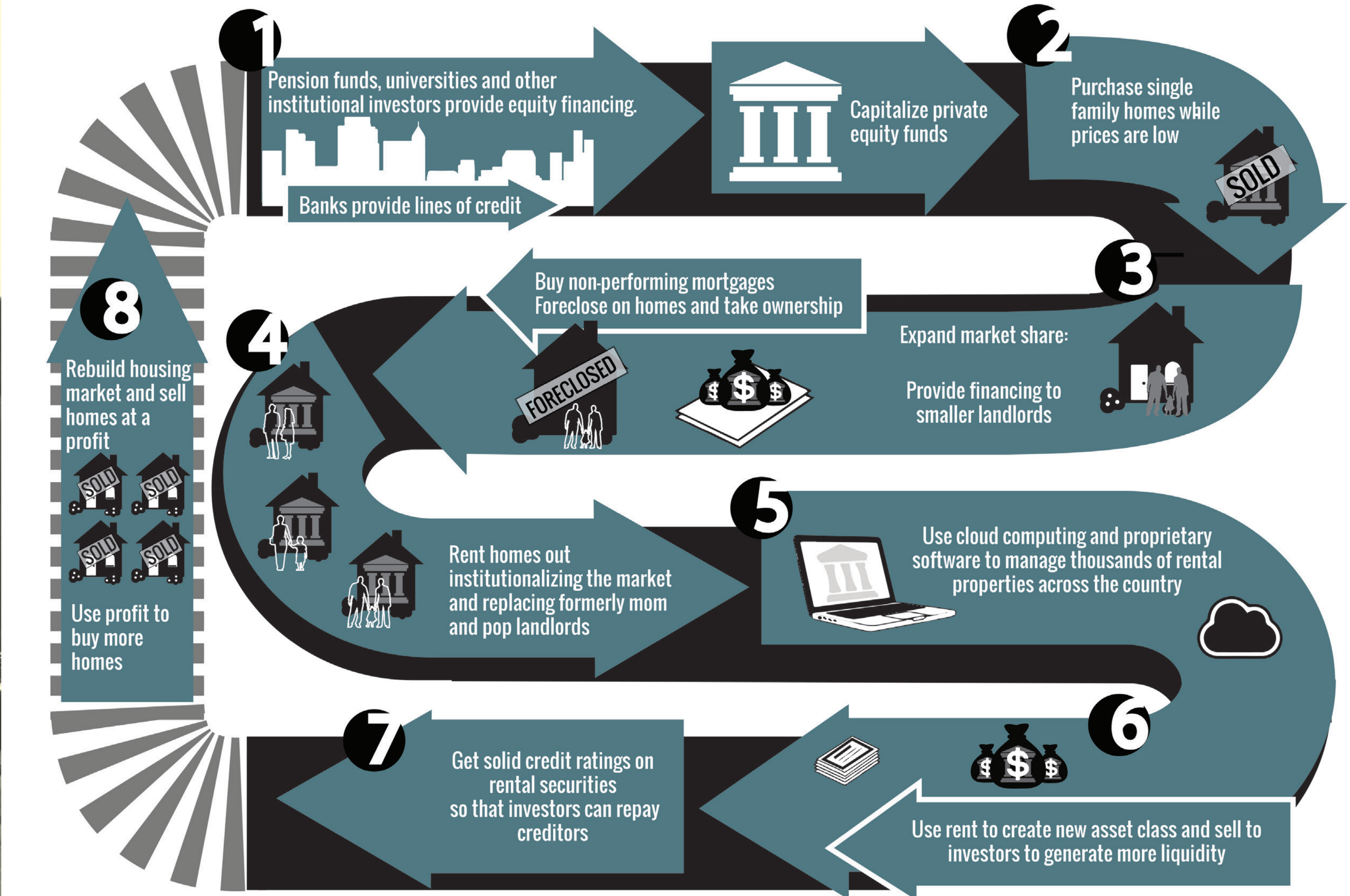


Since 2007, millions of American families have lost their homes and the equity therein to foreclosure.

In the wake of the foreclosure crisis, rental demand has increased as former homeowners became renters, and economic strain and tightened morgage credit delay others from buying homes. The combination of increased rental demand and the large inventory of single-family homes under bank ownership has created an opportunity for large, well-capitalized investors to purchase these properties while values are low, and then convert them to rental housing.

Aided by financing from institutional investors like pension funds and credit from many of the same banks (such as JPMorgan Chase and Wells Fargo) that contributed to the foreclosure crisis, private equity firms like Blacksone have poured over $20 billion into the single-family rental market, institutionalizing what has long been a "mom and pop" industry.

So far, these new "corporate landlords" have purchased about 200,000 homes, or roughly 1.5% of single-family rental properties, but their presence in the market is expected to expand. Purchasing activity has not been evenly distributed throughout the U.S.; rather, firms have undertaken fast-paced, high-volume purchases, picking selected Sunbelt markets such as Phoenix and Atlanta clean.

Heralded by some as a housing market recovery, the institutionalization of the single-family rental market stands to primarily benefit the same kinds of financial interests that brought down the housing market in the first place.

by Desiree Fields, Ph.D.

THE RISE OF THE CORPORATE LANDLORD

THE INSTITUTIONALIZATION OF THE SINGLE-FAMILY RENTAL MARKET AND POTENTIAL IMPACTS ON RENTERS

EXECUTIVE SUMMARY

A $1.5 TRILLION OPPORTUNITY

Since 2012, large investment companies, mainly private equity firms, have raised and/or invested $20 billion to purchase as many as 200,000 single-family homes throughout the United States.[1] This investment space opened up as a result of the foreclosure crisis, which lowered property values, tightened mortgage credit, increased rental demand, and consolidated unprecedented amounts of single-family homes under the ownership of banks and government-sponsored enterprises. While local "mom and pop" ownership has long characterized the single-family rental market, these post-crisis conditions created new opportunities for firms like Blackstone and Colony Capital to enter the market. Within just a few years, single-family rental housing has become a new institutional asset class. The recent rollout of the first rent-backed securities has some analysts estimating the market as a $1.5 trillion opportunity.[2]

RISE OF THE CORPORATE LANDLORD

As part of our Homes For All campaign, the Right To The City Alliance aims to broaden the conversation about the housing crisis beyond foreclosure. This generation's crisis of affordable housing will impact renters the most — especially low-income people of color living in urban areas.[3] The rise of the corporate landlord in the single-family market is central to understanding the housing crisis renters face today. The need to bring public attention to this paradigm shift is particularly important in light of intensifying housing cost-burden for renters and surging post-crisis rental demand, which together have brought chronic housing insecurity for low-income renters to crisis proportions.

This report outlines a policy agenda based on the potential impacts of the new single-family rental market on renters' housing affordability, access, quality, stability, and ability to hold landlords accountable.

Although a wide range of investors are active in distressed property, we focus on the role of large, well-capitalized private equity firms, such as Blackstone, because its activities have so rapidly developed and institutionalized the single-family rental market. Since 2012, their strategy, initially described as "REO-to-rental" (REO, or real estate owned, the term for properties under bank ownership after foreclosure), has already undergone a number of innovations, including:

Leveraged purchasing

Leveraged purchasing: Global investment banks like Deutsche Bank and JPMorgan Chase have provided credit facilities (ranging from hundreds of millions to over a billion dollars) to boost property acquisition.[4] The securitization of rental income streams, first offered (in high demand) by Blackstone in late 2013 and later by Colony Capital and American Homes 4 Rent, also provides greater liquidity to fuel additional purchasing.[5] Firms have also leveraged capital by taking their new rental companies public as real estate investment trusts (REITs),[6] with Starwood Waypoint being the first single-family REIT to issue public stock offerings.[7]

Private-label lending

Larger firms have also started providing blanket mortgages to smaller investors, which they can also securitize. Blackstone's B2R (Buy to Rent) Finance offers loans to those looking to buy anywhere from five to 1,000 houses.[8]

Nonperforming loan acquisition

As the REO inventory begins to dry up in key markets like Atlanta, Phoenix, Los Angeles, and Tampa, firms have also begun to acquire nonperforming loans. Starwood Waypoint, American Homes 4 Rent, and Altisource Residential have led the turn toward nonperforming loans as a means of improving their financial flexibility and financing additional growth.[9]

Innovations like leveraged purchasing, private label-lending, and acquiring nonperforming loans expand large firms' presence in the single-family market and build a pipeline for financial products like rental bonds. While such institutional investors currently own less than 2 percent of single-family rental properties, the fact that many of the same institutions and practices implicated in the global financial crisis now figure strongly in the single-family rental market should give us pause.

