Private equity firms: the new landlord

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As 25,000 Minnesotans were being evicted from their homes each year in the wake of the 2008 global financial crisis, private equity firms were laying the groundwork to exploit the crisis for financial gain. Blackstone, one of the world's largest private equity firms, took advantage of rock bottom prices by purchasing nearly 100,000 homes, including more than 1,000 in depressed markets of first and second-ring suburbs of Minneapolis. While Blackstone was making its move in the Twin Cities, another asset management firm based in the Virgin Islands – Front Yard Residential - purchased more than 700 homes in predominantly Black neighborhoods in Minneapolis and Saint Paul. Using a profit model that might sound familiar to those who followed the financial crisis that led to the Great Recession, these firms collect and package – or securitize – monthly rent checks and discretionary fees into "single family rental home" (SFR) bonds for sale in what analysts predict will become a $700 billion dollar market. Unlike the mortgage-backed securities that melted down the global economy, these bonds are less dependent on rising home prices for solvency and enable firms to profit from working- and middle-class families locked out of the home buying market. Like the model that preceded them, however, they do have the potential to transform neighborhoods and create new circuits of accumulation and dispossession.

By 2017, two firms controlled more than 60% of the national market of private equity owned single-family home rentals: Invitation Homes and American Homes 4 Rent. They used common financial tools such as mergers and acquisitions (M&As) and initial public offerings (IPOs) to drive up profits without adding value or improving their product: ostensibly liveable homes. Soon after, they invited large investors such as Morgan Stanley and BlackRock to buy shares and received generous subsidies from the government to expand this market, including a $1 billion loan guarantee from Fannie Mae. Using other people's money to buy heavily discounted houses to rent across the nation, they quickly enjoyed record-setting profits.

America's corporate landlords then cornered the single-family rental market and dispossessed renters in various ways. They levied new and onerous penalties and fees on home renters, adding substantially to monthly out-of-pocket housing costs. Because many housing markets have above 90% occupancy rates, corporate landlords are able to easily raise the rents with new tenants. Their biggest source of profit, however, is through the bundling of the rental revenues into securitized bonds. The profitability of the investment hinges on the perception that these bonds are low risk because people will consistently pay their rent and the promise of rising rents from corporate landlords will increase the value of shares in their bonds and REITs. But while Wall Street gets richer what happens to the renters and their communities?

The bond market comes to the Twin Cities

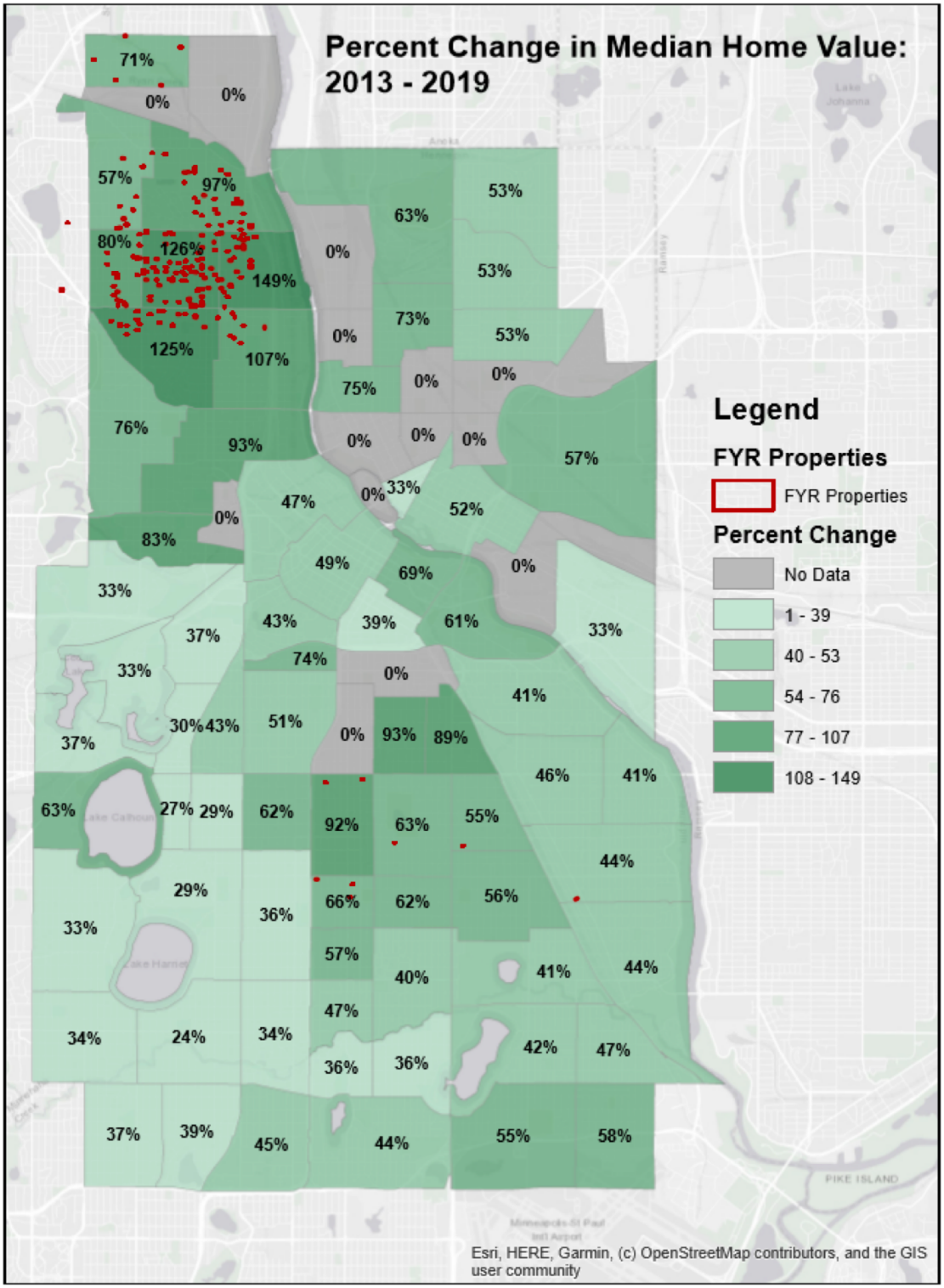
In Minneapolis, where we live and work, we have seen these national trends play out in three overlapping ways. First, we have found that the two private equity firms in the SFR market in the Twin Cities – Innovation Homes, up until recently a subsidiary of Blackstone, and Front Yard Residential, which recently merged with Pretium– do not compete with each other geographically to create competitive markets. Instead, they pursue distinct and non-overlapping spatial investment strategies, with the former tending to invest in inner ring suburbs and the latter concentrating in low-income neighborhoods in Minneapolis and St. Paul. Second, we have found that by purchasing recently foreclosed homes in bulk, they have been able to buy low and use their market share to drive up house prices and, notably, rents. Third, we have found that in pursuing these new ownership structures, Wall Street firms are ultimately extracting asset values out of neighborhoods and funneling them into international bond markets. Foreclosures and subsequent rent hikes have become a boon for far-flung investors who rely on these revenue increases to profit from the securitized single-family home bond market.

