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HOW INSTITUTIONAL LANDLORDS ARE CHANGING THE HOUSING MARKET

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING HOW WE STRENGTHEN OUR HOMES AND NEIGHBORHOODS WITH INVESTMENTS AND PROTECTIONS TO MAKE IT EASIER FOR PEOPLE TO FIND SAFE, DECENT, AND AFFORDABLE HOMES

FEBRUARY 10, 2022

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C O N T E N T S

THURSDAY, FEBRUARY 10, 2022

WITNESSES

Additional Material Supplied for the Record

HOW INSTITUTIONAL LANDLORDS ARE CHANGING THE HOUSING MARKET

THURSDAY, FEBRUARY 10, 2022

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:01 a.m., via Webex and in room 538, Dirksen Senate Office Building, Hon. Sherrod Brown, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. The Senate Committee on Banking, Housing, and Urban Affairs will come to order.

Today's hearing is a hybrid format as many of our hearings are. Mr. Waller, Mr. Peter, Mr. Griffith are here in person and sitting here. Thank you for joining us. Ms. Molenda and Ms. Martin are appearing virtually. Members have the option to appear either in person or virtually.

Those witnesses joining remotely, once you start speaking, there will be a slight delay. To minimize background noise, please click the mute button when you are not speaking until it is your turn to speak.

And you should all have a box on your screens labeled "clock" that will show how much time is remaining. Please try to respect those times as we ask our Senators on the dais to do the same. For those of you joining virtually, you will have a bell ring when you have 30 seconds remaining.

If there is a technology issue, we will move to the next witness or Senator, whatever we need to do until it is resolved.

Whenever there is a problem in the economy that is hurting families and driving prices, there is a pretty good chance you will find a Wall Street scheme either causing it or taking advantage of it and making it worse. One of the reasons housing prices have gotten so out of control is that corporate America sensed an opportunity. Private equity firms, corporate landlords, and investors saw a shortage. They saw a captive market. They bought up properties. They raised rents. They cut services. They priced out family homebuyers. They forced, all too often, renters out of their homes.

Our failure to invest into affordable housing has left these renters with few options. Before the pandemic, nearly one in four renters was paying more than half their income for housing. That was before the pandemic. One thing happens in their lives, one thing goes wrong, and they face immediate eviction almost, in many cases.

Across the country, we see headlines about the skyrocketing cost of housing, the squeeze it is putting on our families. Potential homebuyers looking for a home in the communities where they grew up or where they work are outbid by out-of-town, all cash buyers. Rents in communities from Atlanta to Boise to Cleveland to Denver are growing far out of reach for families and workers.

While most of us see high rents and a lack of housing choices as a problem to solve, deep-pocket investors see them as an opportunity for profit. Investment firms have been touting rising rents and renters' lack of options to attract investors. One large landlord proudly advertises under their "market strategy" that "The recent mortgage meltdown has raised the bar for those who can qualify for a mortgage, thereby increasing the pool of people who must rent for the foreseeable future." But rather than providing the essential affordable housing that families need, many of these firms are just exploiting people.

Tuesday, our Committee held a listening session to hear directly from renters about what happens when investors put profits over people's lives. One renter was told when she asked why her rent suddenly increased by hundreds of dollars, "We have to please the investors." Think about that. "We have to please the investors."

Renters in apartment buildings, single-family homes, manufactured housing, from Las Vegas to Great Falls to Hyattsville, shared their stories. Over and over, no matter where they lived, no matter what type of home they had, renters told us how they were overlooked and overcharged by the big investors that owned their homes. Longtime residents described double-digit rent increases and new fees for everything from water and trash to family pets.

One resident of a manufactured home community in Senator Tester's home State said the increases amounted "to about an 86 percent increase in the dirt our homes sit on." She was in manufactured housing. Seniors on fixed incomes and working families cannot afford that.