POTENTIAL IMPLICATIONS FOR RENTERS

Affordability

Tenants could face higher rental costs due to pressure for private equity funds to deliver returns to investors, particularly with the advent of rental bonds. Among Invitation Homes tenants we interviewed in Atlanta, Los Angeles, and Riverside, rents often exceeded the HUD Fair Market Rents for the area; lease renewals increased rents by 37 to 53 percent.[10] The long-distance nature of the tenant-landlord relationship and the practicalities of investment strategies may also increase corporate landlords' reliance on financial penalties, potentially limiting tenants' opportunities to seek recourse in cases of hardship.

Accessibility

Corporate landlords' limited experience means they may fail to comply with fair housing law in how they market their properties, who they rent to, and whether they make accommodations for people with disabilities. Overall, less than 1 percent of the properties owned by Invitation Homes are occupied by tenants with Section 8 vouchers.[11] In our surveys of Invitation Homes tenants in Los Angeles and Riverside, only one of 50 respondents received a Section 8 subsidy. We must also consider how shifting investment priorities could contribute to housing instability for low-income renters over the medium and long term. What are the ramifications of the government subsidizing such cases of speculation?

Quality

Since institutional investors are not experienced in property management and maintenance, housing quality can easily be compromised. Many Invitation Homes tenants in Atlanta expressed concern about shoddily completed renovations.[12] Recently, a Los Angeles family sued the company for its failure to quickly respond to water leaks, mold, and cockroaches, which adversely affected their health.[13] Greater reliance on leveraged purchasing increases the potential for investors to experience financial distress, adding to the risk of property neglect.

Stability and accountability

Situated in the footprint of the foreclosure crisis, a major concern about the new single-family rental market is the potential for another speculative cycle that could end in a bust, subjecting communities to yet another round of destabilization.[14] Tenants may be forced to move out or adjust to new policies and practices when their home is flipped to a new investor-landlord. There is also a need to consider how renters can hold distant corporate landlords accountable. Invitation Homes tenants in Atlanta, Los Angeles and Riverside report they have never seen anyone from the company since they moved in and are not in regular contact with their landlord.

The crisis of affordable housing over the next generation will be concentrated among renters. At the center of this crisis are low-income people of color living in urban areas.

SETTING AN AGENDA

The entrance of corporate investors as landlords represents a fundamental change in the nature of the tenant-landlord relationship in the single-family context. It is critical for policymakers to know about and understand this shift. We urge policymakers to take proactive measures to monitor and regulate the single-family rental market. These policy measures should include the following:

1. Support research and access to information about the paradigm shift.

i) **Offer greater transparency into the single-family rental market:** The government should evaluate the results of the bulk sales and make them available to the public. It should also conduct further research on the bulk sales related to affordability, quality, security/permanence, and access. This can be achieved with greater transparency into the Federal Housing Finance Agency's 2012 bulk sales under the REO Pilot Initiative.

ii) **Fund and support extensive research on investor impact:** Given the unprecedented nature of an institutionalized single-family rental market, an urgent priority is research on the impact institutional investors have on local rental markets and renters, especially around issues of affordability, access, and influence on traditional landlords. This research is also critical given that private equity players are currently more thinly regulated and opaque than conventional landlords and undertake riskier investment strategies.

2. Enhance support for tenants' rights in a changing rental landscape.

i) **Create a national tenant clearinghouse:** Tenants of landlords such as American Homes 4 Rent and Invitation Homes have already begun to use consumer review sites like Yelp and Zillow to share their experiences with one another. This suggests the utility of a national tenant clearinghouse to protect consumers renting from corporate landlords and disseminate publicly funded research on the single-family rental market. The Consumer Financial Protection Bureau (CFPB), given its mission to protect Americans from abuses by financial companies, should play a role in creating and maintaining the clearinghouse.

ii) **Ensure a baseline of information and protection for tenants at the local, state, and national levels:** Tenants' rights vary significantly from state to state; therefore, government at the local and state levels should work proactively to ensure that tenants, especially former homeowners who may be unfamiliar with the rental market, have access to information about their rights. Wherever federal support is given to the industry, tenants should have a guarantee of a minimum set of rights. The Protecting Tenants at Foreclosure Act of 2009 is one example of this.

iii) **Rethink tenants' rights for the era of "big data":** Support for tenants' rights should explicitly address the "right to research" as part of consumer protection. For example, tenants should know and have a say in how investor-landlords collect and use data and what impact it has on their credit scores.

3. Develop proactive regulations to promote the common good.

i) **Clarify and/or establish a federal role in regulating single-family rental:** The Senate Committee on Banking, Housing and Urban Affairs should explore existing oversight and whether it is adequate for this new market. The Consumer Financial Protection Bureau (CFPB), Department of Justice, and Department of Housing and Urban Development (HUD) all have roles to play in ensuring corporate landlords do not violate federal fair housing and fair lending laws in tenant selection, eviction policies, disability access, and property maintenance. Baseline protections for tenants is needed, but there appears to be no agency that is providing oversight.

ii) **Ensure affordability and accessibility:** Guided by rigorous, publicly supported research on the short- and long-term impacts the institutionalized single-family rental market has on housing costs for low- and moderate-income (LMI) households, affordability requirements should be put in place for institutional investor-landlords. Such requirements could require institutional investor-landlords to make a certain number of affordable units available to LMI households depending on their local market share.

iii) **Promote greater community control of housing and diversity of ownership structures:** The REO-to-rental market should not only be a paradigm shift for investors. Government should work to promote greater diversity of ownership and control over land and housing in order to prevent the dominance of high-risk financial practices in the single-family rental market. Community land trusts are especially compelling because they stake participants in their local communities, while offering less vulnerability to foreclosure than traditional, individualized ownership.

4. Generate resources to support lower income households.

i) **Implement a financial transaction fee on rental bonds:** Rental securitizations continue to be rolled out (there have now been four issuances of rental bonds) to strong market reception, making more such transactions a strong possibility. High investor demand for returns from rental bonds could have an adverse impact on housing affordability, especially for low-income renters, who already face an affordability crisis. Without a significant burden on investors, instituting a small tax of 0.1 or 0.2 percent on rental bond transactions would create significant resources for the National Housing Trust Fund.

ii) **Introduce local and/or state taxes to ensure community benefits from investments:** Progressive tax measures on corporate landlords' profits could apply to investors and associated subsidiaries with large local inventories and on profits above a certain threshold. Funds generated could be earmarked for creating or preserving permanently affordable housing (such as community land trusts) at the local level. In this way, local and state government can promote the common good by ensuring that the financial benefits associated with the changing face of the single-family rental market don't come at the expense of tenants.

CALL FOR ACTION

In drawing attention to this paradigm shift in the single-family rental market and its potential impacts on renters, this report aims to set an agenda for action by housing advocates and policymakers. The transformation of single-family rental housing from a local, "mom and pop" industry to a global investment class should be closely studied, subject to proactive regulation to promote the common good, accompanied by enhanced support for tenants' rights, and generate resources that will benefit lower-income households most vulnerable to housing insecurity. We must recognize that land and housing are not simply financial assets, but resources that are fundamental to the well-being of families across the economic spectrum, communities and society, and we must act on this insight.

INTRODUCTION

The foreclosure crisis has added to the long-term and unmet need for affordable rental housing as former homeowners become renters, and economic strain and tightened mortgage credit delay others from buying homes. Even before the influx of new renters, the longstanding decline in rental housing affordability had become more acute due to rising rents associated with the housing boom, increasing energy costs, and lower real incomes. From 2001 to 2009 the share of renters paying more than 30% of their income to rent and utilities combined rose from 41.2% to 48.7%.[15] At the same time, the consolidation of millions of single-family homes under the ownership of banks and government-sponsored enterprises (these foreclosed properties are known as REO, or real estate owned) has created new opportunities for large investors, who have been purchasing the properties with the intention of operating the formerly owner-occupied homes as rental housing. This "REO-to-rental" market has grown rapidly since 2012, with global investment banks like Deutsche Bank and JPMorgan Chase providing credit lines to fund acquisitions by investment firms like Blackstone, and the rollout of the first rent-backed security in November 2013.

