RENTING FROM WALL STREET:

Blackstone's Invitation Homes in Los Angeles and Riverside

JULY 2014

A REPORT BY THE HOMES FOR ALL CAMPAIGN OF THE RIGHT TO THE CITY ALLIANCE

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Strategic Actions for a Just Economy – www.saje.net

Strategic Actions for a Just Economy (SAJE) is an economic justice and tenants' rights organization that works with local residents to combat slum housing, organizes residents to engage in the city's land use planning processes in order to increase the amount of affordable and safe housing in the area, and works to halt illegal evictions and the ongoing displacement of Los Angeles' working families. Its mission is to change public and corporate policy in a manner that provides concrete economic benefit to working-class people, increases the economic rights of working-class people, and builds leadership through a movement for economic justice.

The Right to the City Alliance – www.righttothecity.org

The Right to the City Alliance seeks to create regional and national impacts in the fields of housing, human rights, urban land, community development, civic engagement, criminal justice, environmental justice, and more. Right to the City (RTC) was born out of desire and need by organizers and allies around the country to have a stronger movement for urban justice. It was also born out of the power of an idea for a new kind of urban politics that asserts that everyone, particularly the disenfranchised, not only has a right to the city, but that inhabitants have a right to shape it, design it, and operationalize it.

The Homes for All Campaign – www.homesforall.org

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 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 local 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.

ACKNOWLEDGEMENTS

This report was principally authored by Rob Call, a graduate student in Urban Planning at the Massachusetts Institute of Technology, with collaboration and inspiration from the staff of Strategic Actions for a Just Economy (SAJE) and Right to the City Alliance (RTC).

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EXECUTIVE SUMMARY

The last time Wall Street financiers created new financial instruments for the American housing market, mortgage-backed securities and collateralized debt obligations drew mortgages into bubble-fueling trades on top of toxic trades. As residents who had been targeted by banks and mortgage brokers that were eager to sell housing debt into Wall Street's financial machine began to default on predatory and subprime loans, the house of cards collapsed. Since the housing crisis began in 2007, American households have lost at least $7.7 trillion in wealth.[1] Those most drastically affected by the crisis have been low-income communities of color, who were targeted with mortgages that were impossible to repay. Latino and Black homeowners were 70 to 80 percent more likely to be offered subprime loans prior to the housing crash and 71 to 76 percent more likely to have lost their homes after the crash than white homeowners.[2]

The housing market has Wall Street's attention yet again. Private equity firms and institutional investors with capital to deploy and access to lines of credit are working to further the commodification of housing, in part by replicating some of the same financial instruments that led to the 2007 housing collapse. This trend was initially called "REO-to-rental," meaning that firms were buying real estate–owned (REO) properties from banks and government-sponsored enterprises (GSEs) and converting them to rental units. Now that the REO stock has dwindled, the trend toward institutionalizing the rental of single-family homes has become known as simply single-family rental or SFR. When homes are owned and controlled by Wall Street, the money people pay to keep a roof over their heads flows out of our communities and into the pockets of Wall Street firms and their investors.

HOMES FOR ALL

We believe that housing should be accessible, affordable, stable, high-quality, and community controlled. The land grab by institutional investors over the past two years works against each of those beliefs. As this process unfolded — and as we watched foreclosed homes get eaten up by institutional investors and struggling families get pushed out, attempting to find rents more affordable than their previous mortgage payments — we wanted to know what it was like to rent from a Wall Street landlord. We decided to target the largest investor, which also happens to be the world's largest private equity firm, The Blackstone Group, and hit the streets to talk to their tenants.

PURPOSE

The aim of this study was to document the circumstances and perceptions of tenants living in Blackstone-owned properties, run by their subsidiary Invitation Homes. The study focuses on the experiences of tenants in Blackstone-owned homes in Los Angeles, particularly South Los Angeles, and Riverside, Calif. These areas were chosen as study sites because of their historic connections to previous housing crises. South Los Angeles is a historically Black and Latino neighborhood that was subject to redlining and, more recently, predatory lending and massive foreclosures. Riverside was the site of a major housing boom in the early 2000s. It

was then devastated by the housing collapse and remains the eleventh most underwater metropolitan area in the United States.[3]

Using public records, we identified a total of 1,402 properties owned by Blackstone's purchasing subsidiary, THR California, as of early March 2014. We canvassed these properties over a period of three weeks in March 2014. After completing the canvassing and conducting the surveys, responses were collected and analyzed, producing the findings on property transactions, tenant characteristics, accessibility, affordability, stability, quality of conditions, and customer service contained in the report. Below is a summary of our findings.

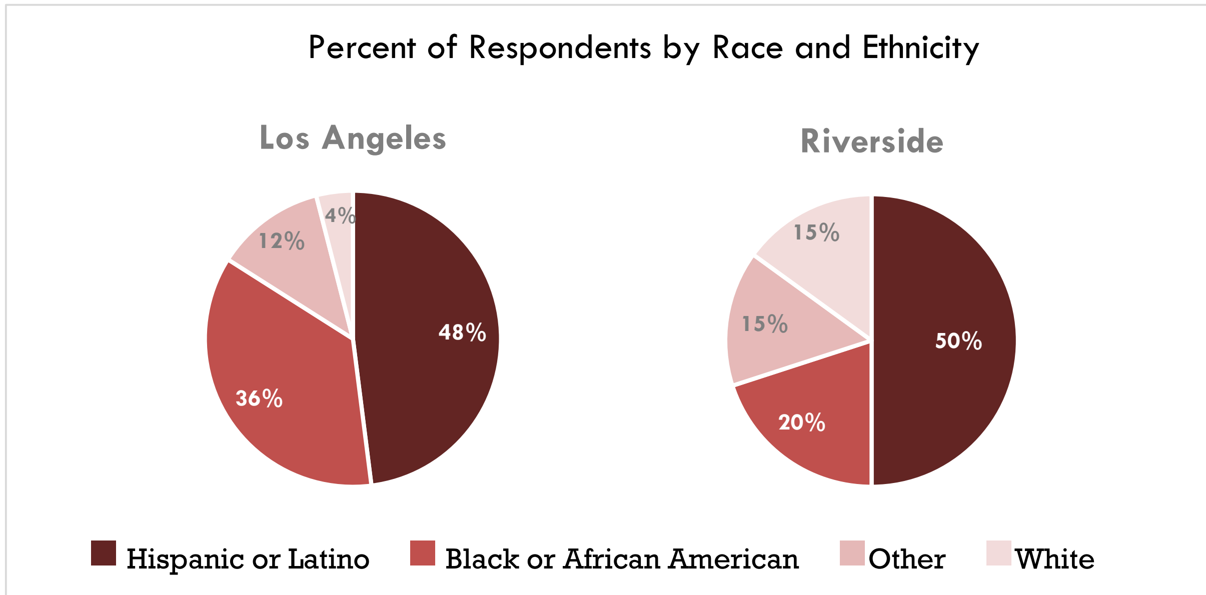
FINDINGS

PROPERTY TRANSACTIONS

	Los Angeles	Riverside
Money spent to purchase homes	$26,954,426	$33,394,540
Percent of purchases from corporations	49%	12%
Percent of purchases from individuals	51%	88%
Percent of purchases made through foreclosure	33%	70%

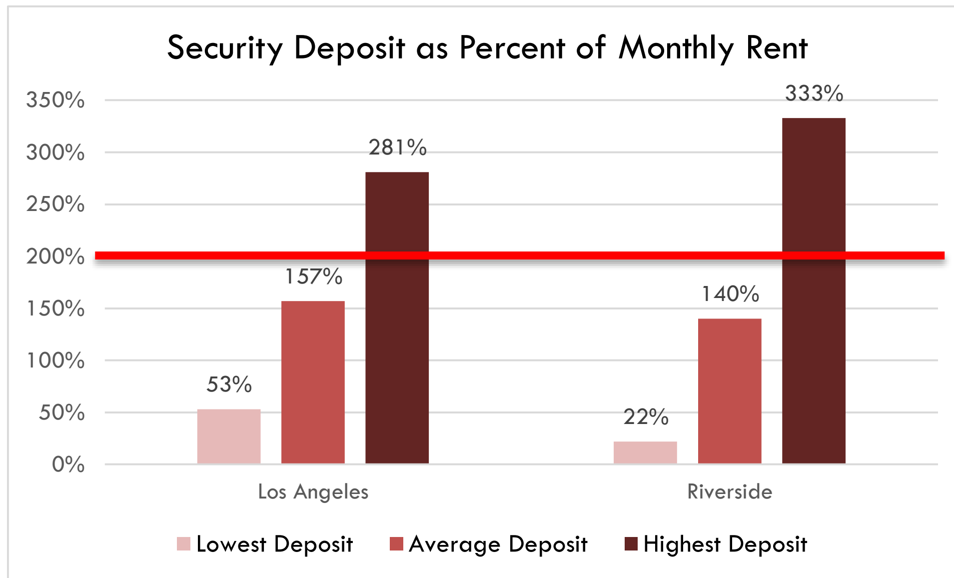
Blackstone spent millions of dollars in cash to purchase properties now managed by Invitation Homes. In Los Angeles, nearly half of their purchases were from speculative corporations that had owned the home for less than one year, with another third purchased through foreclosure. In Riverside, Blackstone purchased 88 percent of the properties we canvassed from individuals, mostly through foreclosure sale.