Renters in Maryland and Nevada and Texas and California had their homes, they told us repeatedly, flooded with wastewater, lived with pests and rodents, went long periods without hot water, without working showers.

In Senator Smith's home State of Minnesota, a working mother's complaints, repeated complaints, about her home's flooded basement and dangerous garage went unanswered. The city itself was forced to step in because of code violations.

Another renter in Senator Van Hollen's State told us that "The owners think that because we are immigrants we are not important. For them, they want the money to arrive every month without doing anything for us. We have this need to live in an apartment but not live like this."

No one argues that landlords—whether a teacher renting out the home her parents raised her in or a professional company, no one argues that landlords should not be able to make a living. Of course, rental housing is a business. You provide a decent place to live but in exchange for collecting people's hard earned money and rent each month. But if your building is full of mold and mice and does not have working showers or a working stove, you are not holding up your end of the deal. That is not a real business, and families are paying a very high price for it.

Investors increasingly structure their purchases through LLCs and real estate investment trusts with different names for each property or fund. When owners hide behind LLCs, it makes it impossible to track down the neglected properties they own and the tenants they force out. This leaves local leaders, like Ms. Martin, with only two options, let investors continue to run down neighborhoods and run out residents or use time and money they do not have to connect with other local leaders to track down bad owners one by one.

For investors, home and rent increases are distilled down as returns to shareholders, code violations and eviction filings simply the cost of doing business. But for Ms. Martin from Ohio and the residents of Cleveland and South Euclid, these are their homes; these are their neighborhoods. No one seems to be tracking their returns.

When Matthew Desmond, the author of the book *Evicted*, signs copies of his book, he signs it with the words "Home = Life." Desmond is lucky enough—and I assume everybody in this room enough—to go home each night to a safe home in a decent neighborhood with an affordable place and may not think about it as much, but it is a simple truth. Where we live matters. It determines so much about our lives and our children's lives.

I look forward to hearing from our witnesses today about how we strengthen our homes and our neighborhoods with investments and protections that will make it easier for people to find safe and decent and affordable homes, how we can give local leaders, like Ms. Martin and Mr. Waller, the tools they need to improve the homes of all families in Cleveland, in Atlanta, in Pittsburgh, and across the country.

Senator Toomey.

OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY

Senator TOOMEY. Thank you, Mr. Chairman, and welcome to our witnesses. In October, this Committee held a hearing criticizing people who invest and even build rental housing. Looks like that is on the agenda for today's hearing as well. Maybe part of the reason is a desire to change the subject from the failing Biden economy.

This morning, we got a new inflation number. Inflation came in at 7.5 percent, the worst inflation in 40 years. And housing costs are skyrocketing even faster than the general rate of inflation. Rents increased around 12 percent last year. Home prices jumped an astounding 17 percent. And whether you are a renter or a homebuyer, housing is taking up more and more of your paycheck, with inflation quickly eroding most of the rest.

Now wages are rising, but inflation is rising faster, and that means workers are falling further and further behind in the Biden economy. This is a direct result of the Administration's massive overspending, and the Administration is desperate to find someone else to blame.

There is actually nothing wrong with people renting houses instead of, or before, they become homeowners. And there is also nothing wrong with investors, whether institutions or individuals, putting their own money to work to meet the need of these renters. It is a simple issue of supply and demand. Institutional investors happen to be the ones with the deepest pockets, the ones with the most capital available to invest in building the new housing stock that America needs.

Just imagine how expensive housing stock would be if some of my colleagues got their wish and most institutional investors were driven out of the housing market. Instead of blaming those who actually build housing stock, we should probably take a look at the role that Democratic policies have contributed to the high cost of housing.