At first glance, such investments appear to offer positive outcomes such as bolstering property values of owner-occupied homes (the total value of which remains $3.2 trillion below 2006 levels, despite rising values in many parts of the country),[16] re-occupying vacant properties, and easing strained local fiscal conditions. However, the rapid development of the single-family rental space by large private equity firms and many of the same banking institutions that contributed to the financial crisis should also give us pause. This is particularly important in light of intensifying housing cost-burden for renters and surging post-crisis rental demand, which together have brought chronic housing insecurity for lower income renters to crisis proportions.[17] Policymakers and advocates must carefully consider the risks and concerns renters may face in an institutionalized single-family rental market.

The institutionalization of the single-family rental market raises questions about housing access, affordability, quality and stability. The entrance of corporate investors as landlords represents a fundamental change in the nature of the tenant-landlord relationship in the single-family context, potentially complicating tenants' ability to communicate with and hold landlords accountable. Moreover, this market has developed in the footprint of the foreclosure crisis, in places that the housing collapse has left deeply unsettled for half a decade or more. Thus beyond the potential implications for renter households, the institutionalization of the single-family rental market must also be considered in terms of the consequences for homeowners (nearly 1 in 5 of whom owe more on their mortgage than their homes are worth)[18] and the risk to communities, cities and regions.

For investors, the advent of securities backed by rental income signals a new institutional asset class, one that also means a paradigm shift for the U.S. housing market. Policymakers must not be caught off guard or left behind by this shift. Instead they should take proactive measures to monitor and regulate the single-family rental market so as to prevent another acute housing crisis. Meanwhile, lawmakers must also take meaningful steps to address the ongoing crisis renters in need of affordable housing experience every day, which we consider more comprehensively in our report "Rise of the Renter Nation: Solutions to the Housing Affordability Crisis."[19]

This report provides an overview of the growth and development of the single-family rental market, from the activities of small investors in 2009 to the offering of the first rent-backed security in late 2013 and the advent of private-label lending and acquisition of nonperforming loans in early 2014. It traces the structure of the industry, highlighting key players and the scale and geography of their activities, and presents some of the key concerns about the institutionalization of the single-family rental market from the perspective of renters. The report also draws on pilot research on tenants living in properties owned by Invitation Homes, a subsidiary of global private equity leader The Blackstone Group. In closing we provide policy proposals and questions to guide further research and advocacy on the single-family rental market.

The institutionalization of the single-family rental market raises questions about housing access, affordability, quality and stability. Policymakers must not be caught off guard or left behind by this shift.

PARADIGM SHIFT FOR THE SINGLE-FAMILY RENTAL MARKET

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.[20] In turn, rental demand has increased as former homeowners become renters and as unemployment, underemployment, bad credit and tighter mortgage underwriting prevent others from entering homeownership.

Renting is often associated with multifamily apartment buildings, but a significant share of renters, typically families, has always lived in single-family homes. This share has recently expanded: whereas 30.8% of all renters lived in single-family homes in 2005, 34.1% did in 2011.[21] The nation's housing bust has also expanded the supply of single-family rental housing: from 2007 to 2011, 2.4 million single-family homes were converted from owner-occupied to rental tenure, compared to just under a million such conversions between 2003 and 2007.[22] This brings the total number of single-family rental homes to 14 million, which represents about a third of the nation's rental housing inventory.[23]

While single-family housing makes up a good portion of the total rental housing stock, local investors and individual "mom and pop" style owners have traditionally dominated this market segment. However, increased rental demand, plus the consolidation of massive amounts of single-family homes under bank ownership and continuing high levels of foreclosure and nonperforming loans, have created new market opportunities for larger investors to purchase single-family homes for conversion to rental housing.

Based on data from the National Association of Realtors, investors accounted for almost a fifth (19%) of home sales from 2010 to 2013.[24] Recent research from the Federal Reserve suggests that business investors buying three or more homes accounted for 6.5% of home sales in 2012, up from less than 1% in 2004; purchases by private equity-funded institutional investors buying 200+ homes a year have jumped significantly in the past two years.[25] Institutional investors' entrance to the single-family rental sector represents a paradigm shift for what has long been a fragmented and highly differentiated market.

DEVELOPMENT OF THE MODEL

Starting as early as 2008 with smaller private equity firms like Waypoint in California and American Residential Homes in Arizona,[26] institutional investors have been developing a "buy to rent" strategy (as opposed to a buy to sell strategy). This strategy was initially called "REO-to-rental" because it was based on buying distressed properties at a discount and renting them out pending home value recovery, or forming single-family real estate investment trusts.[27] However, the actors and tactics involved in buy to rent have evolved rapidly over the past few years, with market innovations that have extended the strategy beyond REO properties to include nonperforming loans.

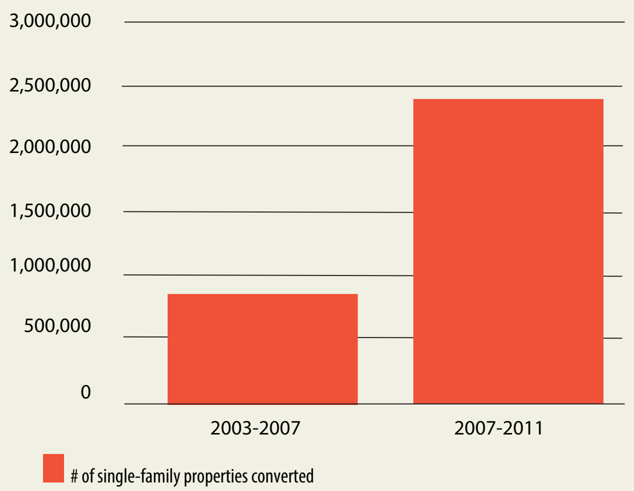
The government also got into the game: in 2012 the Federal Housing Finance Agency began piloting bulk sales of pools of REO Fannie Mae properties to investors as a means of getting these assets off the GSE balance sheets, with a focus on properties in hard-hit metropolitan areas including Atlanta, Chicago, Las Vegas, Los Angeles, Phoenix, and parts of Florida.[28] The REO Pilot Initiative was meant to show whether it was possible to stimulate private investment in single-family rental markets by attracting large investors with bulk sales.[29] The Initiative came with a comprehensive and demanding application process, requirement for both property and asset management experience, inability to 'cream' pools for the best properties, and other stipulations, e.g. that operators have worked in the geographies in which properties are located.

Given FHFA's relatively smaller share of the REO market, the future benefit of such sales would be more applicable to private market players. Government agencies hoped the Initiative would serve as a model for private sector participants, and that they would maintain the high standards implemented by FHFA.[30] Indeed, By 2012, large, well-capitalized institutional investors, including industry leader Blackstone, had begun to partner with smaller firms, who could provide better knowledge of local markets.[31] For example, last fall the Starwood mortgage real estate investment trust (REIT) purchased Waypoint's management division to operate its new single-family

FIGURE 1

NET CONVERSIONS TO RENTAL FROM OWNER-OCCUPIED HOUSING

2003-2007 and 2007-2011



SOURCES: Jount Center for Housing Studies, State of the Nation's Housing, 2013

REIT.[32] The recent rollout of the first rent-backed security offerings and public offerings on single-family REITs suggests that single-family rental has matured quickly from its status as "emerging" institutional asset class.[33]

Alternative investment companies like private equity funds are generally opaque, thinly regulated, and typically undertake riskier investment strategies. While government agencies hoped private sector participants would adopt the high standards of the REO Pilot Initiative, the defining characteristics of private equity present a challenge to this objective. This creates a corresponding need for sunlight on the institutionalization of single-family rental housing.