TENANT CHARACTERISTICS



In Los Angeles and Riverside, respectively, 96 and 85 percent of our respondents were people of color. These trends hold true with the demographics of the areas we surveyed, and the fact that people of color are far less likely to own homes than whites. We did come across tenants who had previously been homeowners and were either foreclosed upon or forced to move because their bank would not negotiate a modification. In Los Angeles, 16 percent of our respondents were former homeowners, and in Riverside, 35 percent were.

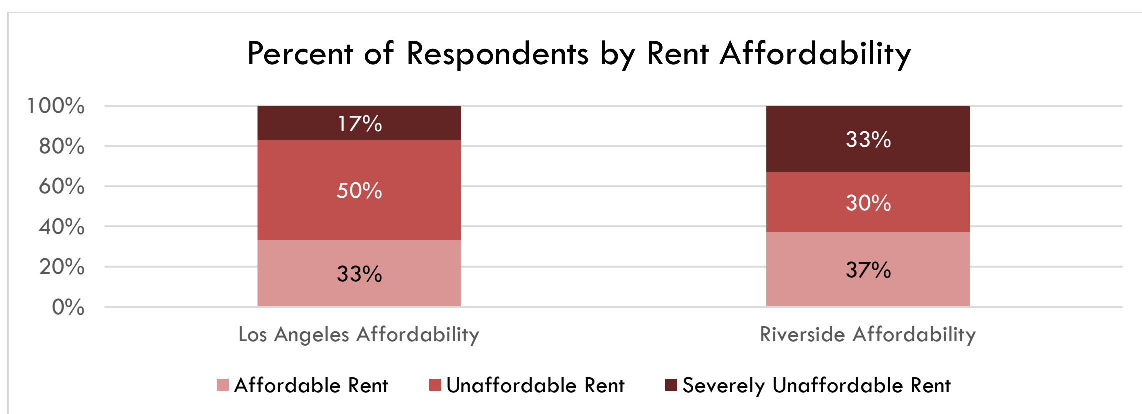
ACCESSIBILITY



Any security deposit charged to a tenant above 200% of their monthly rent for an unfurnished unit is against California law.

Through the course of our study, we found five tenants who reported paying more than twice their monthly rent amount toward their security deposit. This is illegal under California law and creates a barrier to accessibility for residents unable to save for a high deposit amount. The other major barrier we discovered consisted of criminal background questions on the rental application that, while "facially neutral," disproportionately impact people of color due to the nature of our justice system.

AFFORDABILITY



	Los Angeles	Riverside
Average Rent	$1,740	$1,747
Average monthly utilities and fees	$520	$510
Average monthly housing costs	$2,260	$2,257

According to the Department of Housing and Urban Development, rent is considered unaffordable — and a cost burden likely to impede a tenant's abilities to provide for basic needs — if it amounts to more than 30 percent of a tenant's income.[4] In Los Angeles, only one-third of our respondents reported affordable rent. Fifty percent had unaffordable rent that amounted to between 30 and 50 percent of their household monthly income, and 17 percent reported paying more than 50 percent of their household monthly income toward rent. No Los Angeles household we spoke with making less than $70,000 a year could afford their rent.

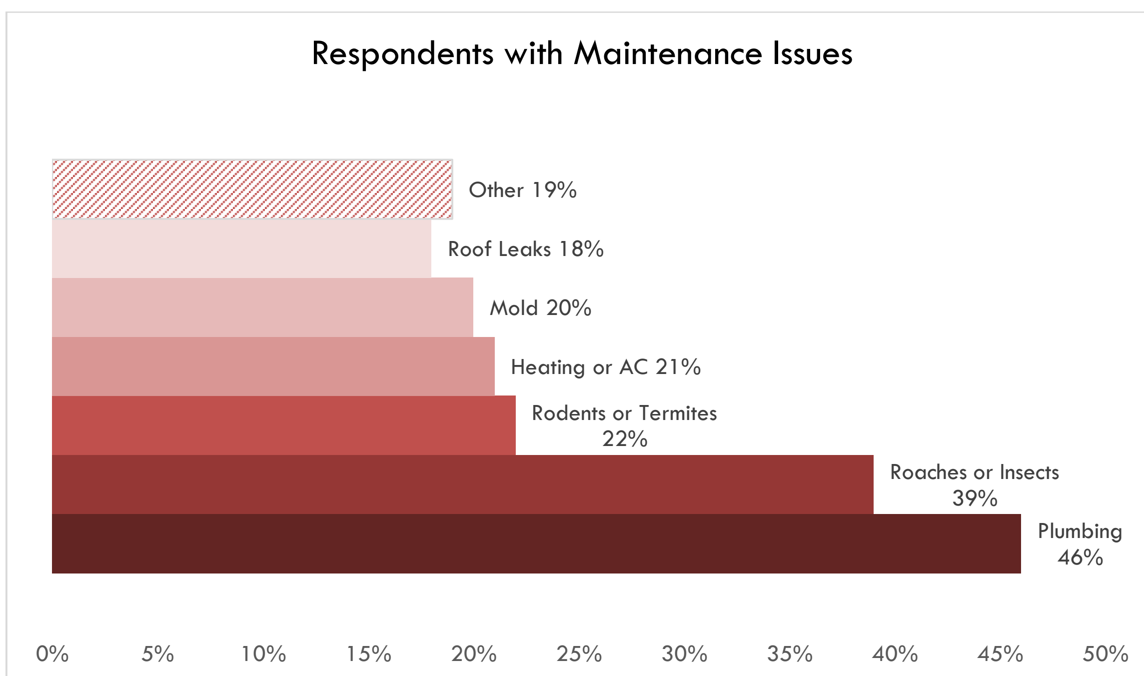
In Riverside, our findings were similar. Thirty-seven percent of our respondents had affordable rent, 30 percent had unaffordable rent between 30 and 50 percent of their monthly household income, and 33 percent reported severely unaffordable rent at more than 50 percent of their monthly income. No Riverside household we interviewed making less than $50,000 a year had affordable rent.

STABILITY

	Los Angeles	Riverside
Average length of homeownership by individuals, prior to Blackstone's purchase through foreclosure.	11.3 years	10.5 years

We found that Blackstone's business model for Invitation Homes relies on a degree of community and tenant instability. When purchasing homes, Blackstone rarely buys from individuals outside of a foreclosure sale, meaning the former homeowners were likely made to leave their homes against their will. When leasing properties, Blackstone's Invitation Homes relies on rapid eviction warnings, sometimes issued even before rent is due, to aggressively push for the highest occupancy rate possible and feed returns to its investors. Multiple tenants in both cities reported receiving a notice to vacate on the fourth of the month, even though their rent was not technically due until the fifth.

QUALITY OF CONDITIONS



When taken together, 46 percent of the residents we interviewed reported experiencing problems with plumbing, 39 percent reported roaches or insects, 22 percent reported rodents or termites, 21 percent reported issues with heating or air conditioning, 20 percent reported problems with mold, 18 percent reported having roof leaks, and 19 percent reported experiencing other problems with the conditions of their homes. In Los Angeles, 56 percent of respondents reported experiencing issues with plumbing. In Riverside, 38 percent of our respondents reported problems with roaches or insects. This illustrates the fact that Blackstone and Invitation Homes' property management model is far from perfect — and that perhaps it is still struggling to maintain thousands of uniquely built homes across hundreds of square miles.

CUSTOMER SERVICE

	Los Angeles	Riverside
Have never met landlord in person	90%	74%
Not "pleased with how [their] landlord/property manager responds to issues and problems as they arise"	44%	20%
Did not agree that Invitation Homes has "top-level management – dedicated to giving [them] great service."	63%	25%
Distance from Invitation Homes office	35 miles	12 miles

Very few tenants who we spoke with had ever met their landlord in person, which demonstrates the corporate, hands-off approach Invitation Homes seems to take towards property management. In general, we found Los Angeles tenants to be far less satisfied with Invitation Homes' customer service than those in Riverside. This is perhaps because the central office for Los Angeles is certainly not central to the city, being located 35 miles away — which can translate to an hour or more in Los Angeles traffic — while the office managing Riverside properties is less than half as far from the cluster of homes we canvassed.

IMPLICATIONS

Our findings highlight the experiences of some of the first tenants to rent from Wall Street landlords. We found a good deal of what one might expect from a landlord focused on using housing to turn a profit as easily as possible. The tenants we spoke to in properties controlled by the world's largest private equity group struggle to pay severely unaffordable rent. While doing so, they deal with faceless property management and regular threats of eviction.

Invitation Homes and The Blackstone Group enjoy speaking of themselves as saviors, "providing a much needed service for communities across the nation … removing distressed inventory from the market, which has been suppressing national home prices, creating jobs and providing high quality, affordable housing for families."[5] They may see themselves as rushing into the remnants of the housing crisis to "save" communities with their access to capital, credit, and hungry investors.[6] With all the wealth stripped from communities as a result of Wall Street's crisis, there is a need for investment. But we believe that investment should not only go to, but be controlled by, the communities hardest hit by the housing collapse. If we want this to end well at all, we need to intervene.

