

**Testimony before the
House Committee on Financial Services
Oversight and Investigations Subcommittee**

Hearing on:

*Where have all the houses gone? Private equity, single family rentals, and America's
Neighborhoods*

June 28th, 2022

Introduction

Thank you Chair Green, Ranking Member Emmer, and members of the committee for the opportunity to testify today.

My name is Elora Raymond. I am an Assistant Professor in the School of City and Regional Planning at the Georgia Institute of Technology. I research real estate finance, racial inequality, and affordable housing. A focus of my research has been on the role of institutional investors as landlords, and the effects on evictions, gentrification, and minority homeownership.

I have researched this topic since 2015, and have published Federal Reserve Bank discussion papers and journal articles on the consequences of Institutional Single-Family Rentals (ISFR) for households and neighborhoods, with a particular focus on disparate impacts to racial and ethnic minorities. My comments will focus on ISFR and evictions, gentrification, growing market power, and disparate impact.

I. Overview

Institutional SFR began as an industry highly concentrated in Black and Hispanic neighborhoods across the sunbelt. Because racial minorities were targeted by lenders for high-risk subprime mortgages, foreclosures clustered in predominantly Black and Hispanic neighborhoods (Massey, Rugh, Steil, & Albright, 2016). Metro areas in the sunbelt had high rates of foreclosed homes, and an elastic housing supply, leading to a prolonged housing recession (Immergluck, 2011). Following the foreclosure crisis, as post-foreclosure, bank-owned homes were sold en masse to institutional investors, the ISFR business established itself in predominantly Black and Hispanic neighborhoods across the country.

In the decade since the emergence of ISFR, we have learned that institutional investors crowd out homeownership and reduce housing affordability. Federal Reserve Bank of Philadelphia researchers found that private equity investment crowds out homeownership at the local level (Lambie Hanson, Li & Slolonsky, 2018). Other papers find that the presence of ISFR locally reduces the affordability of homeownership for those who can buy, particularly for first-time homebuyers and moderate-income families purchasing in the bottom price tier (Garriga, Gete, & Tsouderou, 2021).

These detrimental effects on homeownership and affordability are particularly troubling because of the way that institutional investors continue to expand market share in moderate income, homeowning communities of color (Freemark, Noble & Su, 2021). In my recent research with the Urban Institute on ISFR in Atlanta, Miami and Tampa, institutional investors bought 25% of all single-family homes. On average, they purchased in neighborhoods where 84% of residents are non-White (Raymond, Zha, Knight-Scott & Cabrera, 2022). In a 40-metro study, Redfin and the Washington Post found that SFR investors comprised 30% of all home purchases in majority Black zip codes in 2021 (Schuall & O'Connell, 2022).

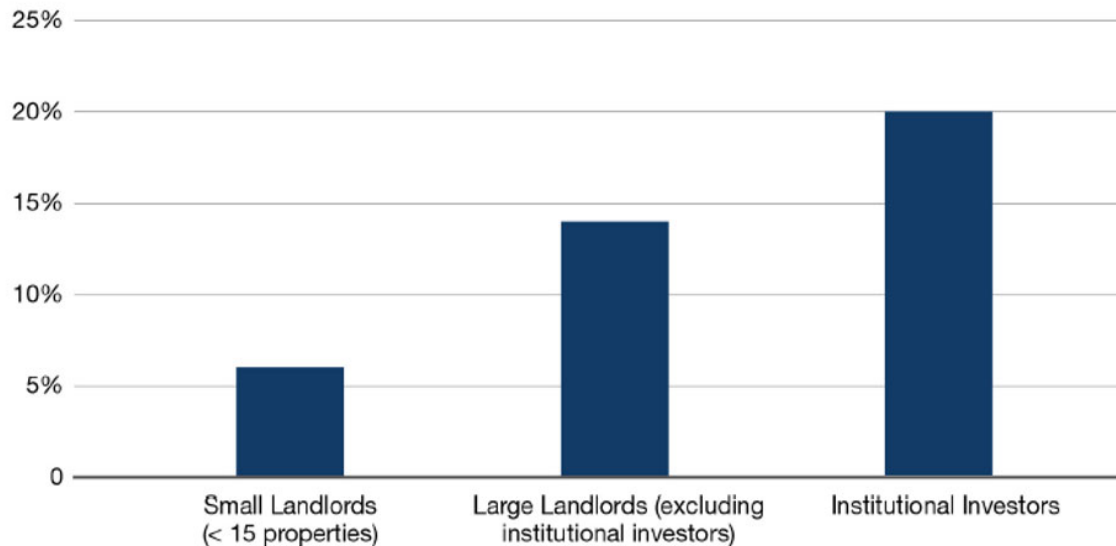
While the provision of affordable, stable rental housing is fundamental to household and neighborhood wellbeing, homeownership is crucial for households to build housing wealth. Homeownership is particularly important for closing the racial wealth gap. Some estimate that whether or not a household owns a home is a more important component of wealth inequality than income or education (Shapiro, Meschede, & Osoro, 2013). Protecting communities of color is important too: research suggests that divergent returns to homeownership is the number one contributor to the growing wealth gap between White and Black families (Oliver & Shapiro, 2006; Taylor, Kochhar, Fry, Velasco, & Motel, 2011).