At around 200,000 properties, the overall scale of their purchasing is still small compared to buying by smaller and individual investors,[34] but institutional investors enjoy market advantages over would-be competitors. In-house expertise and resources enable institutional investors to hire in-house staff and develop proprietary software to manage property renovations and rentals.[35] Larger investors' scale and pace of activity in target markets also offers them the potential to secure exclusive arrangements with local real estate agents and contractors.[36]

But their chief advantage is the ability to bypass today's tighter mortgage requirements through raising cash cheaply on capital markets,[37] allowing institutional investors to outspend and out-scale smaller outfits. Indeed, although REO-to-rental started out as a an un-levered industry, several large banks, including Deutsche Bank, JPMorgan Chase, Wells Fargo, Citigroup and Bank of America now offer financing for acquisitions by institutional investors.[38] Along with a syndicate of other lenders (including JPMorgan Chase, Goldman Sachs, Wells Fargo), Deutsche Bank provided approximately $3.6 billion to fund Blackstone's acquisitions; it also arranged a $100 million credit facility for Five Ten Capital and a $200 million credit line for Apollo to support their single-family acquisition strategies.[39] Bank of America and JPMorgan Chase made a $200 million line of credit available to Silver Bay Realty Trust; Wells Fargo provided a $500 million line of credit (expandable to $1 billion) to American Homes 4 Rent.[40]

Recently, private equity firms have also benefited from an influx of capital from investors like pension funds and mutual funds seeking yield in the context of interest rates held close to zero. Tasked with investing this "impatient capital," the greater opacity of alternative investment approaches like private equity also allows firms to pursue risky strategies (such as highly leveraged deals) and frequently reconfigure their tactics in order to meet the demand for yield. This demand by equity coming in and the availability of debt leverage, combined with the status of single-family rental housing as an incomplete market, has created several opportunities for market innovation.

MARKET INNOVATIONS: FROM REO-TO-RENTAL TO SINGLE-FAMILY RENTAL

An important feature of the entrance of institutional investors to the single-family sector is the rapid development of an array of market strategies. These offer large, well-capitalized firms multiple ways of expanding their property holdings. In turn, expanded property holdings provide inputs for financial instruments, such as stock shares and rental bonds. For example, in 2012, Silver Bay Realty Trust was the first single-family operator to go public as a REIT, raising $245 million with the initial public offering on its 2,450-unit portfolio, which it planned to plow back into acquiring 3,100 more properties.[41] Since then, American Homes 4 Rent and American Residential Properties have also entered this relatively uncharted territory with similar public offerings.[42] Going public allows investment companies to raise additional capital and enlarge their portfolios of single-family rental properties.

Most recently, securitization has emerged as a new opportunity for corporate investors to undertake leveraged acquisitions. In November 2013, Blackstone's single-family rental arm Invitation Homes issued the first security backed by rental income, much of it rated AAA. Structured by Deutsche Bank, the securitization included 3,207 homes and yielded proceeds of $479 million after attracting six times as many investors as it could accept; rental bonds could total $7 billion in 2014 and reach $22 billion annually.[43] In March of this year, Colony Capital began to market the industry's second-ever REO-to-rental bond, a $500 million pool.[44] American Homes 4 Rent, "the largest publicly-traded U.S. single-family landlord," also began marketing its own rental bond.[45] Both invitation Homes and Colony American Homes have each issued a second rental securitization.

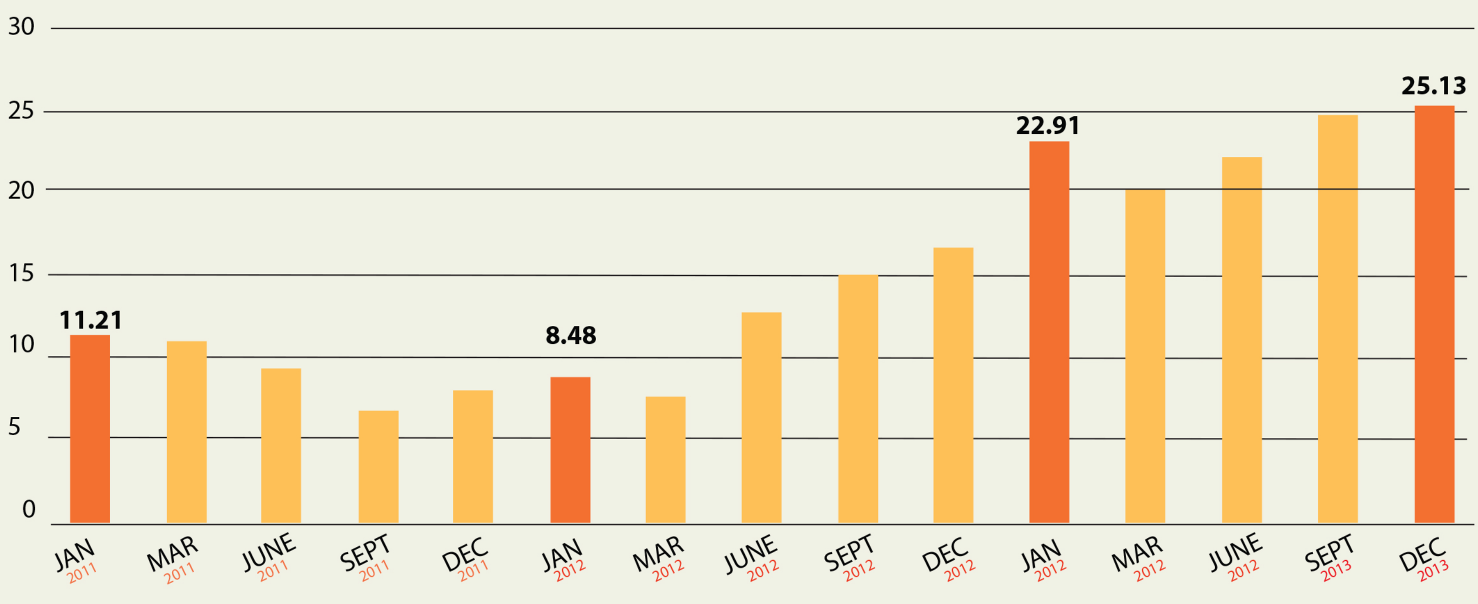
Rental bonds offer investors like mutual funds and insurance companies a stream of payments based on monthly rental income, while giving corporate landlords leverage to buy more homes and increasing their profits by lowering the cost of borrowing. The leverage securitization offers could double or triple returns on equity from 5-7% annually to more than 15% a year.[46] Analysts estimate that up to $5 billion in rental bonds may be issued this year.[47] Of course, as we saw in the financial crisis, investor demand for such products helped drive high-risk lending practices in order to create the inputs (new mortgage debt) for mortgage-backed securities. Thus a fundamental question about rental securitization is whether renters, who are more vulnerable to unemployment, underemployment and economic downturns, will be able to make timely rental payments.

The role of major credit rating agencies in the meltdown is also well-documented, with their flawed models and drive for market share and fees accounting for inflated ratings of instruments backed by risky loans.[48] The eager market demand with which Blackstone's first rental securitization was met suggests they could be the rating agencies' new golden goose, raising concerns about the data and motivations underlying rental bond ratings. For example, there is incom-

FIGURE 2: PERCENTAGE OF ATLANTA-AREA HOME PURCHASES BY INSTITUTIONAL INVESTORS

In Atlanta, one of the metropolitan areas institutional investors have targeted most heavily, such buyers accounted for 17-25% of monthly home purchases in 2013

JANUARY 2011 — DECEMBER 2013



plete historical data on single-family rents and vacancies over economic cycles, with Morningstar relying on limited proxies for rents (with only four years of data) and vacancies (using multifamily vacancy and capitalization rates going back to 1990) in its AAA rating of this new asset class.[49]

Despite the lack of historical data on the single-family rental market and the limited track record of large investment companies in managing large, geographically dispersed property holdings, the liquidity gained with the use of leverage has allowed firms like Blackstone to develop spin-off strategies that expand their presence in the single-family market and continue building a pipeline for financial products. One example is the creation of specialized private lending institutions to provide smaller investors with financing to scale up their portfolios. Blackstone's B2R (Buy to Rent) Finance is one such unit, offering loans starting at $10 million.[50] In turn, these blanket mortgages may also be securitized, further increasing returns for the issuer. With the addition of debt aggregated from smaller operators (multi-borrower deals), the market for rental bonds could reach $20 billion annually.[51]

Now that foreclosure starts have dropped to their lowest levels since 2006, another innovation is emerging in the single-family rental model: to expand their property holdings, investors have started acquiring nonperforming loans.[52] While the Federal Housing Finance Agency has completed a small number of bulk sales of distressed loans,[53] investors have mainly acquired properties at bank auctions, trustee sales, and from smaller investors, a tactic allowing them to more precisely target properties meeting their investment criteria.[54] However, banks are now making more nonperforming loans available for bulk sales due to new federal rules that make it more expensive to hold them.[55]