POLICY RECOMMENDATIONS

Based on our study, we recommend the following policies be passed at the local and/or national level of government:

LOCAL

- Pass ordinances to mandate that a percentage of homes owned by landlords with large numbers of single-family rental homes are affordable to residents making under 50 percent of Neighborhood Median Income.[7]
- Enact laws to ensure that rent control policies that apply to multifamily units also apply to single-family homes.
- Ensure that existing security deposit limits are being followed by institutional investors.
- Enact just-cause eviction laws, and ensure that those that apply to multifamily units also apply to single-family homes.
- Enact legislation to lessen housing discrimination against people of color by "Banning the Box" and removing rental application questions regarding previous encounters with the justice system.

NATIONAL

- Monitor and investigate institutional investor compliance with the Fair Housing Act, ensuring that "facially neutral" policies that have disparate impact on protected classes are not allowed.
- Authorize the Consumer Financial Protection Bureau to conduct oversight of the tenant selection, eviction, property maintenance, and disability access policies and actions of institutional investors.
- Implement financial transaction fees on rental bonds.
- Publicly disclose information on the Federal Housing Finance Agency's REO Pilot Initiative activity in order to compare the performance of federally controlled REO-to-rental activity with that of privately controlled single-family rentals.
- Fund the National Housing Trust Fund to enable community organizations and non-profit developers to have capital to truly invest in hardest-hit communities.

RENTING FROM WALL STREET:

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After the housing collapse of 2007, finance capital shied away from the housing market. In the past two years, however, that has changed. Private equity firms and institutional investors have raised and invested upwards of $20 billion to purchase more than 200,000 single-family homes nationwide, turn them into rental properties, and create new financial instruments with rental income streams. Many of the cities and neighborhoods targeted by institutional investors are places that experienced some of the highest concentrations of subprime mortgages, largest drops in home prices, and most wealth extracted from communities to Wall Street, specifically from people of color. Alongside this influx of capital into the housing market, pundits began declaring complete housing recovery inevitable and soon-to-come.[8] In this instance, however, cries of recovery were largely based on the increase in existing home sales — and subsequent rise in home prices — not on the level of housing affordability and stability being experienced by most Americans. While the number of home sales had in fact increased since the crash, many of the sales were being made to cash investors looking to financialize housing in a new way.

While the collapse of 2007 sent financial shockwaves around the globe, our housing market did not collapse on its own. It was pulled down by Wall Street bankers that created complicated and speculative financial instruments designed to feed rapid growth in the mortgage market. The results were disastrous, but not primarily for the bankers and financiers that had created the crisis. Low and middle-income Americans, particularly people of color, were hit the hardest by the collapse of what had been their most reliable means of generating wealth — the single-family home.

HISTORIC PRECEDENT

Communities of color were hit hardest by the housing crisis for a reason — American housing finance has a legacy of racial discrimination reaching back to the New Deal era of the 1930s.[9] With the creation of the Federal Housing Administration and the Home Owners' Loan Corporation in 1934, the federal government formalized the racial discrimination that municipalities and lenders had embraced in the Jim Crow era.[10] Take Los Angeles as an example. During the first several decades of the 20th century, neighborhoods near Central Avenue enacted restrictive covenants preventing non-whites from buying homes in the area.[11] As middle-class blacks migrated to the city, the area now known as South Los Angeles was one of the only neighborhoods available for them to move into.[12] While non-whites were technically able to buy homes in South Los Angeles, in 1934, the Federal Housing Authority enacted racially restrictive mortgage insurance policies that came to be known as redlining.[13] This prevented people of color from securing stable and subsidized mortgages.

Thanks to the federal creation of the secondary housing market and federally guaranteed mortgage insurance, the homeownership rate in the United States exploded from roughly 44 percent in 1930 to 62 percent in 1960.[14] Communities of color were left out of this investment

in the American middle class and the potential for wealth creation that accompanied it. Only in 1968 was such racial discrimination made illegal by the Fair Housing Act. While the passage of the Fair Housing Act marked a turn in the American housing market and helped people of color gain access to homeownership in a way our country had never seen, the enhanced possibilities for whites to gain household wealth through homeownership had been ongoing for nearly half a century before people of color were granted the same opportunity under the law. Over this time span, a majority of whites have become homeowners, with 73 percent of non-Hispanic whites currently owning homes. In the same time period, people of color have never surpassed a 50 percent homeownership rate, with the homeownership rate for Black Americans currently at 43 percent, 46 percent for Hispanic or Latino Americans.[15]

1983 is the first year from which family wealth statistics by race and ethnicity have been made available. At that point, 15 years after racial housing discrimination was made illegal by federal law, white families held, on average, five times more wealth than Black, Hispanic, or Latino families.[16] Since the early 1980s, the racial wealth gap has continued to expand. In 2010, three years after the housing crash, the average white family now has 6.4 times more wealth than the average non-Hispanic Black family, and 5.8 times more wealth than the average Hispanic family.[17] Between 2004 and 2010, the housing bubble peaked and burst. White families lost only 1 percent of their wealth, while black families lost 23 percent of their wealth, and Hispanics lost 25 percent of their wealth.

This loss of wealth, and the relative lack of wealth, in communities of color is directly related to the history of housing in America. Until 1968, housing finance in the United States was explicitly discriminatory. In 1968, the American housing market changed. Discrimination was made illegal. Over the next few decades, mortgage brokers reversed the manner of their institutional racism. This time, instead of excluding communities of color from access to mortgage debt, lenders were intentionally inclusive of communities of color, especially when selling predatory loans. In the words of Elvin Wyly, the 2000s became the age of "The American Dream: no money down."[18] Essential in the development of this deposit-less American Dream were products of financial engineering known as mortgage-backed securities, which came to be sought-after items on Wall Street.

Mortgage-backed securities consist of a group of mortgages that are bundled together to create an investment instrument. Investors purchase bonds in the security and receive dividends as the residents of the homes whose mortgages are bundled into the security make their payments. First engineered by Ginnie Mae in 1968, mortgage-backed securities introduced a new level of liquidity to the American housing market, further allowing homes to be treated as a commodity and a wealth-generating tool for the housing finance industry.[19]

Until the 1990s, mortgage-backed securities were essentially under the sole purview of Government-Sponsored Enterprises (GSEs), meaning Fannie Mae, Freddie Mac, and Ginnie Mae. These GSEs had relatively robust underwriting standards to avoid placing riskier mortgages in securities and safeguard against the collapse of the financial instrument. As private lenders started securitizing loans, this changed.

In the early 2000s, the subprime mortgage market was created. With the repeal of the Glass-Steagall Act in 1999, which had served to separate commercial banks from investment banks, credit began to flood the American housing market.[20] With home equity on the rise, and new

flows of capital entering into in the housing market, private-label mortgage-backed securities were in high demand. However, these securities were different from those issued by Ginnie Mae and the other GSEs in the late 1960s, primarily because they were not backed by the full faith and credit of the U.S. Government. Rather than consisting solely of the traditional fixed-rate 30-year mortgages, these new securities contained subprime mortgages as well. These subprime mortgages were made with little consideration for the borrower's ability to repay the loan and were primarily targeted toward those who had been historically left out of the traditional mortgage market: communities of color. Access to housing debt for borrowers who were historically excluded, particularly communities of color, surged as a result of the subprime mortgage market. Predatory lenders typically lured these borrowers with lines about wealth generation and the American Dream. In reality, borrowers were often being saddled with hundreds of thousands of dollars of housing debt through mortgages that had wildly adjustable interest rates, large payments due at the end of the loan period and in many cases required little to no verification of the borrower's ability to repay.

The combination of more traditional mortgages and the newer subprime mortgages allowed mortgage-backed securities issuers to achieve triple-A credit ratings for large portions of their bonds. This helped bond issuers sell to municipalities, pension funds, universities, and workers trying to save for retirement, which kept capital flowing into the housing market and subprime mortgage originations growing.

As delinquencies on subprime and other higher-risk loans grew, mortgage-backed security investors found themselves in serious trouble. Investors in securities, even those with the highest rated bonds, saw their returns trickle into nothing. To make matters worse, Wall Street investors had constructed financial instruments on top of these now faltering financial instruments, creating a speculative bubble on top of a speculative bubble. The cornerstone of the American housing market had been morphed from a stalwart American Dream to build wealth for the middle class into multiple layers of speculative financialization teetering atop predatory and inherently unstable subprime mortgages. With all that speculative weight, the deregulated mortgage market came crashing down. Housing had been commodified to the point of collapse. With its attempts to squeeze ever-increasing rates of return from housing investments, Wall Street had broken the American housing market. Some large banks and investment firms failed, but far more were considered "Too Big to Fail" by the U.S. government — and bailed out at the taxpayers' expense.

Though companies in the finance, insurance, and real estate industries suffered from the collapse, families living in the "subprimed" homes on which financial derivatives were piled were hit the hardest. Wall Street's involvement in the housing market resulted in millions of families losing their homes to foreclosure and eviction, and millions more stuck with more housing debt than their homes were worth. The housing collapse of 2007 was an example of Wall Street converting homeownership, the traditional way the American middle class generates wealth, into a means of extracting and transferring wealth from Main Street to Wall Street.

A RENTERSHIP SOCIETY

Approximately 4.4 million families lost their homes to foreclosure between September 2008 and May 2013.[21] In 2012 alone, families lost $192.6 billion in wealth to foreclosure. In zip codes with majority people of color populations, the rate of foreclosure and loss of household wealth was 170 percent higher.[22] The extent to which the American Dream had been commodified and financialized led to this extraction of wealth from communities, particularly communities of color, to Wall Street. As families struggled to keep their homes or get back on their feet across the United States, some of the architects of the last experiment to further financialize housing were dreaming up new ways to extract wealth from communities — this time, from renters instead of homeowners.