Housing is expensive and getting more expensive in part because the Administration has doubled down on 50 years of failed big Government housing policies. Its illegal eviction moratorium, for instance, deterred landlords from investing in new housing stock and almost certainly contributed to rent increases. Its March 2021 wasteful $1.9 trillion spending bill included almost $22 billion in rental assistance even though $25 billion in rental assistance Congress provided the year before was not even close to being spent. And this reckless tax and spend Build Back Better plan seeks yet another $35 billion in rental and downpayment subsidies that will further increase the demand and push up prices in housing. The Administration has also broken from decades of bipartisan efforts to reform the failed GSE model that now subsidizes the purchases of even million-dollar homes, and it has pushed the GSEs to take on more loans to risky borrowers.

Today, we will hear from two witnesses, Tobias Peter and Joel Griffith, about the negative effects that these failed policies have had. They will testify to the role of monetary policy in contributing to rapid house price inflation, and they will testify to the increase in risky mortgage lending at the GSEs. Their testimony will make it clear that we need a different direction.

To improve housing affordability for all Americans, whether renters or owners, we should pursue reforms that leverage the power of free enterprise to increase housing supply and make markets more competitive. To that end, we need to scale back the role of Government and increase the role of private capital. We need to phaseout demand-side subsidies that just drive increases in housing prices and rents. And we need to end the failed GSE model that fosters excessive risk taking and risks more taxpayer bailouts. We also need to end the GSE conservatorship that confers on the Government far-reaching powers to replace market forces with executive fiat.

The state of the housing market affirms the urgency of the reform. The housing market is cyclical. It is really a question of when, not if, there will be a housing downturn, and the housing finance system is not prepared.

The system is still dominated by the very same GSEs that did so much to cause the 2008 financial crisis. The $7 trillion behemoths actually have an even bigger market share today than they had before the crisis, and they certainly remain too big to fail. And just as before the financial crisis, these flaws in the system continue to encourage excessive risk taking and risk future taxpayer bailouts. They undermine market forces and threaten financial stabilities. And they do very little to make housing more affordable.

So 50 years, 50 years, and many hundreds of billions of dollars in Federal housing assistance have been spent, and they have had no meaningful impact on home ownership rates. It was 64 percent in 1970. It was 65 percent in 2021.

Now last month, the Chairman reiterated the housing finance reform principles that he had released in 2019. I would observe that his principles significantly overlap with the reform principles that I have released. I look forward to continuing to work with the Chairman to see if we can get to a consensus on how to move forward on this really important issue.

And I hope the Administration will finally engage on this reform. Treasury has still not met its obligation to deliver its reform plan to Congress. It is now 4 months overdue.

So instead of shifting blame for the reckless mismanagement of the economy, the Administration should be looking for opportunities for bipartisan legislation, like housing finance reform, that relies more on free enterprise and less on Government to make housing affordable for all Americans, whether they own or rent.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey. And I am hopeful, too. I think you will probably agree with this. The first step to GSE reform is that we move as quickly as we can to confirm the nominee to FHFA, Sandra Thompson, and then I am hopeful the Administration—and expect the Administration to engage in this, but we can talk more about that.

Let me introduce the five witnesses. Michael Waller is the Executive Director of Georgia Appleseed, which is dedicated to providing strong, nurturing schools and a healthy home for all of Georgia's children. He served previously as an attorney with the FTC, as a staff attorney with Atlanta Legal Aid, and as an attorney at WilmerHale.

Welcome, Mr. Waller.

Aneta Molenda, who is here remotely, is a New York City tenant in a building owned by a private equity firm. She has been organizing with her neighbors in respond to her landlord's actions.

Ms. Molenda, welcome.

Tobias Peter is a research fellow and assistant director at the American Enterprise Institute Housing Center. He previously served as a director of research with the Housing Center.

Welcome, Mr. Peter.

Joel Griffith, who was in committee yesterday, actually a subcommittee yesterday, is a research fellow at the Institute for Economic Freedom and Opportunity at the Heritage Foundation.

As a native of Ohio, welcome, Mr. Griffith.