Starwood Waypoint, American Homes 4 Rent, and Altisource Residential have led the turn toward nonperforming loans as a means of improving their financial flexibility and financing additional growth. Starwood Waypoint recently completed the purchase of its sixth pool of nonperforming loans, achieving significant cost savings compared to buying properties themselves.[56] Given the drive to expand rental property holdings and proliferate new financial products backed by rental income, such acquisitions raise a clear concern that investors have a greater incentive to pursue foreclosure and rent properties back to their former owners than to modify troubled loans.[57]

SCALE AND GEOGRAPHY OF CORPORATE INVESTMENT

Institutional investor activity in the single-family market increased from 5.18% of all home purchases in January 2011 to a peak of 8.11% in January 2013; as of December 2013 their activity had fallen to just under 8% of all home purchases.[58] Overall, major institutional players including Blackstone Group/Invitation Homes, American Homes 4 Rent, and Oaktree Capital/Carrington Holding Company have raised and/or invested $20 billion to purchase approximately 150,000 single-family homes, representing 6-12% of distressed home sales from 2012 through mid-2013.[59]

Although institutional investors currently hold only 1.5% of single-family rental properties, with the introduction of rent-backed securities and other forms of leverage, their presence in the single-family rental market is expected to continue expanding through 2015.[60] Moreover, activity has not been evenly distributed throughout the U.S. Rather, institutional investors descend on selected markets to undertake fast-paced, high-volume purchases that pick the market clean.[61] For example, Blackstone/Invitation Homes purchased more than 1,500 properties at foreclosure auction in Atlanta last spring.[62] After starting in markets in the western U.S., investors shifted eastward as inventory decreased and prices began to shift upwards in markets like Phoenix, and because more inventory at lower prices became available in the Midwest and eastern U.S. as the shadow inventory has worked through the foreclosure pipeline.[63] In addition to low price-to-rent ratios and large volumes of distressed homes that allow them to achieve scale, investors are drawn to markets with a strong outlook for economic and employment and larger properties in neighborhoods with good schools.[64]

Thus far, institutional investor activity has been most dramatic in the Atlanta, Phoenix, Los Angeles, Chicago, Las Vegas, Tampa, and Charlotte metropolitan areas. According to data from CoreLogic, in 2012 institutional investors accounted for more than 20% of home sales in Phoenix and Charlotte; and approximately 19% of sales in Las Vegas, 18% in Atlanta; 16% in Tampa; and 12% in Los Angeles.[65] More recent estimates using RealtyTrac data suggest that in 2013 institutional investors were responsible for 17-25% of all home purchases each month in Atlanta, and 10-31% of monthly home purchases in Las Vegas.[66]

POTENTIAL CONSEQUENCES FOR RENTERS & COMMUNITIES

Despite the relatively small number of single-family rentals institutional investors currently own, their tactics stand to have a large impact on local housing markets because of the concentration of the highest levels of investment activity in a handful of markets. The institutionalization of the single-family rental market in the footprint of the foreclosure crisis merits consideration of impacts on renters as well as broader consequences on community stability and security.

The implications of this shift in the rental market are of special significance for people of color, women and immigrants. African-American and Latino households experienced a dramatic loss of wealth as a result of the foreclosure crisis, with their ejection from homeownership into the rental market contributing to intensified competition for affordable rental housing. Reflecting racialized disparities in homeownership declines, people of color, particularly Hispanics, will account for the majority of the anticipated growth in rental demand over the next decade.[67] The burden of eviction and lack of housing access, as well as the health impacts of overcrowded and poor-quality housing, fall disproportionately on people of color, women and immigrants.[68] The commodification of single-family rental housing by financial actors threatens to intensify the ongoing rental crisis for these populations.

Yet because this market has emerged so recently and is developing so rapidly, we lack adequate information about its consequences. Could converting formerly owner-occupied single-family homes to rental housing alleviate affordability pressures by adding to the housing supply? Will gentrification result as investors upgrade properties and increase rents, thus worsening affordability issues and contributing to displacement? Could investors' lack of management experience and investment practices contribute to housing decline and neighborhood instability?[69] These potential outcomes are not mutually exclusive, and will depend to a great extent on how local, state and federal government and regulatory agencies, consumer protection groups, housing advocates, and communities themselves respond to and engage with the newly institutionalized single-family rental market.

The growth of the rental securitization market may increase investors' appetite for yield, resulting in higher rents.

In this section of the report we draw on pilot research with Invitation Homes tenants in Atlanta and Los Angeles and Riverside,[70] media accounts, and reports from financial analysts and credit rating agencies to consider the potential consequences of an institutionalized single-family rental market for renters and communities. This analysis in turn shapes our recommendations for setting a policy and advocacy agenda for the single-family rental market.

AFFORDABILITY

The U.S. rental affordability crisis, now going strong for more than 25 years (cf. NLIHC Out of Reach 2014), has only worsened since the end of the Great Recession, with median rents outpacing median incomes in 90 metropolitan areas[71] and half of all renters paying more than 30% of income for housing (up from 38% in 2007).[72] Given this ongoing and worsening affordability crisis in the U.S. rental market, any sea change in the private rental market should be scrutinized for its impact on housing affordability. Of particular concern here is the advent of the same kinds of financial engineering that contributed to the scope and severity of the mortgage and financial crises of recent years, such as the securitization of rental income streams and how pressure to deliver returns to investors could translate to higher rental costs and other fees for tenants. As the Center for American Progress[73] has pointed out, the growth of the rental bond market may also increase investors' appetite for yield, and encourage higher rents as a result. An important question is the extent to which rental securitization of geographically dispersed properties creates new interdependencies among renters in different markets. For example, if returns are lower than expected in one market, could renters in other parts of the portfolio face increased housing costs?

Affordability concerns in the single-family rental market are not limited to rental securitization. The ability for institutional investors to quickly penetrate and establish a large inventory in local markets may allow them to corner the market and raise overall rents: in Tampa, almost all of the properties owned by Blackstone subsidiary Invitation Homes are more expensive than the average Tampa rental.[74] While median rents in the Atlanta metropolitan area are $1,050, among a group of 25 tenants of Invitation Homes 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).[75] Surveys of Invitation Homes tenants in Los Angeles found that at $1,843, the median rent paid was slightly less than 2013 HUD Fair Market Rents of $1,921 for a three-bedroom (the most common size home of survey respondents) in LA County; however, nearly half of respondents reported they were paying more than they had expected for rent.[76] Given the terms of lease renewals in Atlanta, these tenants could easily face rents exceeding $2,500 a month upon renewal. In Riverside, Invitation Homes tenants surveyed were paying $1,663 a month, which exceeds 2013 HUD Fair Market Rents of $1,577 for a three-bedroom home for the county. This is a concern given that 30% of renters in Riverside devoted more than half of their income to rent in 2012 (up from 21% in 2007), and because victims of the housing crisis in Los Angeles have been migrating further inland in search of lower housing costs.[77]

If other types of landlords follow the lead of institutional investors, this could set a 'new normal' of higher rents. In addition, the entrance of industry leaders like Blackstone to local markets can draw in other investors, generating competition and heightened turnover. The growth of investor demand for rental properties, and the not-unrelated housing recovery, increases acquisition costs, which in turn may affect affordability for tenants.[78]

In addition to higher rents, responsibility for landscaping, washer-dryers, pest control and other maintenance costs associated with single-family rental housing may add to tenants' housing cost burden. Furthermore the need for investors to produce a steady income stream from their rental holdings means tenants are also subject to financial penalties for being on a month-to-month lease and paying rent late ($250 and $200 per month respectively, according to a lease from an Atlanta-area Invitation Homes tenant). Late charges are not uncommon, but the corporate structure of institutional investors, the non-local nature of the tenant-landlord relationship, and the exigencies of investment strategies may increase corporate landlords' reliance on such penalties and limit tenants' opportunities to seek recourse in cases of hardship. To wit, a former homeowner renting from Invitation Homes in Los Angeles explained she wished her landlord were "more willing to make arrangements" and had "more empathy."

Corporate ownership may increase landlords' reliance on financial penalties and limit tenants' opportunities to seek recourse in cases of hardship.

ACCESSIBILITY

The extent to which the institutionalization of single-family rental housing will affect housing accessibility is another concern about the impact this new market stands to have on renters. As corporate practices formalize the tenant-landlord relationship, renters who do no not conform to investors' risk criteria may be excluded from access to housing on the basis of their immigration status, criminal record, or eligibility for housing subsidy. While any landlord in the private rental market may exclude tenants based on such factors, when landlords with large property holdings engage in such biased behavior, the barriers to access may be greater.