In a 2011 white paper, a team of Morgan Stanley analysts including Oliver Chang cited the American Dream's transition to American Nightmare for many homeowners, which when combined with "falling home prices, limited mortgage credit, continued [mortgage] liquidations, and better rental options … is moving the country toward becoming a Rentership Society" instead of a homeownership society. In the short-sighted and amnesic fashion typical of market-based analyses, the analysts failed to mention the role of the financial industry, Morgan Stanley included, in creating this American Nightmare.[23]

A few months later, in February 2012, the co-inventor and self-proclaimed "godfather" of mortgage-backed securities, Lewis Ranieri, published a paper taking its cues from Morgan Stanley's declaration of a shift from a homeownership society to a rentership society. Citing the same trends as Chang and his colleagues, Ranieri goes further to suggest that there are great gains to be made with Wall Street capital should large-scale investors use their access to cheap credit to institutionalize and financialize the single-family rental market that has been historically inhabited by mom-and-pop landlords. Likewise ignoring the fact that financialization and housing speculation, aided by toxic mortgage-backed securities, caused the collapse of the American housing market, Ranieri concludes that "[t]he United States housing market can be fixed" if capital flows back into housing and financializes renting.[24]

Though the Morgan Stanley and Ranieri papers both speak of the American Dream of low- and middle-income wealth creation through homeownership as something to be written off for the time being, this format of the American Dream is exactly what underlies their suggested investment strategies. Now, instead of the American Dream working for low- and middle-income families, it should be made to work for finance capital. When investment firms buy single-family homes, they can make sizeable returns while renting them out to the growing ranks of Americans unable to access homeownership. The renting of properties and institutionalization of the single-family rental market is, however, merely a means to an end. That end, for investment firms, is the sale of single-family homes after five to eight years of home price appreciation — in effect, the American Dream being put to work by and for finance capital yet again.

WORKING THE AMERICAN DREAM

In 2012, institutional investors made their return to the housing market after five years of relative absence. Following the advice of these white papers, companies like The Blackstone

Group, American Homes 4 Rent, Colony Financial, Silver Bay, Starwood Waypoint, American Residential Properties, former Morgan Stanley analyst Oliver Chang's Sylvan Road Capital, and Lewis Ranieri's Hyperion Homes began purchasing single-family homes in particularly hard-hit metropolitan areas around the United States with the intention of renting them out and financializing the rental streams in order to increase market liquidity and free up space on their balance sheets to redeploy their speculative capital.[25] Most of the larger institutional investors generally have business plans as follows:

1. Secure lines of credit at low interest rates from large banks.[26]
2. Purchase as many single-family homes as possible in areas where home prices and equity were gutted by the Wall Street-induced housing crash of 2007.[27]
3. Spend a few thousand dollars to repair each home. Some firms prefer purely cosmetic repairs, while others may perform more comprehensive repairs.[28]
4. Either buy or build property management infrastructure in order to operate thousands of single-family homes scattered across metropolitan areas as rental units and conduct maintenance as needed.[29]
5. Rent properties out to tenants who likely do not qualify for mortgage financing but are able to pass often stringent background and credit checks.
6. Financialize tenants' rent payments by creating rental-backed securities or publicly traded real estate investment trusts. Achieve solid credit ratings on financialized rental streams to attract investment and generate more liquidity, enabling more home purchases or easier withdrawal from the market.[30]
7. Use the American Dream of wealth-creation-via-home-equity, and sell properties should home prices appreciate to a certain point — with a goal of making 5 to 10 percent returns for the firm and its investors. Tenants may need to be evicted for homes to sell.[31]

Some companies have variations on the steps of this general strategy to institutionalize single-family rental and extract wealth from communities hit hard by crisis. Since home prices shot up by double digits in most metropolitan areas that have seen investor purchases of single-family homes,[32] firms are having trouble finding homes in their target price range. To ensure the continued acquisition of homes, Starwood Waypoint, American Homes 4 Rent, and other companies have started purchasing non-performing loans, giving them a shot at owning properties while residents are still living in them, struggling to pay a mortgage, and often seeking mortgage modifications in order to stay in their homes. Starwood Waypoint anticipates converting about half of all the non-performing loans they purchase into single-family rentals.[33] Throughout the housing and foreclosure crisis, banks have been horrible at modifying mortgages to help people stay in their homes.[34] Even when mandated by the federal government through the National Mortgage Settlement to provide relief to homeowners, banks spent most of the mandated expenditures on facilitating short sales, which result in knocks on consumer credit and loss of a home.[35] Single-family rental companies are poised to be even worse at keeping people in homes than banks have been. These companies want to convert the homes to rental properties and have little to no incentive to work to keep homeowners in their homes.

Blackstone and Colony Financial have been taking a different approach to increase their footprint in the single-family rental market. Instead of seeking out non-performing loans,

these companies are finding ways to make loans to smaller investment companies. Blackstone's "B2R" or buy-to-rent lending platform is "focused exclusively on the financing needs of single-family home investors ... B2R's products are tailored to serve investors with portfolios of five to five hundred homes nationwide."[36] In February 2014, B2R originated its first loan of $5.7 million for the acquisition of single-family homes. Colony Finance recently formed a joint venture with similar intentions, seeking to furnish $1 billion in financing for smaller corporate landlords throughout 2014.[37] This shows that not only are these firms looking to financialize rentership in single-family homes, they are also looking to financialize other landlords of single-family homes, thereby squeezing the highest returns possible out of what has traditionally been a local "mom and pop" industry.

ENTER BLACKSTONE

The Blackstone Group is the world's largest alternative-asset private equity firm. As of March 31, 2014, Blackstone held $271.7 billion in assets under management.[38] Among these assets are notable companies like Sea World, The Weather Channel, Extended Stay America and Leica, in addition to office parks and buildings around the world and single-family homes in the United States. Though Blackstone's acquisition rate for single-family homes has declined 70 percent from its 2013 peak, the firm still spends about $30 million a week to buy properties and in total has spent $8 billion to amass about 43,000 homes. In the brand new institutional single-family rental market, Blackstone is responsible for about 40 percent of all money spent to acquire properties, and it controls about 20 percent of all institutionally rented single-family homes.[39]

Buying, repairing, leasing, and managing 43,000 single-family homes scattered across the country has never been attempted before. Blackstone formed a property management company called Invitation Homes in June 2012 as a subsidiary of one of its real estate funds. While Blackstone employees may have experience managing real estate as a commodity to be traded, they have no experience managing properties as places to be occupied by renters. To solve this problem, Blackstone purchased expertise, partnering with Riverstone Residential to operate Invitation Homes, which now plays a primary role in purchasing, repairing, leasing, managing, and securitizing Blackstone's new rental properties.

In October 2013, Blackstone launched the first securitization of single-family rental homes. Invitation Homes received a $479.1 million loan from Deutsche Bank subsidiary German American Capital Corporation to finance the securitization of 3,207 single-family rental homes. The loan is secured by mortgages for each of the 3,207 properties. Unlike individuals, who tend to acquire homes with mortgage financing — and who may then have their mortgage bundled into a security — Blackstone and Invitation Homes acquire properties with cash. These 3,207 mortgages were created for the express purpose of securitizing these properties, enabling capital from bond investments to give Blackstone more liquidity so it can move its money elsewhere.[40] In contrast to more traditional mortgage-backed securities, these securities are not made up of a series of mortgages paid by individuals, on which individual defaults lead to individual foreclosures. The $479.1 million securitization is paid for by renters in each of the properties. This means that should Invitation Homes be unable to keep the properties occupied and generating enough rent to meet its obligations to investors, it can sell homes to make up the difference, potentially forcing the eviction of model tenants should

their homes appreciate desirably.[41] This securitization process relies on mechanics similar to those of mortgage-backed securities. However, with rent increases, and rent in most cities being more expensive than a mortgage, this Wall Street firm could stand to extract wealth from our communities at greater rates than before. According to its own projections, Blackstone anticipates profits of $9,513 per property per year. This means that Blackstone plans to extract about $13.3 million per year from the homes we identified in Los Angeles and Riverside, Calif.[42] When taken with the fact that initial white papers on small-family rental investment direct institutional investors to hold onto properties for a few years, rent them as home prices appreciate, and then sell them, these institutional investors are taking the place of homeowners who could use equity to build family wealth and stronger communities.

In May 2014, Invitation Homes launched its second single-family rental securitization, only the fourth to be backed by rental payments and equity appreciation of single-family rental properties. This securitization was more than twice the size of the previous one, with a $1 billion securitization of 6,537 properties in a similar structure to the previous deal.[43]

The institutionalization and financialization of single-family rental homes in the United States has never been done before. The Blackstone Group's Invitation Homes was the first to securitize single-family rental homes, having done so less than a year ago. These are new kinds of securitizations with no historical data to pull from to predict performance or effect on community stability. When mortgage-backed securities boomed in the early 2000s, they had already existed for decades. Banks had been servicing mortgages for 70 years — and still, the financial instruments built on mortgage-backed securities collapsed and brought on the Great Recession. Institutional investors like Invitation Homes have only been working to purchase, repair, lease, manage and maintain tens of thousands of scattered-site single-family rentals for about two years. There is no direct precedent for institutional investors' renewed attempts to further financialize housing. It is unclear how their plans will hold up.