Sally Martin is the Director of Building and Housing for the city of Cleveland. She joined Mayor Bibb, the new mayor's cabinet, just this week. So earlier this month, she served as the Housing Manager and Director of Housing for the city of South Euclid, a Cleveland southeast side suburb, where she had worked since 2008. She served on the executive committee of the Vacant and Abandoned Property Action Council in Cleveland.

We will now hear from the witnesses. Mr. Waller, start with you. Welcome.

STATEMENT OF R. MICHAEL WALLER, EXECUTIVE DIRECTOR, GEORGIA APPLESEED CENTER FOR LAW AND JUSTICE

Mr. WALLER. Thank you, Chairman Brown, Ranking Member Toomey, and other Members of the Committee. My name is Michael Waller. I serve as the Executive Director of the Georgia Appleseed Center for Law and Justice.

Georgia Appleseed is a nonpartisan, nonprofit law center. We are dedicated to advancing justice and equity for all of Georgia's children through law and policy reform, community engagement, and legal representation of children. We focus our efforts on removing barriers and injustices that are faced by Black and Brown children, children experiencing poverty, LGBTQ+ children, children with disabilities, and children in foster care. And Georgia Appleseed believes that justice requires that every child has access to strong, nurturing schools and a stable, healthy home.

This morning, I will provide information on the impact of institutional landlords on the lives of low-income Georgians, and I am going to begin by sharing a story, the story of April. She lives in Albany, Georgia, in an apartment complex owned by an out-of-State institutional investor.

And this morning, I am going to use the term "institutional landlord" and "institutional investor" somewhat interchangeably, and what I am referring to is a corporate owner that is usually out of State, owns multiple properties, is primarily in the business of investing money, not managing rental homes, and has little to no direct contact with the communities where the properties are located.

So Georgia Appleseed and our other community partners have identified a common business model among some institutional investors in low-income housing, and it goes something like this. The investor comes into the community, purchases the property. They quickly drive up rents. They impose novel and unwarranted fees. They refuse to provide upkeep and basic maintenance. They abuse our eviction systems, and they hide from accountability. These institutional investors concentrate these practices in Black and Brown communities and low-income communities, and so they are perpetuating historic injustices there.

Now April is a single mom to a teenage daughter, and she is also the primary caretaker for her mother who has multiple sclerosis and needs a wheelchair. April rents her home, like most Albany residents and millions of other Georgians. Well, soon after she moved in, sewage began regularly coming up through the bathroom drains and also pooling in the yard outside where the children played. Bees came out of her HVAC vents. Mold grew on the walls. Shooting and criminal activity were common in the complex. In fact, after one of these events, there were bullet holes in her windows. Other residents had very similar problems and complaints.

Neither the property management firm, who was her direct contact with the landlord, nor the out-of-State landlord would make the needed repairs. The local housing code enforcement office and other local government offices and officials claimed that they were powerless to force the absentee landlord to make the property safe for habitation.

So April contacted SOWEGA Rising, which is a local nonprofit. Together they began to work to organize their neighbors, talk to their neighbors, and also contact the media. In response, the landlord sent a letter threatening the residents with eviction, and this threat worked. The residents ceased their campaign for better living conditions. April's landlord recently gave her 30 days to get out, and she feels like she does not have anywhere to go because in Albany, like many places, there are very few affordable places to live for someone in a wheelchair.

So residents across Georgia suffer similar injustices every single day. But here is what we at Georgia Appleseed and our partner organizations have found, and this is listed in more detail in my written testimony. In Georgia, institutional investors are particularly known for instituting aggressive, year-on-year rent increases and novel fees.

And here are some examples of these fees: one-time activity fees, pest control fees, utility service fees, a renter's insurance fee, valet trash fees, package locker fees, common area electric fees, early termination fees that can be three times a month's rent. I can go on and on with these fees. These are just a few.