Reports have been mixed on the extent to which tenants with Section 8 vouchers have been able to access homes owned by institutional investors. Overall, less than 1% of the properties owned by Invitation Homes are occupied by tenants with Section 8 vouchers.[79] An Atlanta realtor working on behalf of tenants with the government subsidy reported that large corporate landlords had repeatedly rebuffed her inquiries about units for Section 8 tenants.[80] However, recent research out of Phoenix indicates that over time, institutional investors in the area have increasingly rented to those with Section 8 vouchers.[81] In our own surveys of Invitation Homes tenants in Los Angeles and Riverside, only one of 50 respondents received Section 8 subsidy.

Corporate landlords' limited experience means they may be failing to comply with fair housing law in how they market their properties, who they rent to, and whether they make accommodations for people with disabilities. Clearly, corporate landlords must be in compliance with fair housing laws in order to ensure equitable access to housing. However, this issue is complex and must also be considered against the potential for how a shift in investment priorities could contribute to housing instability for low-income renters over the medium and long term, and the ramifications of government subsidizing such cases of speculation.

A related concern is the potential role data and technology may play in housing access. Invitation Homes tenants are pre-screened for a minimum 2.5:1 gross rent-to-income ratio and a minimum 25% net income after rent and bills; negative credit accounts and unpaid collections; history of foreclosure and eviction; and criminal history, with Atlanta-area standards excluding not only felons, but those with a history of misdemeanors.[82] Credit and criminal background checks are standard practice in the rental industry, but some tenant screening bureaus also provide information from a wider range of sources, including whether prospective tenants have ever been involved in litigation with a landlord. Regardless of the nature of the case or its outcome, this can lead tenants to be "blacklisted" by landlords, even if they were using tenant law to protect themselves from discrimination or to advocate for their rights.[83] The rise of "alternative credit scores" based on rental, utility, and cell phone payment history[84] add even more potential data points to the screening process. For example, in a recent partnership, Riverstone Residential, which carries out property management for Blackstone's single-family rentals, will contribute its data on rental payment history to credit rating agency Experian, making it the first to include such data in its credit reports.[85]

The importance of data on tenants and prospective tenants to price risk and project returns is likely to grow as investors advance rental securitization and public offerings,[86] generating questions about the potential for data to narrow housing access on possibly questionable grounds. Moreover, investors' data systems are still in development, and renters in Atlanta have reported on-time rent payments being mistakenly flagged late in the system. Such data collection practices and computerized interfaces in the newly institutionalized single-family rental market could affect how tenants fare on alternative credit scoring mechanisms, potentially impacting future access to both rental housing and homeownership opportunities.

> **A lot of the repairs seem like rush jobs.**
> **— Invitation Homes tenant in Atlanta**

HOUSING QUALITY

Another set of concerns for renters and communities relates to the potential for institutional investors to affect housing quality. Large investors are engaged in ongoing acquisition across multiple markets, and their portfolios are in various stages of renovation, leasing and maintenance as they build up their property management infrastructure and processes.[87]

As many observers have noted, institutional investors do not have a track record in property management and maintenance, and there is no industry precedent for large-scale single-family renting.[88] These factors create many potential openings for housing quality to fall through the cracks. For example, a majority of Invitation Homes tenants in Atlanta had experienced maintenance problems, expressing concern about shoddily completed renovations before they moved in, lack of responsiveness to requests for repairs, and difficulty getting clarity about who is accountable when repairs and maintenance are needed. This is especially concerning when maintenance problems have clear ramifications for health, such as failing to respond adequately to issues like mold, something Invitation Homes tenants in Atlanta and Los Angeles have experienced.[89] In fact, a Los Angeles family recently filed a lawsuit, alleging that their health suffered as a result of the rental company's failure to quickly respond to water leaks, mold, and cockroaches.[90]

With fewer ties to the community, non-local investors may invest less in property renovation and upkeep than local owners and be more likely to ruthlessly abandon the property once it is no longer profitable.[91] This kind of "dumping" is particularly relevant to bulk purchases and large buying sprees, in which investors may later dump properties deemed uneconomical for their market strategy.[92]

Indiscriminate buying by institutional investors can threaten housing quality: the Federal Reserve Bank cautions that overestimating rental demand and/or spending more on improving, leasing, or managing homes than comes in from rental payments may lead investors to cut back on property maintenance.[93] Greater reliance on leverage, such as securitization, further increases the potential for investors to experience financial distress, adding to the risk of property neglect and pressure to liquidate properties.[94] Compared to smaller or local investors, large institutional investors may be less vulnerable to the reputational threat associated with poorly maintained properties — and therefore more difficult for tenants to hold accountable for housing quality.

STABILITY AND ACCOUNTABILITY

The potential for property dumping, neglect and liquidation due to financial concerns also raises the question of housing stability for renters. If indiscriminate buying by institutional investors pushes up prices and ultimately makes the value of investments fall, the pressure for investors to flip property will grow, potentially creating another speculative cycle that could end in a bust, subjecting communities to yet another round of destabilization.[95] These processes may force tenants to move, or they may find themselves having to adjust to new policies and practices, e.g. for reporting maintenance requests, when their home is flipped to a new investor-landlord (much as homeowners often found their mortgage servicer changing frequently as loans changed hands among financial actors). Some tenants, such as those renting properties from Key Properties/BLT Homes, which sold 1,400 Atlanta-area homes to Blackstone last spring in the single-family rental industry's largest bulk acquisition, have already undergone this challenge.[96] Low-income renters, including those with Section 8 vouchers, may be especially vulnerable to housing instability caused by property dumping and portfolio selloffs.

Beyond the implications for housing stability at the household level, we must also attend to the risks to stability, recovery and accountability that neighborhoods and communities face in connection with corporate investment practices in the single-family rental market. As firms like Blackstone, Colony Capital, American Homes 4 Rent and Starwood Waypoint eagerly develop this market, another speculative bubble could destabilize the same communities struggling to recover from the foreclosure crisis and recession, which were largely brought on by high-risk financial practices. When a handful of investors control broad swaths of local communities, it is critical that these communities have opportunities to hold investors accountable for the local impacts of their business practices. Given that Invitation Homes tenants in Los Angeles and Riverside uniformly agreed they did not have regular contact with their landlord, and many had never met their landlord in person at all, the institutionalization of single-family renting clearly poses challenges to tenant-landlord accountability. Such concerns were echoed by Invitation Homes tenants in Atlanta, who commented on the company's impersonal "corporate" style, reporting that they had never seen anyone from Invitation Homes since the day they moved in.[97]

Invitation Homes should have more dedication toward tenant needs.

– Invitation Homes tenant in Riverside

They don't care about tenants.

– Invitation Homes tenant in Los Angeles

SETTING AN AGENDA FOR THE SINGLE-FAMILY RENTAL MARKET

Because the institutionalization of the single-family rental market is such a new phenomenon, developing relevant policies is a challenge, although it seems clear that additional information and ongoing monitoring is needed. Moving forward, policymakers and housing advocates should focus their efforts on research, rights and regulation to ensure this rental market paradigm shift does not worsen the rental affordability crisis and destabilize communities still contending with the effects of the foreclosure crisis and economic downturn.

1.PUBLIC SUPPORT FOR RESEARCH TO GET OUT AHEAD OF THIS PARADIGM SHIFT

Given the thin precedent for an institutionalized single-family rental market, a major and immediate priority is federal support of more extensive research on the impact institutional investors have on local rental markets and renters.

i. Offer greater transparency into the single-family rental market

The Federal Housing Finance Agency's REO Pilot Initiative has completed three bulk sales: 699 properties in the Central, Northeast, Southeast and West Coast areas of Florida; 94 properties in Chicago; and 970 properties in Arizona, Florida and California. However, the bid process was sealed and while the initiative includes extensive reporting requirements for investors, FHFA has not provided updated information since November 2012. A 2013 audit by the Office of the Inspector General recommended improved oversight of the program.[98]

FHFA has not clarified how the goals and objectives of the pilot program will be achieved, or how the agency intends to monitor and assess the performance of the pilot.