Other research has made it increasingly clear that institutional investors are not providing a good rental alternative to homeownership. Far from being good landlords, these firms have serious detrimental effects on tenants, homeowners, and the neighborhoods where they invest. Research has found that while institutional SFR provides great returns for investors, they have high eviction rates, poor maintenance, high hidden fees, and aggressive rent increases (Bankson, 2022; Mari, 2021). My research on eviction and gentrifications highlights the consequences of institutional investor landlords for tenants and neighborhoods in Atlanta.

II. Eviction and Gentrification

In 2015, I published a discussion paper for the Federal Reserve Bank of Atlanta on the eviction practices of institutional single-family investors. My co-authors and I found that, overall, Atlanta has an extremely high eviction filing rate: 7% for single family homes. Institutional investors' eviction filing rate was astronomically high, at 20%, or two eviction filings for every ten homes they owned.

Figure 1: Eviction Filing Rates by Firm Type
Single Family Rentals in Atlanta, 2015



Source: Raymond, E. L., Duckworth, R., Miller, B., Lucas, M., & Pokharel, S. (2018). From foreclosure to eviction: Housing insecurity in corporate-owned single-family rentals. *Cityscape*, 20(3), 159-188.

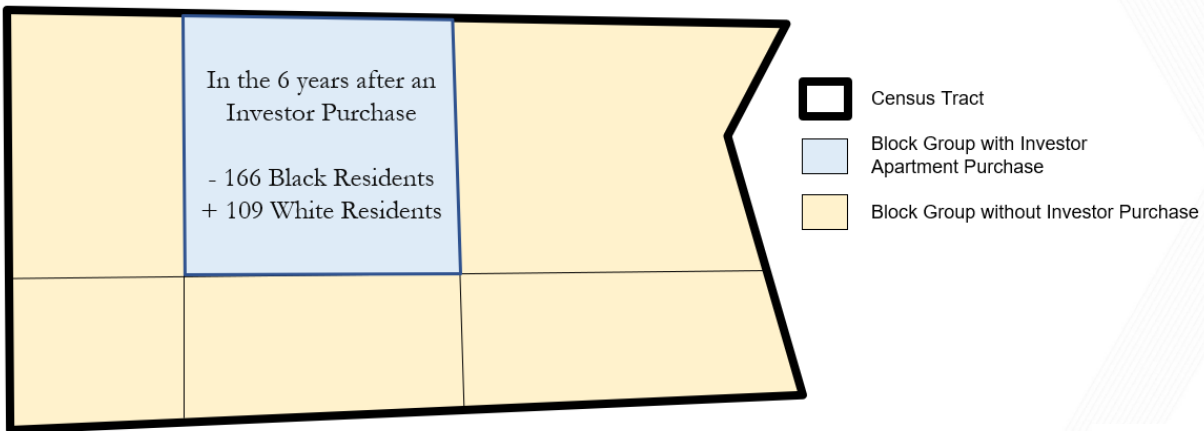
We confirmed this exceedingly high eviction rate was due to ISFR landlord by using statistical modelling to control for tenant demographics like race, education, and income; property factors like age of housing, price, and land value; and neighborhood characteristics. Renting from an institutional investor was the biggest predictor of an eviction. Institutional investors were 68% more likely to file for eviction than other landlords. Some firms were particularly aggressive. Amherst Residential was 55% more likely to file for eviction than other firms; American Homes 4 Rent was 180% more likely to file an eviction, even after controlling for tenant, property, and neighborhood characteristics (Raymond, Duckworth, Miller, Lucas & Pokharel, 2018).