Institutional landlords increase their profits and reduce costs by refusing to perform needed repairs, just basic maintenance, security or needed health and safety measures, and this leaves tenants living in miserable living conditions. Miserable. And it is often virtually impossible to hold these landlords accountable. Out-of-State shell companies hide the owners, and tenant advocates and Governments simply cannot identify them.

Institutional landlords are well positioned to abuse Georgia's eviction and housing safety laws and ordinances. Eviction costs are very low. Court procedures favor landlord attorneys and maximize the efficient disposition of evictions, not the preservation of tenancies and healthy homes. In addition, our local housing safety enforcement is chronically underresourced. Moreover, Georgia law prohibits local communities from registering and inspecting properties without probable cause.

So I will conclude by saying we have found that this is profit mongering at the expense of families and communities. It is not investment in affordable housing. This unsafe, unstable housing exacts real long-term and devastating costs on the physical and mental health of children and families and threatens their educational achievement and employment potential. It increases criminal justice involvement and reduces overall community wealth and well-being.

Chairman Brown, Ranking Member Toomey, other Members of the Committee, thank you again for the opportunity to share my experience and the experience of fellow Georgians with you today. I look forward to answering any questions.

Chairman BROWN. Mr. Waller, thank you.

Ms. Molenda is recognized for 5 minutes. She is remote from New York.

Ms. Molenda, welcome.

STATEMENT OF ANETA MOLENDA, TENANT

Ms. MOLENDA. Chairman Brown and Members of the Committee, thank you for the opportunity to testify before you today.

My name is Aneta Molenda, and I am a New York tenant in a building owned by private equity and a member of the Greenbrook Tenants Coalition.

I have lived in Brooklyn, New York, for 6 years. I moved into my current apartment last winter in the middle of the pandemic. I signed a 1-year lease for just over $2,500 a month. It was pricey for an apartment measuring just over 400 square feet but not out of the ordinary for Brooklyn.

In just a few months, my building was bought by a private equity firm called Greenbrook Partners through a joint venture with the Carlyle Group, the third largest private equity firm in the world. When my lease expired in November, my new landlord told me they needed to reevaluate my rent based on the market bouncing back. They suggested nearly a 50 percent increase from what I had been paying. That is right; that is a 5–0, 50 percent increase, which would put my rent at about $3,800 per month. There was no way I could afford it. This was all happening when Omicron was surging.

I tried to negotiate. I sent them listings of other apartments in the neighborhood, some even on my block, to show that the increase was unreasonable for what was available in the area. Eventually, they were willing to come down on the rent, but when they sent me the lease renewal there was a section that gave the landlord the right to terminate my lease at any point and double my rent with only 30 days' notice. It was clear they wanted me out.

I have continued to pay my rent on time every month, but the landlord has stopped cashing my checks. I suspect they are getting ready to start eviction proceedings against me. The eviction moratorium in New York ended just last month. My sense of security is gone.

This is not an isolated incident. In talking to my neighbors and tenants in other buildings by the same landlord, we noticed similar patterns: massive rent increases, evictions, hazardous violations, and harassment. The confusing ownership structure makes it hard for tenants to know who truly owns their buildings.

My neighborhood of Bedford Stuyvesant is considered to have one of the highest concentrations of Black residents in the United States according to census data. In New York City, eviction rates in zip codes in which a majority of residents are people of color are three times as high as the rates in zip codes that are predominantly White. I am not surprised that these predatory firms are targeting predominantly Black and Brown neighborhoods. Many of these companies go to pensions for capital to expand their portfolios, in some cases, pricing out union members and the retirees that they are acting on behalf of.

Greenbrook Partners and the Carlyle Group are just two of the many predatory real estate firms that are fundamentally changing housing across the country. These companies treat housing as an investment vehicle rather than a shelter. But this is my home, and it serves the purpose of keeping me safe, warm, and out of the elements. This is a basic human right.