Among the credit-rating agencies being asked to evaluate single-family rental backed securities, Standard and Poor's has made it policy not to award triple-A ratings to single-family rental securitizations because of potential operational risk, the meager size and depth of the property manager pool for such properties, and the lack of historical data. Even with the lack of historical data, the credit-rating agencies Moody's, Kroll, and Morningstar have all rated large portions of Invitation Homes securitizations triple-A.[44] This means these three agencies consider this entirely new asset class to be among the safest investments possible, enabling and encouraging investment from municipalities and pension funds that were fleeced by the precipitous collapse of mortgage-backed securities seven years ago.

With analysts predicting a near trillion-dollar single-family rental securitization market in the next five years, investors were eager to purchase bonds in the top tranches of the initial Invitation Homes securitization.[45] Since then, an increase in the vacancy rate for homes backing the first securitization saw rents collected to pay the bond drop 7.6 percent, and parts of the bond are trading near or less than par.[46] Though the reviews seem to still be out on these financial instruments issued by an inexperienced industry, the number of single-family rental home–backed securities has quadrupled in eight months.

BLACKSTONE'S INVITATION HOMES:

Los Angeles and Riverside, Calif.

PURPOSE and METHODOLOGY

Many news outlets and academic institutions are beginning to investigate the impact of the institutionalizing single-family rental market, and specifically Blackstone's Invitation Homes, from the top down. They offer valuable insight by analyzing information being attainted through public records, investigative journalism, and Blackstone itself. We wanted to take a different angle and investigate the impact on the grassroots level. We wanted to talk to tenants renting single-family homes in Los Angeles and Riverside, Calif., about their experiences living under the largest of the Wall Street landlords. To do this, we developed a 42-question survey to conduct with tenants, seeking to complete at least 25 surveys in each city. As we canvassed properties, seeking tenants to complete our survey, we took note of whether properties seemed vacant, in renovation, or occupied, and conducted property transaction research on how much Blackstone spent, and who they bought homes from, for a total of 292 properties.

Our property research and tenant survey centered on the following primary questions in each city:

- How is Blackstone influencing housing markets?
    - How many homes does it own in each city? What kind of homes does it own in each city? How did it acquire the properties?
- Who is renting from Blackstone?
    - What are the social, economic, and demographic characteristics of tenants living in Blackstone-owned homes?
- What is the level of accessibility for lease applicants?
    - Who can apply to live in a Blackstone home? What are the background check requirements? What are the credit requirements? What other requirements does the company have?
- What level of affordability does Blackstone offer tenants?
    - Is rent affordable to tenants? Does rent increase from year to year, and if so, by how much? What other fees and expenses do tenants pay?
- What level of stability is Blackstone providing its tenants?
    - Can tenants remain in their homes and communities without the threat of displacement or unfair eviction?
- What is the quality of conditions for tenants in Blackstone homes?
    - Does the company make quality renovations and repairs before tenants move in? With such a large portfolio of homes, can it keep up with maintenance? Is maintenance carried out to the satisfaction of its tenants?
- What is the quality of its customer service?
    - How might the placement of regional offices affect the quality of service tenants receive? Are tenants' needs met in an effective and timely manner?

In order to identify homes occupied by Invitation Homes tenants in both Los Angeles and Riverside, Calif., we used public records searches to identify properties in both counties belonging to THR California, a Blackstone subsidiary used to acquire properties and listed on many Invitation Homes leases as the property management company. In Los Angeles and Riverside combined, we were able to identify a total of 1,402 properties owned by THR California as of early March 2014 — we want to make clear that our search of public records was not exhaustive, and the sum of Blackstone's properties in both cities is more than 1,402. As our goal was to drive from property to property in the span of a month, canvassing the properties and surveying tenants when possible, the total of 1,402 properties gave us more than enough to work with.

Map of approximately 1,402 Blackstone properties spread from Los Angeles to Riverside.[47]

The canvassing and surveys for this study were completed over a period of three weeks in March 2014. After completing the canvassing and conducting the surveys, responses were collected and analyzed, producing findings on property transactions, tenant characteristics, and our primary questions.

In order to make tenants as comfortable as possible completing our survey on their experiences living under a Wall Street landlord, we have omitted any identifying information about respondents to ensure their confidentiality. To preserve confidentiality, we will use the non-gendered pronoun "they/their" when describing individual tenant experiences.

LOS ANGELES

PROPERTIES CANVASSED

In Los Angeles County, we were able to identify 1,221 properties owned by THR California as of early March 2014. Of the 1,221 identified properties, we canvassed a total of 127 located in and around South Los Angeles. These properties were chosen because of their location, a neighborhood that has been negatively affected by nearly every housing conundrum in the past century. South Los Angeles was redlined from the 1930s to the 1960s, making affordable housing finance unavailable for residents of the majority people of color neighborhood. More recently, South Los Angeles was a site of predatory subprime lending and subsequently high levels of foreclosure. A study by the California Reinvestment Coalition found that in 2008, Los Angeles zip codes composed of 80 percent or more people of color like those in South Los Angeles contained 63 percent of the city's housing units — but experienced a whopping 90 percent of all foreclosures. In recent years, the neighborhood has experienced what some are calling "re-redlining," the broad-based denial of prime mortgages in communities of color, which prevents homeownership and makes South Los Angeles a prime spot for Wall Street's newest housing commodification and wealth extraction strategy.[48] After the housing crisis, South Los Angeles zip codes experienced more foreclosures than all but two other zip codes in Los Angeles.[49]

Of the 127 properties canvassed in South Los Angeles, 7 were vacant, 3 were under renovation, and, of the 36 households we were able to talk to, 25 households completed the survey.

PROPERTY TRANSACTIONS

In seeking to learn more about Blackstone's home purchases, we conducted public records searches on transaction data, square footage, number of beds and baths, and the year each property was built. Unfortunately, some transaction information is not available through public records searches, meaning 25 properties that were canvassed have been omitted from this segment of the report. In Los Angeles, Blackstone and its subsidiaries spent $26,954,426 in cash between the end of April 2012 and early March 2013 to acquire the 125 homes canvassed by organizers for which data is available. Of the 127 Los Angeles properties surveyed, Blackstone/THR purchased 50 percent from corporations and 50 percent from individuals. When purchasing from individuals, Blackstone acquired two-thirds of its properties through foreclosure, meaning that the previous homeowner did not freely choose to sell to Blackstone, but lost their home upon being forced into foreclosure. The corporations that sold properties to Blackstone seem to be engaged in speculative activity. Instead of having sold to Blackstone after owning and maintaining the property for a sizeable amount of time, 86 percent of corporate sellers had owned the property for one year or less.

In regard to physical characteristics of the properties we canvassed, the average age is about 83 years old or built in 1931. The oldest home canvassed was built in 1901, and the newest

built in 1999. In terms of size, the homes we canvassed averaged 1,261 square feet, with 3 bedrooms and 1.5 bathrooms.

TENANT CHARACTERISTICS

The tenants we surveyed were 56 percent female and 44 percent male. In terms of race and ethnicity, our Los Angles respondents were 36 percent Black or African American, 48 percent Hispanic or Latino, and 4 percent white; 12 percent identified themselves as belonging to another racial/ethnic category.

While most of our respondents had previously been renters before moving into their Invitation Homes rental, 16 percent were homeowners prior to renting from Blackstone's Invitation Homes. Six of the respondents had moved to South Los Angeles from cities just south of Los Angeles proper, among them Compton, Torrance, Carson, Inglewood, and Gardena. One tenant had moved in from out of state, and one had only moved around the corner from their previous home. When asked why they moved, four tenants said they were previously homeowners and had been pushed out by their bank, three of them due to foreclosure and one because their lender refused to modify their loan. Five respondents sought to lease from Invitation Homes because they wanted to live in a single-family house. Eight tenants said they decided to move from their last home because they simply wanted more space.

Six tenants declined to answer questions regarding their annual household income. Of those that did respond, 33 percent of households were making $70,000 a year or more, 11 percent made between $50,000 and $70,000 a year, another 11 percent made $40,000 to $50,000 a year, 33 percent made $20,000 to $40,000 a year, and 11 percent made less than $20,000 a year. Sources of income varied, but a large proportion of respondents, 40 percent, worked in the service sector. Twenty percent worked in skilled trades as plumbers or electricians, and 12 percent of our respondents were retired.

ACCESSIBILITY

A major barrier to rental accessibility, especially for low-income renters, is the required deposit amount. In Los Angeles, the average deposit amount equated to 157 percent of respondents' monthly rent amount. The highest deposit required as a percentage of monthly rent was 281 percent, and the lowest was 53 percent. Two of our respondents reported paying more than two times the equivalent of one month's rent, which is illegal under California law.[50] Though a number of renters expressed concerns about their lease applications being rejected due to poor credit, when those renters' deposit amounts as a percentage of their rent was compared to others, there seemed to be no systematic way Invitation Homes was using creditworthiness to determine deposit amounts.