– 2013 Office of the Inspector General audit of the Federal Housing Finance Agency's REO Pilot Initiative

There is a need for greater transparency from REO Pilot Initiative activity to date, which could be achieved through additional public disclosure of information about the bidding process, releasing data from required reports, and opening up further research opportunities on the Initiative. This would afford comparison of a more tightly regulated, publicly controlled approach to REO disposition with the buying sprees of deep-pocketed investors in the same markets, particularly when examining factors like evictions and rent increases. Evaluation and additional research on bulk sales may provide important early results that help policymakers get out ahead of this paradigm shift and develop effective policies for the new single-family rental market. Greater transparency into sales, management and business strategy is desirable throughout the single-family rental market, particularly because of the opacity enjoyed by alternative investors like private equity funds.

ii. Provide public funding for research on impact of investor activity

Beyond the REO Pilot Initiative, the federal government should support research on how investor activity affects local rental markets and renters, especially around issues of housing affordability, quality, security, stability, and access. Because many of the institutional investors involved in the REO-to-rental market are private equity players — who invest in private property and companies, are not required to disclose their returns, and often undertake riskier investment strategies — the need for sunlight on this market is great. This is especially important because the REO-to-rental model has taken off most in the areas struggling to recover from the foreclosure crisis, making due caution and careful monitoring a key concern. For example, information on the ability of renters with Section 8 vouchers to access properties owned by institutional investors is mixed[99] and should be evaluated over the long-term in tandem with the development of the market and investment strategies.

Public support for research is also imperative given the recent establishment of the National Home Rental Council by investors Blackstone, Starwood Waypoint, American Homes 4 Rent, and Colony Capital.[100] The NHRC plans to "represent the interests of the owner-operators of professionally managed single-family rental homes, their employees and the residents and families who rent from them" in their mission to "educate the public, the media and policymakers about the economic value of the industry."[101] This advocacy push from within the industry makes it critical that observers from outside the industry also have opportunities to educate the public, media and policymakers. Ideally, a research council on the single-family rental market should be assembled, with a priority for meaningful participation and agenda-setting by social scientists and urban planners as well as renters, homeowners and community-based organizations within the largest REO-to-rental markets (including Atlanta, Phoenix, Los Angeles, Tampa, Las Vegas, and Charlotte).

They constantly lost our payments, mis-filed them or mis-posted them.

I have placed numerous maintenance tickets, none of them were ever taken care of.

Invitation Homes is not willing to put out the money for a DECENT and SAFE job, they hire the cheapest company they can to do 'patch up' jobs.

–Yelp reviews by Invitation Homes tenants in Woodland Hills, California.

2. ENSURE A BASELINE OF PROTECTIONS FOR TENANTS

Because of concerns about housing quality, stability, and accessibility associated with the paradigm shift toward an institutionalized single-family rental market, there is also a need for more robust support of tenant rights at the national, state and local levels.

i. Create a national tenant clearinghouse to discern broader patterns in tenant experiences

Industry leaders like Blackstone and Colony Capital have purchased extensively in hard-hit markets across the West, Southwest, Southeast and Midwest U.S. Given the wide-ranging geography of corporate landlords' investments in single-family rental housing, a major question about the REO-to-rental model moving forward is tenants' ability to hold potentially distant landlords accountable for housing conditions and related issues. Renters have started using consumer review sites like Yelp[102] and Zillow[103] to share their experiences with corporate landlords and warn other renters about issues with overcharges and difficulty resolving maintenance requests.

This suggests the utility of a national tenant clearinghouse where tenants, housing advocates and grassroots organizations can access data (e.g. on rent increases and evictions) from publicly funded research on the single-family rental market and information about national, state and local tenants' rights. Such a clearinghouse could also provide a means for tenants in disparate cities to connect with each other to document their experiences, allowing them to discern broader patterns by aggregating issues and problems. There is some precedent for this: tenant activists formed the National Tenants Union in 1980; never able to secure adequate funding, it soon faded away.[104] However, the national scope of private equity investment in single-family housing requires careful attention to how tenants and rental housing in all target markets fare under this new business model.

The Consumer Financial Protection Bureau (CFPB), with its mission to protect Americans from abuses by financial companies, should play a role in creating and maintaining a national tenant clearinghouse to protect the rights of consumers renting from corporate landlords. Information tenants provide to the clearinghouse might be used to document relationships between particular investors and housing distress. This could promote awareness of the role of banks in financing such investments, and be taken into consideration by federal and state banking regulators. Data that tenants and grassroots groups access from the database could be used to advocate for local level tenant protection laws.

ii. Clarify tenant rights and remediation process at the local, state and national level

Tenants rights also vary significantly from state to state; therefore, government at the local and state level can also work proactively to ensure that tenants, especially former homeowners who may be unfamiliar with the rental market, have access to information about their rights. In areas private equity funds have targeted most aggressively, local government should reach out to tenants with information about their rights and the process to follow if they believe their rights have been violated, and also post this information in a highly visible place online. This process should also include information about how to document and report housing code violations, how landlords are required to respond and in what time frame, and what recourse tenants have if landlords do not comply with these requirements. Such measures offer a safeguard against potential harassment and support housing stability, quality, access, and affordability. Moreover, they reinforce the role of the public sector in these concerns.

iii. Rethink tenants' rights for the era of "big data"

Furthermore, support for tenants' rights should explicitly address the "right to research" as part of consumer protection. Advances in technology have integrated data collection and research into everyday life. Indeed, the development of rent-backed securities depends on the ability to accurately price risk, including tenants' nonpayment of rent, which requires systematic data on the tenant pool. With more lenders using this kind of big data to develop "predictive risk" credit ratings based on nontraditional payment histories, such as rent and utility payments,[105] tenants should have the right to know and participate in how investor landlords like Blackstone use such data. Technical errors that mistakenly log on-time rental payments as late are not only inconvenient, but could create difficulties in accessing future housing, mortgage credit, and car loans. However, consumers face ongoing difficulties in correcting errors in their credit histories and credit rating agencies have no incentive to change this aspect of their business model.[106] Corporate misjudgement associated with recent high-profile consumer data breaches highlights additional vulnerabilities and the need to rethink consumer protection for the era of big data.[107]

3. DEVELOP PROACTIVE REGULATION TO PROMOTE THE COMMON GOOD

Lawmakers should also develop effective oversight and consider avenues for regulating an institutionalized single-family rental market. Federal, state and local government can all play a role in promoting the common good by attending to concerns around housing affordability, quality, accessibility, and stability in the single-family rental market.

Because the institutionalization of the single-family rental market is such a new phenomenon, developing relevant policies is a challenge. One place to start is clarifying the federal role in regulating the single-family rental market, especially around concerns related to the securitization of rental income. Secondly, lawmakers should move to develop affordability requirements for these owners if research shows that large investors hamper rental affordability in local markets. Finally, regulators should undertake efforts to promote affordable and sustainable community ownership of distressed properties that enhances local control and wealth creation by keeping capital circulating within the community.

i. Develop the federal role in regulating single-family rental

While oversight for private rental housing is typically the responsibility of local and state government, REO-to-rental significantly changes the paradigm of this market. There is a need to clarify what role, if any, the federal government currently plays in regulating the market for single-family rental housing (beyond extant rules under the Fair Housing Act and the Section 8 program). The Senate Committee on Banking, Housing and Urban Affairs should explore existing oversight and whether it is adequate for this new market. In this process, Congress should conduct field hearings and engage local government, housing advocates, and tenants in "feeding ground" cities and regions to gain a deeper understanding of where and how new regulations might intervene, or how existing policies can be brought to bear in new ways. For instance, it would be useful to shed light on whether Community Reinvestment Act (CRA) provisions apply to credit facilities that CRA-regulated institutions such as JPMorgan Chase provide to institutional investors to fund acquisitions. This could provide an important avenue for tenants and advocates to register concerns about how banks' funding of property acquisition by institutional investors affects local communities. If not via CRA, we need a means by which investors and banks can be held accountable for neighborhood impacts resulting from their business practices.

The CFPB, Department of Justice, and HUD all have a role to play in ensuring corporate landlords do not violate federal fair housing and fair lending laws in tenant selection, eviction policies, disability access, property maintenance, etc. But there appears to be no agency that is providing oversight. The CFPB should evaluate whether it has the authority to intervene in this arena, where large corporations stand to have a substantial impact on a great number of consumers. If the CFPB has no authority to provide this oversight role, Congress should give it authority to do so, or create another agency to fill that gap. There is a need to ensure a baseline of protections for tenants. The Protecting Tenants at Foreclosure Act offers a good precedent; it should be extended and include a private right of action in its protections, and the federal government should designate the CFPB as the agency to oversee it, develop any necessary regulations, and enforce its protections.

