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Raking In On Rents: The US Housing Crisis Begins Anew

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Wall Street wrecked the economy in 2007 due to dealing in shady mortgage securities that were given dubious triple-A ratings and put the entire global economy on the brink. Do you think those big banksters learned their lesson and decided not to dabble in overly complex financial instruments and to stop deceiving people? The answer is of course, a resounding no. Not only have the bankers not received virtually any punishments for nearly destroying the economy, they are now involving themselves in the rental arena and may create another financial crisis in the process.

The situation began when the Federal Housing Finance Agency Real-Estate Owned (REO) initiative program launched in late February 2012. The purpose of the program was to allow "qualified investors to purchase pools of foreclosed properties with the requirement to rent the purchased properties for a specified number of years." The thinking behind the program was that it "could provide relief for local housing markets that continue to be depressed by the volume of foreclosed properties, and provide additional rental options to certain markets." The initial phase involved allowing companies to purchase large amounts of foreclosed properties from Fannie Mae and Freddie Mac, given that in a couple of years the properties would be converted into rental housing.

It must be noted, however, that in a August 10, 2011 information request regarding the then-upcoming REO Program, it was stated that a specific goal was to "solicit ideas from market participants that would maximize the economic value that may arise from pooling the single-family REO properties in specified geographic areas." Now, this makes sense in that you need information from corporations who can deal in the REO business on a large scale, but it also allows for these very same corporations to have influence in what occurs and to potentially steer the program in a direction that would be to their benefit.

Once this program was open, companies began snapping up properties quickly and then securitizing them, called REO-to-rental securitization. The first company to do this was Blackstone which "[packaged] rental income from single-family homes it owns into a pass-through security, similar to a mortgaged-backed security." While some economists argued that this could aid the hardest hit areas of the housing crash, others worried that "these new investors could face big challenges managing large portfolios of dispersed rental houses." Investor companies such as Blackstone wanted to get into this new business as it had the potential to net returns that were much higher than either investing in Treasury securities or stock dividends. For example, "While a 10-year Treasury note yields little more than 2%, economists at Goldman Sachs calculate that rental property investments yield more than 6% on average, nationwide."

From the very beginning of this new venture, there were already alarms raised about the situation. While Moody's was allegedly giving such securitizations a triple-A rating, Fitch Ratings saw a major problem with this, namely that there was "limited performance data for the sector and individual property management firms." This meant that people didn't really know what they were getting themselves into as this was new market and thus the situation was quite risky. Earlier this year, Standard & Poor's warned that rental security bonds didn't deserve triple-A status due to their "operational infancy," disagreeing with other rating agencies such as Moody's, Krolls, and Morningstar.

Rent securitization has the potential to have some serious effects. Daniel Indiviglio, a columnist at Reuters, argued that the lack of data on securitization presents a number of challenges. The securities "may require an entirely new infrastructure for appraising how rentable a home is and at what price. And the faults that the crisis exposed in securitization reinforce how crucial a good crop of historical information is on rental trends." Without having any long-term historical data, investors and rating agencies will be forced "to make assumptions on new stats like vacancy rates, tenant turnover costs and property management fees."

Another factor is that potential bond purchasers will want to demand serious compensation for ponying up the money to buy these vacant houses as one cannot assume that the property is stable unless tenants have lived there for quite some time or signed a medium or long-term lease, which is quite rare for renters who are just moving in. "And with foreclosures focused in a few key regions and resulting rentals appealing to specific segments of the population, concentration risk is likely to be magnified." This all raises the possibility that rental securitization may cost more than it is actually worth.

In addition to the actual financial risk for investors, there is also the possibility that rental bonds could possibly be increasing rents. In January 2014 it was reported that Congressional Representative Mark Takano (D-Calif.) "sent a letter to House Financial Services Committee Chairman Jeb Hensarling and Rep. Maxine Waters, D-Calif., asking for an investigation into rental-backed securities deals" as he was saw that rental prices were increasing and that "a surplus of investors in rentals — along with new rental-backed securities deals — could have the effect of artificially raising rental prices, making housing even more costly in parts of California."

To back up his case, Takano cited a 2013 Federal Reserve report which stated, with regards to companies buying up houses and renting them out, that without proper oversight "investor activity may pose risks to local housing markets if investors have difficulties managing such large stocks of rental properties or fail to adequately maintain their homes" and that "Such behavior could lower the quality of the neighborhoods in which investors own rental properties."

But, we can safely assume that Congress already has laws to oversee rent securitization…right? It isn't as if they would just go and let a situation similar to what just occurred go without being properly regulated….right? Well, it seems that there is no legislation overseeing rent securitization whatsoever. Representative Takano for Congressional hearings in January 2014 to look into the issue and so far it seems that nothing has happened.

While the situation is bad in Congress, it is even worse for people who live in houses that are owned by these corporations. Mindy Culpepper lived on the outskirts of Atlanta in a home which was consistently inundated with the stench of raw sewage and while she and her husband paid $1,225 a month to live in the three-bedroom house, her landlord in the form of Colony American Homes completely ignored her complaints. This isn't a recent problem either; the Culpeppers have had to live with that stench from the first day they moved in.

Speaking of Atlanta, on April 15, 2014 the organization Occupy Our Homes Atlanta released a report entitled Blackstone: Atlanta's Newest Landlord in which it was found that: (1) Tenants wishing to stay in their homes can face automatic rent increases as much as 20% annually. (2) Survey participants living in Invitation Homes pay nearly $300 more in rent than the Metro Atlanta median. (3) 45% of survey participants pay more than 30% of their income on rent, by definition making the rent unaffordable. (4) Tenants face high fees, including a $200 late fee for rental payments. (5) 78% of the surveyed tenants do not have consistent or reliable access to the landlord or property manager.

Furthermore, it was reported in July 2014 that while the company Invitation Homes "claims to have spent $25,000 per home to bring them up to standards, 46 percent of respondents reported plumbing problems, 39 percent found roaches or other insects, and around one in five had issues with air conditioning or mold or leaky roofs." Thus, we can see that these corporations only care about making money rather than taking care of tenants.

All of this has a major impact on the working-class as they already spend more than half of their income on rent but with rent securitization, the economic problems begin even before people have entered the door. The organization Homes For All, released a report focusing on the Los Angeles rent securitization scene and found that "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." With regards to amount spent on rent, the report found that "67 percent of [the] respondents had unaffordable housing, and 47 percent were severely cost-burdened."

There are other problems as well. In New York City, where private equity firms are buying up apartment buildings which are rent-controlled, companies are pushing long-term residents out of their apartments in order to redo the dwellings and sell them at market prices. These firms are often engaging in illegal tactics such as "mailing fake eviction notices, cutting off the heat or water, and allowing vermin infestations to take hold." Serious money is on the table for these companies. For example, in 2005, Rockpoint Group "bought a complex of apartment buildings in Harlem known as the Riverton Houses. To justify the whopping $225 million mortgage, the company projected that it would be able to more than triple the rental income from $5.2 million to $23.6 million by forcing out half of the rent-regulated tenants within five years."

Rent securitization is a major problem, not only because it mirrors the mortgage crisis that just occurred, but also because of the human impact it has. People who are already in difficult conditions, living in rent-controlled apartments are being forced out and those who are purchasing these corporate-owned apartments are living in wretched conditions and rarely to get any service whatsoever. We need to say no to this new scheme because if not, it may allow for the mortgage crisis to become a rent crisis.

This was originally published on Occupy.com.

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