Invitation Homes carries out background checks on all lease applicants. According to Invitation Homes documents, if applicants have been convicted of a felony in the past decade, or a misdemeanor in the past three years, they will be denied a lease application. Weapons-related misdemeanors are exempt from this qualification, and will not result in a denial.[51] It is common knowledge that the justice system in this country discriminates against people of color in both arrest rates and prosecution.[52] Similar standards for employment applications are illegal.[53]

AFFORDABILITY

According to the Department of Housing and Urban Development, anyone paying over 30 percent of their income toward housing costs is considered "cost-burdened," with unaffordable housing.[54] Sixty-seven percent of the Invitation Homes residents we spoke to in Los Angeles were paying more than 30 percent of their monthly income toward rent, making their housing unaffordable. Further, 17 percent of respondents were severely cost-burdened, meaning that their monthly rent cost them at least 50 percent of what they were bringing home each month.

For respondents who reported their monthly rent, the average amount paid each month came to $1,740. Invitation Homes requires that their tenants pay for all utilities and landscaping for each rental property. For the tenants we interviewed, average non-rent housing costs came to $520, which puts the total average monthly housing costs at $2,260. When these additional housing costs are factored in, 67 percent of our respondents had unaffordable housing, and 47 percent were severely cost-burdened.

STABILITY

In Los Angeles, Blackstone purchased half of the properties canvassed from corporations. Most of these corporations played the role of property speculators, owning the property for less than a year, likely with no intention of keeping it occupied, before selling to Blackstone and making tens of thousands of dollars. These purchasing patterns lead to weakened community stability, with families being pushed out of homes that are to be used primarily as investment tools instead of sources of shelter, stability, safety, and community. Such trends have also seemed to edge out lower- and middle-income homebuyers, with men in suits buying up homes from realtors with cash before people aspiring to become homeowners get a chance to look at the house.[55]

One tenant reported a striking example of how Blackstone's business model prioritizes wealth extraction based on accumulation by dispossession. After living in their previous home for nearly 40 years, this tenant's spouse passed away, and the bank was unwilling to work with them to keep them in their family home. They were foreclosed upon and now find themselves renting from Invitation Homes. Upon speaking with a former neighbor and checking public records, this tenant found out that their previous family home of four decades is now owned by Invitation Homes.

Los Angeles tenants also reported some troubling lease conditions. First, they reported that there is a clause in the lease enabling Invitation Homes to terminate the lease, demand possession of the house, and evict the tenant at any moment with a modicum of warning. Adding to tenant stress, tenants reported receiving three-day vacate notices on the fourth of the month, a day before rent is technically due. On top of all this, one tenant reported a lease clause that requires tenants to pay $600, in addition to late fees and rent, if Invitation Homes officially files for eviction.

QUALITY OF CONDITIONS

Fifty-six percent of Los Angeles respondents reported having problems with their plumbing. While this was the most common issue, multiple tenants reported having consistent, major problems with insects and insulation.

Of the seven tenants that reported having problems with mold, one tenant described a particularly harrowing experience. Upon move-in, they found the property in disrepair, with mold throughout the house and a leaky roof. The tenant was forced to stay in a hotel for three weeks. When asked their thoughts on Invitation Homes, the tenant said that "they use cheap contractors and raise the rent. They are lazy … they don't care about tenants. They are slumlords, and the house is falling apart."

CUSTOMER SERVICE

In Los Angeles, 44 percent of the respondents did not find themselves "pleased with how [their] landlord/property manager responds to issues and problems when they arise." 63 percent of Los Angeles respondents did not agree with Invitation Homes' claim that they have "top-level management — dedicated to giving [them] great service!" One tenant in particular elaborated on their displeasure with Invitation Homes' customer service, saying that when requesting repairs, they had to repeatedly call and re-emphasize the urgency of the situation to get anyone to finally come out.

Something important to note is the fact that the Invitation Homes office servicing Los Angeles is located 30 miles away from South Los Angeles in the San Fernando Valley neighborhood of Woodland Hills. Woodland Hills is 78.3% white, with a median household income of $89,946.[56] South Los Angeles, on the other hand, is 2.2 percent white, with 84 percent of households making less than $60,000 a year.[57] Residents must often visit the Invitation Homes office to pay rent or resolve complaints. In an earlier report on Invitation Homes tenants in Atlanta, similar office placement was found. The fact that Invitation Homes chose to locate its office in a wealthier, whiter neighborhood relatively far from where many of its properties are located is concerning, as it may mean that people of color living in lower-income neighborhoods receive worse customer service.

RIVERSIDE

PROPERTIES CANVASSED

In Riverside County, we were able to identify 181 properties owned by THR California as of the same time period. In Riverside, Calif., 165 Invitation Homes–managed properties were canvassed. These properties were selected for canvassing because of their close proximity to each other and location within the municipal boundaries of the City of Riverside. Riverside was selected as a research site because after experiencing a massive housing boom during the bubble years, it was hit hard by the foreclosure crisis spurred by the housing crash and remains the eleventh most underwater metro area in the United States.[58]

Of the 165 properties canvassed, two were vacant, three were up for rent, and, of the 43 households we spoke with, 26 completed the survey.

PROPERTY ACQUISITION

To acquire the 162 Riverside properties with listed public sales data of the 165 properties canvassed, Blackstone spent $33,394,540 in cash between late April 2012 and mid-April 2013 to acquire properties. Of the 165 Riverside properties surveyed, Blackstone purchased 12 percent of the properties from corporations and 88 percent from individuals. Of those purchases from individuals, 78 percent were made through foreclosure. This means that 114 of the 165 Blackstone properties we canvassed in Riverside were recently inhabited by families struggling to stay in their homes and likely attempting to work with banks to make their payments more affordable. Instead of receiving modifications or principal reduction that would have kept them in their homes, they were foreclosed upon and Blackstone bought their homes at a discount, evicting anyone remaining in their homes post-foreclosure. On average, individuals who sold or lost their homes to Blackstone had owned them for 10 years and 2 months.

In regard to the physical characteristics of the properties we canvassed, the average age was about 35 years old or built in 1979. The oldest home canvassed was built in 1925, and the newest was built in 2007. In terms of size, the homes we canvassed averaged 1,717 square feet with 4 bedrooms and 2.5 bathrooms.

TENANT CHARACTERISTICS

The 26 tenants we surveyed in Riverside were 69 percent female and 31 percent male. In terms of race and ethnicity, our respondents were 20 percent Black or African American, 50 percent Hispanic or Latino, and 15 percent white; 15 percent identified themselves as belonging to another racial/ethnic category.

Most of our respondents had previously been renters before moving into their Invitation Homes rental, but 35 percent had been homeowners. A majority of tenants, 54 percent, simply moved from other homes in Riverside to their Invitation Homes properties. Other tenants moved to Riverside from a variety of Southern California cities, with one tenant moving from

Los Angeles and another from San Diego. When asked why they moved, 14 tenants reported moving of their own volition. Eight moved out of their prior residences seeking more space. Others sought job opportunities, proximity to schools, or simply wanted to live in Riverside. The other 11 tenants we spoke with were effectively displaced from their previous residences. Five were foreclosed upon, two had their units sold out from under them by a landlord, two were priced out of their previous rentals, one was unable to get a bank to negotiate on their mortgage, and one moved after their landlord lost the house to foreclosure.

Three tenants declined to answer questions regarding their annual household income. Of those that did respond, 26 percent of households made $70,000 a year or more, 9 percent made between $50,000 and $70,000 a year, 30 percent made $40,000 to $50,000 a year, 26 percent made $20,000 to $40,000 a year, and 9 percent made less than $20,000 a year. Our respondents had varied sources of income. Of the 24 who responded to questions about place of work, 29 percent worked in both the service industry and in skilled trades. The next most common source of income was through work in the public sector, where 25 percent of respondents worked. In addition, 4 percent were unemployed at the time of interview, 4 percent were retired, and another 4 percent were students.

ACCESSIBILITY

In Riverside, the average deposit amount equated to 140 percent of respondents' monthly rent. The highest deposit required as a percentage of monthly rent was 333 percent, and the lowest was 22 percent. In California, it is illegal for landlords to charge more than the equivalent of two months' rent for a security deposit, meaning that three of our Riverside respondents paid unlawfully high deposits.[59] Though there was a wide range in deposit amounts required prior to move-in for the 26 tenants we interviewed in Riverside, the deposit amounts did not seem to correlate with tenants' anxieties about creditworthiness during the application process. The fact that Invitation Homes does not make explicitly clear their process for determining credit risk and associated deposit demands could be a barrier for people interested in renting single-family homes from Invitation Homes.

One policy that Invitation Homes does make clear in its application form is that applicants with former convictions at misdemeanor or felony levels will have a hard time becoming Invitation Homes renters. The application form states that anyone convicted of a felony in the past ten years or a misdemeanor in the past three will not be approved to rent. One of the very few exceptions to these rules stated on Invitation Homes documents is that weapons-related misdemeanors within three years of applying to lease will not affect the applicant's chances of approval.[60] The fact that Riverside residents are 66 percent non-white means that these policies will have a more detrimental effect on Invitation Homes applicants of color, as non-whites are more likely to have prior convictions with the biased justice system.[61]

AFFORDABILITY

In Riverside, 63 percent of our respondents were paying more than 30 percent of their monthly income toward rent, making their housing unaffordable. Further, 33 percent of respondents were severely cost-burdened, meaning that their monthly rent cost them at least 50 percent of what they were bringing home each month. When additional housing costs

associated with renting from Invitation Homes — like lawn maintenance and all utilities — are factored in, 69 percent of our respondents had unaffordable housing, and 44 percent were severely cost-burdened.