Institutional landlords use eviction to boost profits, leveraging the threat of eviction to enhance rent collection, or completing evictions to displace existing tenants and replace them with higher income households at higher rents (Gormory, 2021; Garboden & Rosen, 2019). But these profits come at a heavy cost: evictions are devastating for tenants and neighborhoods, and exceedingly high eviction rates observed in Atlanta are unsustainable. Evictions can result in loss of property and lead to traumatizing homelessness spells. Eviction is associated with higher rates of depression, illness, and job loss. High rates of eviction lead to underperforming schools and poor student outcomes (Desmond, Gershenson, and Kiviat, 2015; Desmond and Kimbro, 2015; Desmond and Shollenberger, 2015). Even an eviction filing that is resolved can mar a tenant's credit record and bar them from renting elsewhere or accessing public assistance. And, at the neighborhood level, high eviction rates are associated with poor housing conditions, high rates of school turnover, and neighborhood and community instability (Desmond, 2012; Desmond and Shollenberger, 2015). The proliferate use of eviction by some of the wealthiest and most profitable firms in the nation in moderate income communities of color destroys lives, neighborhoods, and exacerbates racial inequality.

In addition to displacement through eviction, my research has linked institutional investors to gentrification and neighborhood change. In 2020 I conducted a study on whether institutional investors multi-family purchases lead to displacement and gentrification in Atlanta. Using data on evictions and deeded transactions from CoreLogic from 2000-2016, my coauthors and I asked whether an investor purchase predicted a spike in eviction judgements in the subsequent year. We found that a neighborhood with an investor purchase had a 33% higher likelihood of an eviction spike in the year after a purchase. This pattern was not observed with other types of investor purchases, and suggests that institutional investors displaced a large percentage of residents after acquiring a new property.

Another key question was whether institutional investor purchases were linked to long-term displacement of existing residents. To answer this question, we looked at neighborhoods with an investor purchase in 2004-2010 and compared them to adjacent neighborhoods that did not have an investor purchase. We compared the demographic trends in these neighboring areas over the following six years, from 2010 to 2016.

Figure 2: Demographic Change in Neighborhoods with an Institutional Investor Purchase
Atlanta, 2010-2016



Source: Raymond, E. L., Miller, B., McKinney, M., & Braun, J. (2021). Gentrifying Atlanta: Investor Purchases of Rental Housing, Evictions, and the Displacement of Black Residents. *Housing Policy Debate*, 31(3-5), 818-834.

We found that neighborhoods with an investor purchase of rental housing lost 166 Black residents compared to adjacent neighborhoods with no investor purchase. This study showed that institutional investor purchases were associated with eviction spikes, and long-term gentrification and displacement of Black communities in Atlanta.

III. Dominant Market Share and Anti-Competitive Effects

Institutional investors were once distressed property investors, but their purchasing power has grown and now outpaces homeowners. In the 2010s, small investors were willing to pay around

30% less than owner-occupiers; this gap fell to 5% in 2017 (Chandan Economics, 2022)¹. And in 2021, we saw investors outbid homeowners at market rates, purchasing 1 in 7 of all single-family homes in 2021² and increasing their market share of purchases in predominantly Black neighborhoods by 20% (Schuall & O’Connell, 2022). In our study in Atlanta, we found that Institutional investors purchased 53% of all SFR, and 17% of all homes in the summer of 2021.

Such high market shares raise concerns about the pricing power of institutional SFR in urban submarkets. Policymakers may need to determine whether firms have the market power to set sale price of homes in neighborhoods where they have existing assets/collateral for debt. Additionally, policymakers need to examine the market share of homes for rent to see if firms can set rents in areas where they have a higher market share.

There are two methodological issues with this sort of analysis that are policy-relevant and bear mentioning. First, because of the use of LLCs, Trusts, and SPVs in investor ownership of single-family rentals, without rental property registries, it is only possible to obtain a conservative estimate of institutional investors market share. Furthermore, the analysis to determine these conservative estimates is expensive and time-consuming. Second, it is important for policy makers to use meaningful market definitions when examining institutional investors’ market share. We often hear commentators and firms defining institutional investors’ market share nationally, but real estate is local. Urban economists, anti-trust lawyers, and most importantly, tenants and homebuyers, define the market for housing by submarket. That is, housing markets are sections of an urban area, segmented by housing tenure and by housing type (Goodman & Thibodeau 1998; Rothenberg, Galster, Butler, & Pitkin, 1991). Policymakers need to define housing markets meaningfully in analyses of market share.