This is also a time to consider how the federal government might open pathways for regulation at the local level. For example, single-family homes are frequently exempt from rent control laws; moreover, in many places state law preempts the possibility of rent regulations at the local level. In the interest of housing that meets the needs not only of investors but also residents and communities, the federal government could create an exemption allowing local jurisdictions to enact rent regulations for single-family homes that underwent foreclosure between 2008 and 2013.

ii. Ensure affordability and accessibility of single-family rental housing

Guided by rigorous, publicly supported research on the near- and longer-term impact the institutionalized single-family rental market has on housing costs for low- and moderate-income (LMI) households, affordability requirements should be put in place for institutional investor-landlords. It would be important to use a measure of affordability in sync with neighborhood income levels, rather than those of the larger metropolitan area. Such requirements could peg responsibility to serve LMI households to institutional investor-landlords' market share (e.g. proportion of local single-family rental market controlled by investors corresponds to number of LMI households they are required to serve). This would help to offset the potential for investors with large holdings to exercise undue influence on local rental prices.

Lawmakers must also carefully consider the relationship between extant affordable housing programs, particularly Section 8, and the institutionalization of the single-family rental market. The expansion of single-family rental housing would seem to offer a new source of housing for those with Section 8 vouchers, potentially broadening the base of affordable rental housing (provided investors comply with fair housing laws, which regulators should monitor closely). While one avenue to pursue here could be requiring new corporate landlords to set aside a portion of single-family units for Section 8 voucher recipients, this would also represent a significant government subsidy for investors, offering them a steady flow of rental income to pay off bondholders and continue to fuel acquisitions. Rather, corporate landlords' profits might be subject to a progressive tax that could be used to support the National Housing Trust Fund and/or efforts that support local control of land and housing, e.g. community land trusts.

iii. Promote greater community control of housing and diversity of ownership structures

The REO-to-rental market represents the concentration of properties once owned by residents in the hands of large, well-capitalized private equity firms. Alternative investment approaches like private equity are less transparent than traditional approaches, and often pursue risky strategies to meet demands on equity coming into the deal. With this in mind, we should be cautious about concentrating large amounts of property under private equity ownership. The rapid pace of market innovation and the rush of many of the same financial institutions responsible for the foreclosure crisis to fund private equity's property acquisition also suggest troubling parallels to the dynamics that created the mid-2000s housing bubble. It took less than two years from the time industry leader Blackstone entered the market at the start of 2012 for foreclosed, single-family homes to be transformed into a new institutional asset class by securitizing rental income in late 2013.

The REO-to-rental market should not only be a paradigm shift for investors; government should work to promote greater diversity of ownership and control over land and housing in order to prevent the dominance of potentially high-risk financial practices in the single-family rental market. Community land trusts are especially compelling because they stake participants in their local communities while offering less vulnerability to foreclosure than traditional, individualized ownership.[108] It is the proper role of government to intervene during times of crisis. Now the government has the opportunity to act to prevent a crisis before it happens, while also addressing the longer-term crisis of housing security and affordability for renters. We should take this opportunity to develop alternatives that lift up housing as home, rather than pursuing the same kinds of marketized approaches that destabilized communities in the first place.

4. GENERATE RESOURCES TO SUPPORT LOWER-INCOME HOUSEHOLDS

Finally, policymakers should ensure that investors are not the only ones benefiting from the institutionalization of the single-family rental market. With the introduction of leverage, investors see single-family rental as a potentially $1.5 trillion opportunity.[109] Given the size of this market opportunity for investors, lawmakers should move to ensure that the public more broadly and renters, especially lower-income households, also benefit. This should be an especially high those of the larger metropolitan area post-crisis rental demand has worsened the longstanding rental affordability crisis.[110]

i. Implement a financial transaction fee on rental bonds

Rental securitizations continue to be rolled out (there have now been four issuances of rental bonds) to strong market reception, making more such transactions a strong possibility[111] despite a lack of clarity about whether the market will continue to grow based on fundamental demographic shifts (e.g. preference for rental, stagnant wages, tight mortgage credit, increased labor mobility) or decline as home prices approach normal levels.[112] However, as discussed in Section II, high investor demand for returns from rental bonds could have an adverse impact on housing affordability, especially for low-income renters, who already face an affordability crisis. One way to intervene here would be to implement a financial transaction fee on rental bonds. Since the financial crisis, many countries have debated and/or introduced such fees, and civil society groups argue that a small tax of less than half of 1% could help restore a frayed social safety net.[113] A number of such bills have been introduced in the U.S. Congress, but have made little headway thus far.[114] However, it is critical that the financial sector not be allowed to pillage the single-family sector without being held to account for how its activities affect the housing security of renters (many of whom are former homeowners). Without a significant burden on investors, instituting a small tax of perhaps 0.1% or 0.2% on rental bond transactions could create a significant amount of resources for the National Housing Trust Fund, which is targeted to rental housing and extremely low-income households, but has not been fully funded since being established in 2008.[115]

ii. Develop state and local level requirements for corporate landlords to add to affordable housing inventory

State and local government can also intervene in the single-family rental market to generate resources for lower-income households. While corporate investors currently own only a small share of single-family rental properties nationwide, their strategy has been highly segmented geographically. This means that some investors and their subsidiaries have large property holdings in a small number of markets, including Atlanta, Los Angeles, Phoenix and Tampa. Lawmakers should work to counterbalance the outsize influence investors may have on rental affordability in such markets. State and/or local government could explore establishing requirements that investors (and their subsidiaries) with a local inventory of 100 or more single-family rental properties set aside a portion of their holdings to be affordable to renters making below 50% of area median income.

iii. Introduce local and/or state taxes for corporate landlords to ensure that the community benefits from investments

Finally, city, county, and/or state governments should ensure that the profits corporate landlords generate through their investments in single-family rental housing also serve to benefit local communities. Because of the existing rental affordability crisis as well as concerns about how the institutionalization of single-family rental will affect housing security, state and local government should institute progressive tax measures on corporate landlords' profits. Such measures could apply to investors and associated subsidiaries with large local inventories, on profits above a certain threshold, with funds generated earmarked for creating or preserving permanently affordable housing (such as community land trusts) at the local level. In this way, local and state government can promote the common good by ensuring that the financial benefits associated with the changing face of the single-family rental market don't come at the expense of worsening rental affordability concerns.

CALL FOR ACTION

The foreclosure crisis and Great Recession have substantially increased rental demand as former homeowners become renters and others are barred from home purchase by poor credit and tightened underwriting standards. The communities hardest hit by foreclosure have endured years of decline and social and economic instability in the wake of the crisis, and today nearly one out of every five homeowners with a mortgage owes more than their homes are worth.[116] Since 2012, leaders in the alternative investment industry, such as Blackstone and Colony Capital, have poured over $20 billion into purchasing foreclosed properties and converting them to rental use. This could appear to be a win-win, providing supply for new rental demand and stabilizing local property values. However, the institutionalization of the single-family rental market by private equity funds, aided by the same global banking giants implicated in the fraud and excesses that shaped the worldwide financial crisis, should be viewed with caution.

In just a few years, large investment companies have rapidly developed not only the single-family rental market, but also new institutional asset classes like single-family REITs and rent-backed securities. The loss of millions of properties to foreclosure and the possibility of a shift from an "ownership society" to a "rentership society" represents an opportunity for investors but may threaten the housing security of renters and further undermine communities still struggling to recover from the 2008 crisis. As outlined in this report, the institutionalization of single-family rental housing could translate to higher housing costs for tenants as new corporate landlords strive to deliver returns to shareholders and investors in rental bonds, while also raising concerns about the impact financial risks may have on housing quality and stability. The implications of having large swaths of land under monopoly control by non-local owners, who may be difficult to hold accountable, and whose objectives may conflict with those of the community, is a greater question still.

In drawing attention to this paradigm shift in the single-family rental market and its potential impacts on renters, this report aims to set an agenda for action by housing advocates and policymakers. The transformation of single-family rental housing from a local, "mom and pop" industry to a global investment class should be closely studied, subject to proactive regulation to promote the common good, accompanied by enhanced support for tenants' rights, and generate resources that will benefit lower-income households most vulnerable to housing insecurity. We must recognize that land and housing are not simply financial assets, but resources that are fundamental to the well-being of families across the economic spectrum, communities and society, and we must act on this insight.

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