The Department of Housing and Urban Development states that renters are cost-burdened, and housing is considered unaffordable, when tenants pay 30 percent or more of their income toward housing costs. The majority of Riverside tenants we spoke with were cost-burdened even before factoring in the average $510 per month spent on utilities and lawn maintenance. No Riverside households we interviewed making under $50,000 a year had affordable housing. When considering that Riverside's area median income as determined by HUD stands at $60,700 — meaning half of all Riverside households make less than $60,700 a year — it seems that Invitation Homes is pricing out a significant chunk of the renting population, as wealthier households tend to own property instead of rent.[62]

One tenant with a foreclosure on their record noted the difference in affordability between renting and homeownership. The tenant was disappointed in having to pay rent to an outside investor just for having a foreclosure on their credit five years back. They said that they "did a comparison of homes in the area, and most of them had said the monthly payments were way lower than what [they're] paying," noting in particular that the homeowners across the street have a monthly payment nearly 20 percent lower.

STABILITY

Although Invitation Homes lease agreements state that tenants have until the fifth of the month to pay rent, all tenants who reported paying rent after the second of the month or later reported receiving three-day notices to vacate on the fourth of the month without fail. Such threats by default are intimidating to tenants, who also reported that were Invitation Homes to actually carry out an eviction, the tenant would be charged $600 in processing fees. One resident reported receiving a three-day notice to vacate because the Invitation Homes website was down. They said that there "was a problem with the actual website where you paid your rent. We couldn't get a hold of the office, couldn't get a hold of anybody to collect it so we could pay it. But of course the three-day notice was pretty quick to arrive before we could let them know that the computer system wasn't working."

Multiple Riverside tenants reported being surprised with rent hikes when it came time for lease renewal. After a letter was sent to one tenant demanding a 9 percent increase in rent for the coming year's lease, and another rent hike guaranteed the next year, the tenant had no choice but to make plans to move, unable to afford continual rent hikes. They said that "it was a learning experience, for sure. The hike in rent was crazy, especially for students. I can only imagine that families have a hard time when projecting that they will raise it yearly."

Another tenant, after being "misinformed that this house was a lease with an option to buy" was surprised by rent increases as well, stating that they are now dismayed about yet another rent hike on the way should they renew their lease again. This misinformation, or lack of information, provided by Invitation Homes can destabilize the lives of their tenants, forcing them to move in search of lower rents.

In terms of community stability, 70 percent of all the Blackstone properties we canvassed in Riverside were acquired through foreclosure sales. Of the Invitation Homes properties acquired from individuals, 88 percent were acquired through foreclosure, meaning that Invitation Homes likely evicted as many as 114 Riverside families who had been struggling to stay in their homes and avoid foreclosure. More than a quarter, 27 percent, of the tenants we spoke with in Riverside were now renting from Invitation Homes after being displaced from previous homes due to foreclosure or inability to modify a mortgage, highlighting the fact that institutional investors like Blackstone are directly benefiting from displacement trends suffered by previous homeowners and tenants in foreclosed properties. Invitation Homes' tendency to acquire properties either from speculative investors that hold properties for less than a year or directly through processes of displacement shows a business model that requires these two detrimental trends in order to exist.

QUALITY OF CONDITIONS

In Riverside, 38 percent of all respondents reported having roach or insect problems. Multiple tenants reported having consistent, major problems with rodents or termites and plumbing. One tenant reported having a lot of water leaks. When they confronted Invitation Homes about the fact that there was black mold growing in the bathroom, the company refused to do anything about it — even to inspect the reported problem.

CUSTOMER SERVICE

Invitation Homes' approach to customer service and property maintenance is fed through a central office — in Corona, Calif., for Riverside tenants — and then tasks are dispersed to a myriad of private contractors to conduct repair work. Because of this corporatized model's insistence on running all requests and complaints through a call center, 74 percent of our Riverside respondents stated that they had never met their landlord in person.

Perhaps associated with the fact that so many tenants had never met their landlord in person, a drastic variance was reported in responsiveness to maintenance requests and quality of repairs. One tenant reported that the contracting company that did repairs was reliable, but it was next to impossible to get a hold of the Invitation Homes office to schedule repairs because "every time [they] tried to get a hold of them they weren't there. We left messages and they never called back." In almost direct contradiction, another tenant said that it was easy to get in touch with Invitation Homes and "the repair people come out pretty fast, but they seem like they make Mickey Mouse repairs, because they repair one leak and then another leak shows up somewhere else." This points to the challenges of managing thousands of non-uniform single-family homes scattered across the country.

IMPLICATIONS

PROPERTY ACQUISITION

As highlighted by our findings in both Los Angeles and Riverside, Blackstone's business model is based on property acquisition techniques that undermine community wellbeing. In Los Angeles, a large proportion of properties were purchased from speculative investors that had owned the properties for less than a year — likely with no other intentions but to hold on long enough to sell to a higher bidder, thoughts of community development and wealth generation in-place far from their minds. In both Los Angeles and Riverside, homes that were acquired from individuals were by and large purchased through foreclosure-related processes of forced dispossession and displacement.

Blackstone and Invitation Homes deploy narratives of recovery, re-investment, and stabilization,[63] when their very business model relies upon displacement and community distress. Were it not for the housing collapse caused by Wall Street's use of financial instruments for the zealous extraction of wealth from communities, specifically communities of color preyed upon by lenders, and the dearth of community-based capital to fix what we were left with, Blackstone would not have space to deploy billions in capital into housing right now.

To purchase all of the homes we canvassed, Blackstone spent a total of $60.3 million in cash. Their ability to purchase with cash allows them to acquire properties as rapidly as they are put on the market. This puts families without hundreds of thousands of dollars in cash at a disadvantage, as they have to deal with the time it takes to secure traditional financing for their purchase. Blackstone has also been known to use their access to millions in cash to outbid mom-and-pop real estate investors.[64]

While Blackstone speaks of the money it is pouring into the purchasing of homes as an investment in communities, we see it as purely an investment in itself — a foundation for further wealth extraction. The word "investment" has positive connotations. It implies something beneficial, long term, a devotion of resources toward improvement. Blackstone's "investment" is one that is based on low home prices made possible through bank dispossession. It's an "investment" that takes from the community instead of giving. Yes, the firm is spending a few thousand dollars on repairs for each home it acquires. But it is extracting years of unaffordable rent from members of the community and sending it to "investors" in its rental-backed securities. Not only that, in the long run it plans to extract the equity in the homes it purchases, divesting as soon as they meet a level of returns it is comfortable with. This is not an "investment" our communities can afford.

ACCESSIBILITY

Invitation Homes' application policies have the potential to exclude those affected by the wave of displacement caused by the 2007 housing collapse and applicants of color. The stated policy that Invitation Homes will turn down any renter with a current bankruptcy eliminates

homeowners who, in non-judicial foreclosure states like California, often have to resort to bankruptcy as a last resort to avoid foreclosure.

The automatic denial of applicants convicted of a felony in the past decade, or a misdemeanor in the past three years (aside from weapons-related offenses),[65] is discriminatory toward people of color. In California, one in four adults has either an arrest or conviction on their record.[66] People of color are overrepresented in the criminal justice system, with the arrest population of African Americans accounting for double their share of the general population. This means that barring people from residence based on criminal records is disproportionally exclusive against people of color. In fact, Title VIII of the Civil Rights Act of 1968, also known as the Fair Housing Act, prohibits rental discrimination based on race, color, religion or national origin whether that discrimination is explicit or based on "facially neutral" practices that have a disproportionate impact on residents of a certain race, color, religion or national origin.[67] Taken with the fact that "commercially prepared criminal background checks have been found to be rife with inaccuracies"[68] and even FBI criminal checks are found to be out of date 50 percent of the time,[69] there is extremely high potential for housing discrimination based on the use of conviction records as rental criteria. Similar blanket bans on people with criminal backgrounds is illegal in hiring processes precisely because it is racially discriminatory; in fact the U.S. Equal Employment Opportunity Commission has explicitly stated that "an absolute bar to employment based on the mere fact that an individual has a conviction record is unlawful under Title VII." A ban on people with criminal backgrounds should be disallowed in housing because of its racist underpinnings.[70]

Deposit amounts reported by the tenants we interviewed seemed at times to be illegally high. According to the California Department of Community Affairs, "the total amount that the landlord requires as a security [for an unfurnished property] cannot be more than the amount of two months' rent."[71] In Los Angeles, two tenants reported paying more than two months' rent as their security deposit. In Riverside, three tenants reported paying more than twice their monthly rent toward deposit, with one tenant paying more than three times their rent as a deposit. Not only is this practice illegal under California law, it also has the potential to make the cost of starting a lease with Invitation Homes prohibitively high for middle- and low-income residents.

AFFORDABILITY

In a promotional video launched just months after Invitation Homes' creation in 2012, Blackstone's Global Head of Real Estate Jonathan Gray outlines a desire to one day be able to "drive into a community and see families with affordable housing" in homes owned by Invitation Homes.[72] Our findings imply that Mr. Gray's desire may not be coming to fruition, as 67 percent of tenants we spoke to in Los Angeles and 63 percent in Riverside had unaffordable housing, and 17 and 33 percent of respondents in each city, respectively, were paying more than half of their income toward rent.