Institutional landlords want us to believe that private equity is a tiny player in housing. It is just not true. According to the *Financial Times*, private equity has had its busiest month in the last 6 months in the last 40 years, and the industry shows no signs of stopping its expansion into our homes. In just 2 years, my landlord purchased at least 137 properties in Brooklyn, all during the pandemic. These firms promise their investors returns while obscuring the devastating consequences on everyday people and their families. They buy up homes all across the country that would have otherwise been affordable.

As our communities face the trauma and grief from mourning loved ones, losing jobs, following guidelines to stay home to mitigate the spread of the virus, these predatory firms made it impossible to feel any sense of safety in our homes. We saw our communities come together to support each other. Meanwhile, Wall Street took the opportunity to rake in unfathomable profits.

This tangled web of high finance is incredibly difficult to navigate for tenants like myself. The ruthless business model is entirely reliant on disaster capitalism and systemic displacement of working-class people. A basic human right to housing is being exploited. As a tenant directly impacted by these predatory practices, I am asking that you consider establishing comprehensive, nationwide tenant protections like rent control, prohibition on excessive fines and fees, just cause evictions, and a tenant right to counsel.

The housing market is rapidly consolidating. As the largest landlords, builders, and investors increasingly partner with one another, our neighbors all across the U.S. will continue to feel the consequences. But I can promise we will continue to grow a strong tenants' movement to demand a more just housing system.

Senators, you have a choice to make. You can either allow institutional landlords to use our homes as investment vehicles in an effort to generate endless profit or support housing as a human right. Thank you.

Chairman BROWN. Thank you very much, Ms. Molenda.

Mr. Peter is recognized for 5 minutes. He is in the room.

Thank you, Mr. Peter, for joining us.

STATEMENT OF TOBIAS PETER, RESEARCH FELLOW AND ASSISTANT DIRECTOR, AEI HOUSING CENTER

Mr. PETER. Chairman Brown and Ranking Member Toomey and distinguished Members of the Committee, thank you for the opportunity to testify today.

The housing market is changing, and the real culprit is the massive house price boom fueled by Federal housing and monetary policies which is increasingly crowding out low-income Americans out of the housing market. Institutional landlords, particularly on the multifamily side, are taking advantage of more liberal credit terms provided by Fannie Mae and Freddie Mac, the GSEs, than the private sector, which is in violation of their charters. They use the taxpayer guarantee and other advantages to greatly expand their businesses while crowding out multifamily private investors. Since 2014, outstanding multifamily mortgage debt has doubled with the GSEs accounting for most of the growth. At the same time, they tout that they are supporting affordable rental housing, but in reality they have created Government profit seeking.

The current single-family housing boom, which began in 2012 was entirely foreseeable and was noted by the AEI Housing Center beginning in 2013. Since then, the housing market has been marked by too much demand chasing too little supply. Yet, the policy response was to boost demand even more. Federal housing agencies have loosened underwriting, and the Fed has pursued multiple rounds of quantitative easing, continuing even when the housing market was already appreciating over 10 percent per year. In 2021, home price gains were at 16 percent and in 2022 are expected to come in at around 12 percent, a third year of breakneck growth.

As a result, home ownership has gotten further out of reach for many lower-income, minority Americans. Consider that since 2012 wages have grown 40 percent, but the entry-level home prices have increased over 100 percent. This out-of-control price spiral means increased competition for fewer and fewer affordable homes. Potential entry-level buyers are increasingly pushed to the sidelines as they cannot compete with more deep pocketed individuals who experience the same competition only higher up the price spectrum.

This is creating knock-off effects for people downstream. Left unable to buy a home, people remain in the rental pool, helping to drive up rents, which are now increasing at 12 percent nationwide. Many who cannot afford these rent hikes will be pushed into homelessness.

If that were not enough, inflation is now running at 7.5 percent. A Gallup survey from last month finds 49 percent of Americans saying rising prices have caused hardship for their family. Lower-income Americans are suffering the most. Two thirds of U.S. adults with an annual household income of less than $40,000 say they have experienced hardship, with 20 percent describing it as severe.