Between 2014 and 2015, Front Yard Residential (FYR) purchased 164 single-family residential properties spread throughout six neighborhoods in North Minneapolis where the majority of residents are working-class people of color. The purchase volume in the Folwell neighborhood was particularly significant; in 2014, FYR accounted for 23% of the neighborhood's single-family home purchases, quickly becoming the largest landlord in a neighborhood with some of the lowest incomes and highest rental rates in the region. This neighborhood was also hit hard by the foreclosure crisis; of all the homes purchased by FYR during this period, 65% had been foreclosed on in the past decade. Property values in the area have also historically lagged behind the city's median values.

The contemporary racialized political economy of North Minneapolis's housing market is, in part, the consequence of past racist housing policies and practices. Throughout the first half of the 20th century, large sections of North Minneapolis were redlined first by the federal government and then by realtors and bankers. Redlining tightened access to credit for people of color and made it difficult to secure a mortgage, while deflating property values in redlined neighborhoods. In Minneapolis – like many cities around the country – racially restrictive covenants have also profoundly shaped urban segregation and associated patterns of racialized wealth inequality. While covenants have not been enforceable since the 1950s, neighborhoods with high levels of formerly covenanted properties still have property values that over-perform the city median value by 15%, while redlined neighborhoods under-perform city median value by 25%.

The inequality produced by decades of racialized lending policies and practices made North Minneapolis particularly vulnerable to foreclosures. Because many homeowners in North Minneapolis were saddled with troubling subprime mortgages prior to the financial crisis, the onset of the crisis resulted in North Minneapolis experiencing the highest foreclosure rates in the region. In part due to these high foreclosure rates, the neighborhood's property values lagged far behind the rest of the city. Following the FYR purchase of homes in Folwell, however, home prices rose significantly and from 2015 - 2020, the median home value in Folwell increased by 80%, compared to a 37% increase for the city as a whole (figure 1). When

private equity firms enter the Minneapolis real estate market, they leverage, exploit and exacerbate these landscapes of racialized dispossession.



(figure 1, created by Kevin Ehrman-Solberg)

FYR's aggressive practices in this neighborhood is illustrative of how private equity firms became corporate landlords and capitalized on the 2008 financial panic nationally, in ways that individual homeowners could not. Invitation Homes undertook a similar acquisition campaign in 2013 and 2014, during which it purchased 701 single family homes in the suburban markets and impacted local home prices and rents similarly. The relationship between FYR and Invitation Homes reveals how private equity firms leveraged their resources to dominate and prosper from single-family rental markets. These two firms split the urban and suburban markets, reducing the direct competition between them. Each firm purchased single family homes at an unprecedented scale and cornered subregions of the broader Twin Cities rental market without having to contend with direct competition from its peers.