The United States is in a rental affordability crisis right now. In the words of HUD Secretary Shaun Donovan, it is "the worst rental affordability crisis that this country has ever known."[73]

According to Zillow, in the past 14 years, "median household income has increased by 25.4 percent, while rents have increased over 52.8 percent, more than twice as much."[74] The availability of affordable housing impacts the health of our communities both physically and economically. With unaffordable rent, middle- and lower-income renters spend less on goods and services that fuel economic recovery and growth. Low-income families in particular with unaffordable housing spend less on food, clothing, and healthcare compared to those with affordable rents. When tenants pay unaffordable rent, those who were hit hardest by the housing collapse brought on by Wall Street finance suffer economically, unable to build wealth and stability. On the other hand, landlords that charge unaffordable rent are set to profit handsomely. In the case of Blackstone's Invitation Homes, the profits from unaffordable rent are going back to Wall Street, as the legacy of wealth extraction by domineering capital continues in our communities.

STABILITY

Blackstone's financialization of single-family rental housing has the capacity to destabilize the lives of individual renters and the communities in which they live. As their first two single-family rental securitizations have gone to market, the lease clauses needed to support the securitizations have become apparent. Invitation Homes must meet its obligations to investors by selling homes should their income from rent be insufficient to make payments on the mortgages backing their two securitizations thus far.

In Los Angeles, a tenant reported that the lease stated that Invitation Homes could break the lease relatively quickly and easily with little recourse to the tenant. Should Invitation Homes need to sell off homes to meet investor obligations, they will likely want to sell just enough to fill their deficit. This could very well mean that a home occupied by a model tenant is put up for sale, the lease broken, and the tenant pushed out, because Invitation Homes failed to keep other units sufficiently occupied.

In both cities, residents indicated that Invitation Homes would regularly send letters threatening eviction even before rent payment deadlines had passed. Additionally, 74 percent, or 156, of the 211 homes we canvassed that Blackstone had acquired from individuals were acquired through foreclosure sales, which often require the new owner to evict former homeowners. On a more "facially neutral" level, the Blackstone tenants we spoke with seemed to be unaware of impending rent increases until it was too late to plan for them. This pricing out has already effectively displaced one resident we spoke with only three months ago.

Blackstone's Invitation Homes may also have a broader destabilizing effect on communities. Of the tenants we interviewed, 22 percent had been forced out of their previous home due to foreclosure or unwillingness by a bank to modify a mortgage. It is this housing instability, experienced by millions around the country, that Blackstone and Invitation Homes are betting on to make their venture profitable. When accumulating properties, they benefit by being able to purchase homes through foreclosure at prices that previous homeowners may well have been able to afford had they received principle reduction to current market value. When renting properties, it is imperative that Blackstone and Invitation Homes be able to displace residents as quickly as possible. Unlike multifamily landlords, Blackstone did not construct

the single-family homes they own, creating economies of scale and being able to predict vacancies or other hits to their bottom line from the outset. Instead Blackstone and other institutional investors are attempting to force a rental business model on properties that are scattered around metropolitan areas, built with different infrastructure, and quite simply were not built to be rented.

These facts taken together imply that Blackstone's Invitation Homes is more than willing to displace residents, be they Invitation Homes renters or former homeowners with properties purchased by Invitation Homes, to ensure that they extract as much wealth as they can from the communities in which they are present. After years of unprecedented levels of foreclosure and eviction, displacement-happy landlords are the last thing that places like Los Angeles and Riverside need.

QUALITY OF CONDITIONS

When taken together, 46 percent of the residents we interviewed reported experiencing problems with plumbing, 39 percent reported incidences of roaches or insects, 22 percent reported problems with rodents or termites, 21 percent reported issues with heating or air conditioning, 20 percent reported problems with mold, 18 percent reported having roof leaks, and 19 percent reported experiencing other problems with the conditions of their homes. This illustrates the fact that Blackstone and Invitation Homes' property management model is flawed.

A lawsuit recently filed by former Invitation Homes tenants from Sun Valley, Calif., just north of Los Angeles, highlights the potential for uninhabitable conditions in single-family homes rapidly purchased and repaired by Blackstone. The former tenants allege that their home "quickly became a slum — one with persistent water leaks, cockroaches and mold that sickened [them]." Only a month after they moved into the property, they were forced to move because of illness caused by mold and asbestos and lack of diligent maintenance by Invitation Homes.[75] Because Invitation Homes bought single-family homes at such a rapid pace, our findings and other news reports suggest that they have had challenges to initially repairing, and continuously maintaining, a sizeable portion of the properties they own.

CUSTOMER SERVICE

Blackstone's Invitation Homes is undertaking a massive experiment in property management. Managing thousands of scattered single-family homes across hundreds of square miles in each of the many metropolitan areas in which they operate has been, and will be, a challenge. The economies of scale possible in multifamily property management and maintenance are impossible when every single property has unique infrastructure requiring varying parts and maintenance. The information we received from our respondents indicated that, with wildly varying customer service experiences, Invitation Homes is still very much in the experimental phase of this project, and the final verdict on success or failure is not yet in.

When combining the responses from all of the tenants we surveyed for this report, 83 percent had never met their landlord in person. In Los Angeles, our respondents reported more difficulty receiving quality customer service than those in Riverside did. While the office serving Riverside is only a few miles away in the (wealthier, whiter) city of Corona, the Los

Angeles office is 30 miles from South Los Angeles, which we found to have the highest concentration of properties managed by Invitation Homes in the Los Angeles area. In both Los Angeles and Riverside, Invitation Homes' servicing offices are located in particularly white and particularly wealthy parts of the county. The same is true in Atlanta.[76] In part due to the legacy of redlining and associated white flight, such white and wealthy neighborhoods do not tend to be centrally located in metropolitan areas. This may create a privilege of proximity for Invitation Homes renters living nearer to the servicing offices.

POLICY RECOMMENDATIONS

Our findings highlight the experiences of some of the first tenants to rent from Wall Street landlords. We found a good deal of what one might expect from a landlord focused on using housing to turn a profit as easily as possible. The tenants we spoke to in properties controlled by the world's largest private equity group struggle to pay severely unaffordable rent. While doing so, they deal with faceless property management and regular threats of eviction.

Invitation Homes and the Blackstone Group enjoy speaking of themselves as saviors, rushing into the remnants of the housing crisis to save communities with their access to capital, credit, and hungry investors.[77] With all the wealth stripped from communities as a result of Wall Street's crisis, there is a need for investment. But we believe that investment should not only go to, but be controlled by, the communities hardest hit by the housing collapse. The trend being set and followed by the Blackstone Group is nothing new. Wall Street has found yet another way to extract wealth from hardworking people trying to keep roofs over their heads. If we want this to end well at all, we need to intervene.

Here is what that intervention should look like:

LOCAL

- Pass ordinances to mandate that a percentage of homes owned by landlords with large numbers of single-family rental homes are affordable to residents making under 50 percent of Neighborhood Median Income.[78]
- Enact laws that ensure that rent control policies that apply to multifamily units also apply to single-family homes.
- Ensure that existing security deposit limits are being followed by institutional investors.
- Enact just-cause eviction laws, and ensure that those that apply to multifamily units also apply to single-family homes.
- Enact legislation to lessen housing discrimination against people of color by "Banning the Box" and removing rental application questions regarding previous encounters with the justice system.

NATIONAL

- Monitor and investigate institutional investor compliance with the Fair Housing Act, ensuring that "facially neutral" policies that have disparate impact on protected classes are not allowed.
- Authorize the Consumer Financial Protection Bureau to conduct oversight of the tenant selection, eviction, property maintenance, and disability access policies and actions of institutional investors.
- Implement financial transaction fees on rental bonds.
- Publicly disclose information on the Federal Housing Finance Agency's REO Pilot Initiative activity in order to compare the performance of federally controlled REO-to-rental activity with that of privately controlled single-family rentals.
- Fund the National Housing Trust Fund to enable community organizations and non-profit developers to have capital to truly invest in the hardest-hit communities.

CONCLUSION

The results of this study add to the growing chorus of concerns regarding Blackstone's impact on tenants and communities destabilized by the housing collapse and Great Recession. Our findings imply that renting from the largest Wall Street landlord may be largely unaffordable for tenants in Los Angeles and Riverside, Calif. In addition, we recorded illegally high security deposit levels and other barriers to accessibility, including criminal background questions on the first stage of the rental application and unclear credit approval processes. Once tenants were able to obtain a lease for one of Blackstone's Invitation Homes properties, many expressed concerns about instability due to rent hikes or rapid eviction. We also found that Invitation Homes' processes for ensuring quality conditions and customer service for their tenants may very well be in an experimental stage.

To better understand the phenomenon that is large investors attempting to financialize and institutionalize single-family rental properties, more research is needed. We acknowledge that our sample size for this study is small compared to the number of homes owned by Blackstone and other institutional investors. However, this is our second report on the subject, and we are finding that tenants from coast to coast are concerned about having Wall Street as their landlord. As we gather more data on the experiences of Wall Street tenants, we will continue to develop federal, state, and municipal policies to address the potential impacts of this new and largely unregulated industry. If we are to avoid another housing bubble and work to prevent the further extraction of wealth from our communities to Wall Street, we must face this problem head on, equipped with policies to rein in Wall Street's newest financialization scheme and the grassroots power to bring them to life.

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