Table 1: Median Purchase Price by Type of Buyer
 Atlanta, GA

Buyer Type		2019 Q2	2020 Q2	2021 Q2	% change 2019 Q2 – 2021 Q2	CAGR
<i>Large Corporate Firms</i>	Single-family Rental	\$132,500	\$119,891	\$275,000	108%	28%
	Rent-to-Own	\$154,700	\$265,000	\$254,000	64%	18%
	Trading Partner	\$215,750	\$190,419	\$280,700	30%	9%
<i>Other Corporate Buyers</i>		\$147,500	\$160,000	\$231,500	57%	16%
<i>Households / Owner-Occupied</i>		\$260,000	\$274,000	\$335,200	29%	9%

Raymond, E; Zha, Yilun; Knight-Scott, E; Cabrera, L. (2022). Large corporate buyers of residential rental housing during the COVID19 Pandemic in three southeastern metropolitan areas. *Planning + Property Lab at Georgia Tech*, 2022-1.

¹ This study examined purchases by homeowners and small investors.

² This study examined purchases by all investors in SFR 40 metropolitan areas around the country.

Nationally, institutional investors have a high market share of home purchases. In given submarkets, institutional investors have extremely high market shares in single-family homes. In our study on ISFR in Tampa, Miami and Atlanta, institutional investors bought one in six of all single-family rentals in summer of 2021. In Atlanta alone, Institutional investors bought over half (53%) of single-family rentals, and 17% of all single-family homes. Not only did institutional investors buy 17% of all homes in Atlanta, but the prices institutional investors paid rose far higher than households. ISFR firms made offers that increased by 28% every quarter, from an average price of \$130,000 in 2019 to \$275,000 in 2021. By contrast, households and iBuyers (ie: Zillow, Offerpad) raised their purchase prices by just 9% every quarter.

High market share confers market power and can lead to the ability to influence prices. A forthcoming paper in the *Review of Financial Studies* examines rental pricing by ISFRs after mergers. The authors find that institutional investors raise rents more swiftly in neighborhoods where their market shares grew than in areas where their market share stayed the same (Gurun, Wu, Xiao & Xiao, 2019). This finding supports institutional investors' earnings reports, which document punishing increases in rental prices in metro areas where they have high market shares (Fields, Vergerio, 2022).

ISFRs ability to outbid would-be homebuyers and charge exceedingly high rents is particularly concerning for racial inequality because institutional investors focus their purchases in moderate income, Black and Hispanic neighborhoods. In our study of institutional investor purchases in Atlanta, Tampa and Miami, the market share of institutional investor purchases and the percentage Black were highly correlated (.6 correlation coefficient). The average neighborhood demographics of an investor purchase was 84% Black or nonwhite Hispanic, in areas that were 62% owner-occupied.

Conclusion

Institutional investors in single-family rentals have graduated from being distressed property investors. With economies of scale, reduced transaction costs and access to private equity and cheap debt, they outcompete homeowners and smaller firms for single family homes, particularly in sunbelt states like Florida, Texas and Georgia, with lax zoning regimes and few barriers to new construction. While economies of scale are a component of firms' ability to offer higher prices, investor appetite in secondary financial markets are also key. Policymakers need to think carefully about how to more closely tie appraisals of SFR as collateral to prices in the owner-occupied housing market. Policymakers should also think about how rising spreads between the interest rates facing owner-occupiers and the interest rates facing ISFR firms might lead to declining homeownership.

The increased power of ISFR to affect housing and rental prices in urban submarkets is a growing concern. Because institutional investors own property through corporate vehicles, it is not currently possible to accurately determine the market share of institutional SFR. A useful policy response would be the establishment of rental housing registries, either at the national level, or by drafting a standard rental housing registry ordinance and funding the creation, maintenance, and enforcement of municipal-level rental property databases. Policymakers should

also probe for anti-competitive practices and undue market power in the home purchase market, and single-family rental market, perhaps by forming a joint task force between the FTC and DOJ.

Communities of color have been targeted by institutional investors for over a decade. There are serious disparate impact issues. Institutional investors purchase primarily in moderate income, homeowning communities of color. These purchases crowd out homeownership, increase evictions, drive gentrification and displacement, and reduce affordability. While the absence of tenant protections in many states make eviction an appealing tool for landlords to maximizing profits, the damage to households and communities is unsustainable. Additionally, the loss of homeownership opportunities, and rising cost of owner-occupied housing creates lasting harm to the new generation of homeowners, and to racial and ethnic minorities historically barred from homeownership. Declining homeownership rates and the loss of home equity in the fifteen years following the foreclosure crisis has reversed the gains accrued by Black and Hispanic homeowners since the Fair Housing Act was passed in 1968. Policymakers should examine ways to strengthen tenant legal protections, use the FHEO to examine disparate impacts on communities of color, and work with the GSEs to increase opportunities for low-income homeownership.

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