Inflation is a regressive tax, and getting by, not to mention building savings to buy a home, is becoming increasing difficult. Thus, these misguided policies have severely hamstrung lower-income Americans, in particular, minorities which severely lag White Americans in home ownership and intergenerational wealth. If they can no longer reach the first rung of the housing ladder, how will they ever catch up?

The solutions are straightforward. First and foremost, we need more supply. However, Federal mandates are not the answer. Zoning and land use policies are fundamentally a State and local issue and should be addressed at those levels. We are already seeing promise across the country, even in California where the legislature has recently passed laws which could meaningfully encourage new construction activity.

At the same time, demand boosters have shown counterproductive. The Fed has belatedly realized that it needs to tighten the monetary spigot, but its policies have already done a lot of damage, and they will continue to harm lower income Americans in the form of higher home prices, inflation, and rents.

The signals from Federal agencies and regulators are less than encouraging. Rather than shrinking the Government's footprint and reducing risk, Fannie Mae is again increasing its share of risk-layered loans, where one risky loan product feature is layered on top to ultimately create a very risky loan.

More could be in store. FHFA recently made policy changes that increased GSE competition with the private sector and will lead to greater risk layering. The GSE affordable housing goals may also be increased, and other policies are being discussed. The FHA is also considering changes that will increase its competition with the GSEs, which does not bode well.

Equally worrisome are increases to the GSEs' appraisal waiver practices, particularly purchase loans. In the past, human appraisals have successfully alerted lower-income and minority borrowers when they were overpaying. An appraisal waiver may simply confirm the negotiated sale price while the competition between Fannie and Freddie for market share may create a race to the bottom on standards, not to mention that these processes can be gamed, which was commonplace with respect to the GSEs' automated underwriting systems in the lead-up to the financial crisis.

The compounding effect of these changes will mean less resiliency for borrowers and neighborhoods, many of which are lower-income and minority, to withstand an economic stress event. We have seen this movie before, and we know how it ends. It should not be allowed to happen again.

Thank you.

Chairman BROWN. Thank you, Mr. Peter.

Mr. Griffith, welcome.

STATEMENT OF JOEL GRIFFITH, RESEARCH FELLOW, INSTITUTE FOR ECONOMIC FREEDOM AND OPPORTUNITY, THE HERITAGE FOUNDATION

Mr. GRIFFITH. Thank you, Chair Brown, Ranking Member Toomey, and Members of the Committee. My name is Joel Griffith. I am a research fellow at The Heritage Foundation. The views I express are my own and should not be construed as representing any official position of Heritage.

Families are feeling the impact of the steep rise in home prices and rental costs. Spanning the pandemic era, from February 2020 through this fall, home prices soared more than 27 percent. Over the past year alone, home prices are up close to 20 percent. Residential property prices in the United States, adjusted for inflation, are now just 2 percent below the all time record levels in 2006.

Home prices are increasing far faster than family income growth. The home-price-to-median-income ratio is now near the prior record set in 2005. And despite new record low interest rates, the mortgage-payment-to-income ratio hit 32.7 percent this fall, the highest level since 2008.

Imagine this. A return of mortgage rates even close to the historical average would increase a mortgage payment for a new borrower by 50 percent even with no additional increase in home prices.

And of course, renters have not been spared. Median apartment rental costs have jumped more than 15 percent nationwide this past year. And numerous cities, not just on the coast, have experienced rent increases well in excess of 30 percent.

So why are housing prices and rental costs rising faster than usual? Well, institutional owners of rental properties are being scapegoated for the rise in home prices and rental costs. Institutional investors own fewer than 2 in 1,000 of all single family homes and just 1 in 100 of all rental homes. In fact, in no single State does an institutional investor, as a whole, own more than 1 in 100 of all available housing units in the State. The bottom line is that institutional single-family residence ownership is not measurable impacting local home price dynamics on the upside.

