



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.

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Joe Donlin, Director of Equitable Development, SAJE

Rachèl Laforest, Executive Director, RTC

Tony Romano, Organizing Director, RTC

Sarah Heck, Ph.D. Student in Geography and Urban Studies, Temple University

COPY EDITOR

Suzy Subways

FIELD INTERVIEWERS

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Carlos Jauregui, Community Organizer, SAJE

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Cover images courtesy of the U.S. Geological Survey

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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

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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.

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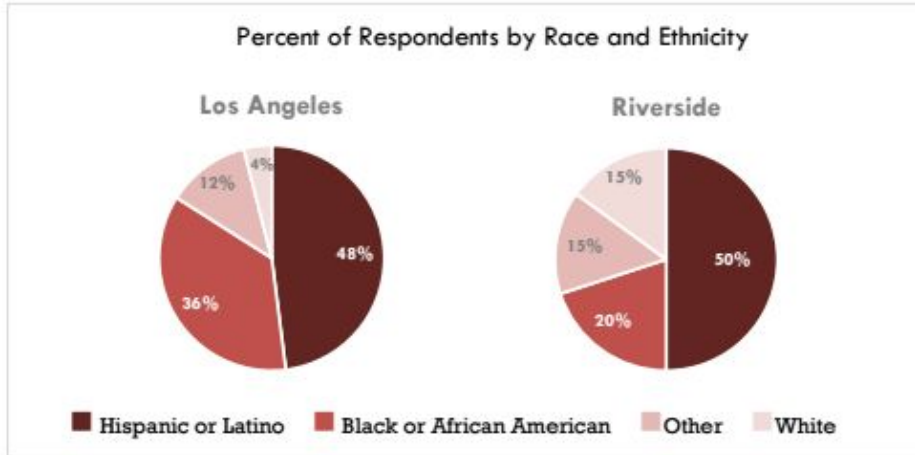
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TENANT CHARACTERISTICS



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.

Los Angeles

Riverside

12%

4%

15%

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Hispanic or Latino

Percent of Respondents by Race and Ethnicity



Black or African American

3

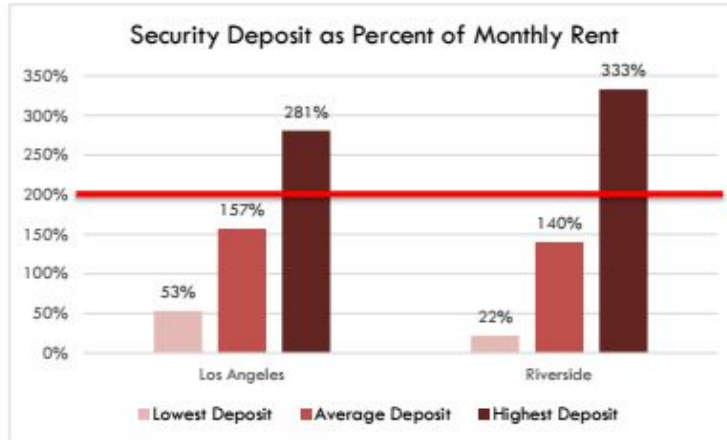


Other



White

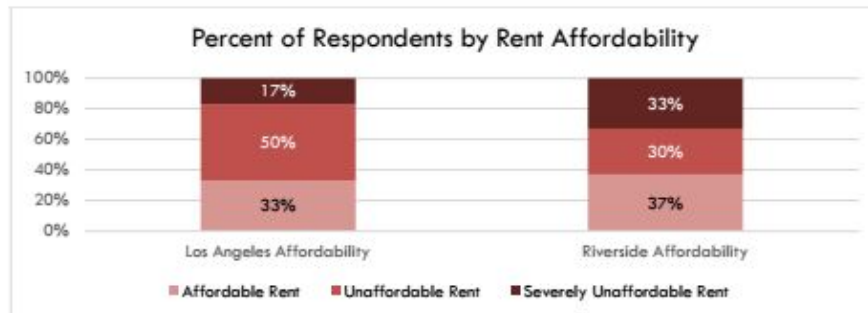
ACCESSIBILITY



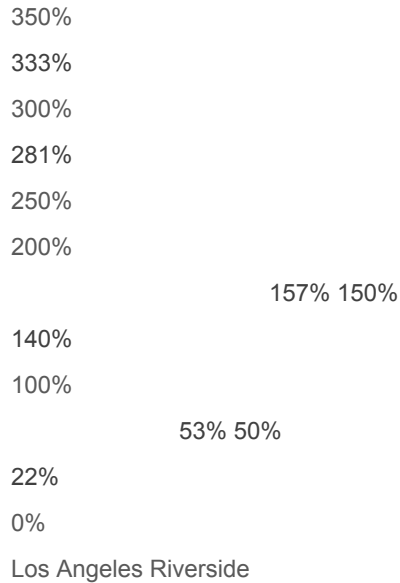
Any security deposit charged to a tenant above 200% of their monthly rent for an unfurnished unit is against California law.

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



Security Deposit as Percent of Monthly Rent



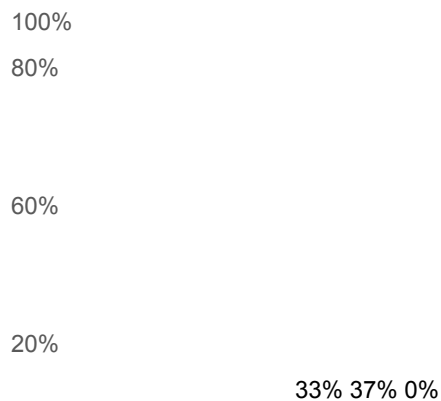
Los Angeles Riverside
 Lowest Deposit Average Deposit Highest Deposit

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AFFORDABILITY

Percent of Respondents by Rent Affordability



Los Angeles Affordability Riverside Affordability
 Affordable Rent Unaffordable Rent Severely Unaffordable Rent

	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.

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