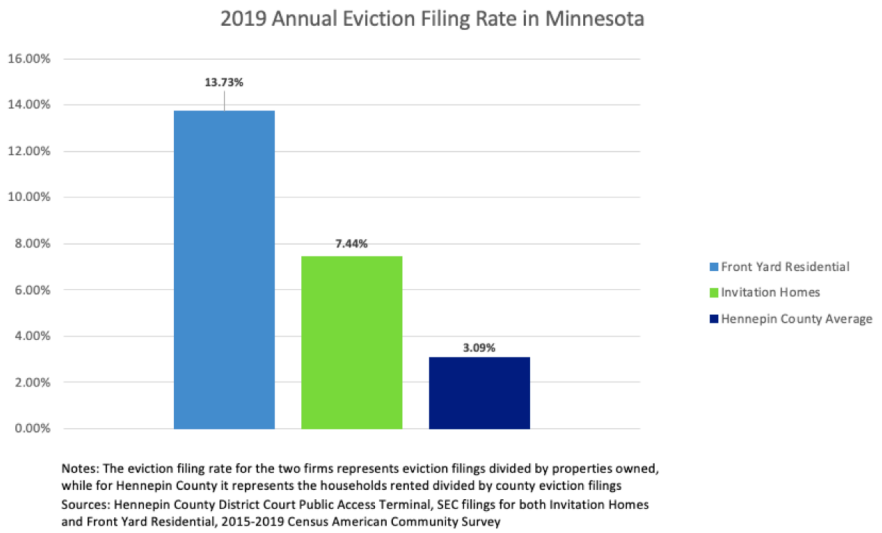
Reversing the corporate takeover of housing

The housing crisis in Minneapolis today reveals how the entry of private equity into neighborhoods exacerbates long-standing forms of housing injustice by driving up home prices at the neighborhood level, making buying even further out of reach for people of color in a city with a pronounced racial wealth gap. Perhaps more urgently, these firms are also driving up rent prices, in neighborhoods where people of color lost homes during the last wave of intensive housing market-based accumulation. Indeed, people of color who formerly owned homes may wind up renting from these corporate landlords. Once renting, tenants find that rents rise faster than in other neighborhoods, including the wealthiest in town.

But rising rents and home prices are not the only costs associated with these new landlords. In the eviction action complaints filed by these firms in the Hennepin Housing Court, we have found that numerous types of fees are levied on tenants and are used as justification for their eviction. Fees are imposed for minor infractions, like unmowed lawns, unshoveled snow, or in the most egregious cases, simply to be able to pay rent. In a 2021 report on the SFR industry by Bargaining for the Common Good, Shanika Henderson, explained the predatory fee structure: "They direct you to pay your rent through an online portal where a vendor charges you $10 to $30 each time you process your rent payment." In the same report, another tenant, Adrianna Anderson, pointed out even more FYR fees: "$10 administration fee. $17 processing fee. And a new $12 'HAP' fee – we don't even know what that is!" For some renters of these corporate landlords, penalty fees comprised up to 10% of the monthly rent, the highest allowable by Minnesota law**.**

As figure 2 shows, eviction rates are four times higher for FYR tenants as compared to the average in Minnesota, and two and a half times higher for Invitation Homes tenants.

2019 Eviction Filing Rate



(Figure 2, created by Ross Abram)

In Minneapolis, the tenants' rights organization Inquilinx Unidxs por Justicia (IX) is partnering with activists and attorney generals nationwide to document these corporate abuses for possible class-action lawsuits. They are organizing single-family renters to challenge some of the most exploitative practices of Havenbrook Homes, a subsidiary of Front Yard Residential/Pretium, with particular attention to the fees. Havenbrook tenants have also raised concerns about slow response to repairs. "One tenant had no water for a week," Chloe Jackson said, "and another went weeks without heat. Another had a giant hole open up in their ceiling. Another's stove caught fire. These are emergency situations, yet Havenbrook wouldn't make repairs."

Figure 3, from a social media call for a public meeting to discuss strategies against corporate landlords, by Inquilinx Unidxs por Justicia

As the COVID-19 crisis begins to recede and eviction and foreclosure moratoriums start to expire, many of these companies are preparing to exploit the economic hardship of working-class families. According to the Wall Street Journal, Invitation Homes has raised over one billion dollars to acquire new properties. Pretium (formerly FYR) is not far behind: They announced in January that they had raised over 700 million dollars to fund a new round of single-family home purchases.

In Minneapolis and nationally, activists are demanding laws prohibiting corporate landlords who use working-class people's homes as the basis for their securitized bond industry. Activists and tenants are discussing a range of potential responses, including returning homes to the foreclosed and evicted as decommodified homes placed outside the expensive marketplace, creating interest-free mortgages, and gifting properties to community land trusts or neighborhood coalitions working to re-house people and enhance neighborhoods.

Over the next decade, organizing efforts such as the one led by Inquilinx Unidxs por Justicia will be critical to blunting the power of SFR companies. Additional regulation and tenant protections are also needed. If action is not taken low-income communities of color will continue to be targeted and exploited by the SFR industry, further exacerbating the racial wealth gap and extracting ever-increasing amounts of capital from working class communities.