Here is the reality. The primary driver of rising prices nationally are Government subsidies. This is increasing mortgage borrowing and demand for housing, leading once again to higher home prices and increased taxpayer risk. Government sponsored enterprises, namely, Fannie Mae and Freddie Mac, continue to dominate the mortgage market. Investors who purchase these GSE bonds and these mortgage-backed securities know that taxpayers will make good on the promised cash-flows from the mortgages underlining these Fannie and Freddie MBS products. This leads to riskier lending because it allows investors to ignore the true financial risks of the underlying mortgages and securities.

And of course, we have our own Federal Reserve continuing to purchase MBSs en masse. Since March 2020, the Federal Reserve has driven down mortgage interest rates and fueled a rise in housing costs by purchasing more than $1 trillion worth of mortgage-backed securities from Fannie Mae and Freddie Mac and Ginnie Mae. The nearly $3 trillion of these mortgage products owned by the Federal Reserve is 88 percent higher than levels of just 2 years ago. This decline in long-term interest rates has induced and enabled borrowers to take on bigger loans, and this has fed the rise in prices that is pricing families out of the marketplace.

Of course, State and local governments bear responsibility as well. On the local level, stringent zoning regulations, density limitations, and aggressive environmental regulation are limiting the supply in housing while increasing the cost of construction. These local regulations can account for more than 30 percent of the cost of new affordable rental housing construction.

And rent control is further compounding the problem. Capping rent increases does nothing to make housing cost less to build, but it does shrink the future supply by deterring new construction while incentivizes landlords to spend less money on upkeep and remodeling. Just talk to any number of residents of public housing projects across New York City.

So what can be done to address these housing prices? First, policymakers should consider severing the special status given to the GSEs. Second, we should raise Fannie Mae and Freddie Mac mortgage guarantee fees immediately while the GSEs remain in conservatorship. This would make interest rates on nongovernment-guaranteed mortgage loans more competitive.

We should eliminate the geographic price differential for conforming loan limits. Consider that just this past year the conforming loan limits for Fannie Mae, Freddie Mac increased 18 percent. You can get a loan guaranteed for up to $642,000, and that is the standard in these high-cost areas. The loan limits guarantees are approaching $1 million.

And we should also reject eviction moratoria on the State level and on the Federal level. Initially, that decrease in cash-flow from an eviction moratorium affects the landlord only, but landlords will increase rents to mitigate this heightened risk of future moratoria and to recoup the revenue that they lost over this past year. Ultimately, eviction moratoria result in fewer affordable housing units that will be constructed.

The economy will benefit if Congress will work to make housing more affordable by gradually removing these Federal guarantees and subsidies and by eliminating these Federal mandates. And of course, State and local governments continue to bear a responsibility to eliminate their own artificial barriers to housing affordability.

Thank you for the invitation. I look forward to your questions.

Chairman BROWN. Thank you, Mr. Griffith.

Ms. Martin, calling from Cleveland, welcome.

STATEMENT OF SALLY MARTIN, DIRECTOR OF BUILDING AND HOUSING, CITY OF CLEVELAND, OHIO

Ms. MARTIN. Good morning, Chairman Brown, Ranking Member Toomey, and Members of the Committee. My name is Sally Accorti Martin. For almost 14 years, I served as the Housing Director for the city of South Euclid, Ohio, an inner ring suburb on the east side of Cleveland. Currently, I am the Director of Building and Housing for the city of Cleveland.

One of the aftereffects of the decline in the housing market has been the dramatic rise of business buyers of single family homes. The bargain basement prices of the past decade and a half led to an unprecedented rise in the number of investors flooding the housing market. Even now, with rebounding home sale prices, we have not seen that trend diminish.

Last month, I assisted an elderly resident with a housing choice voucher who was being evicted from her home of 19 years. The recent rebound in housing prices has enticed many local landlords to sell their occupied homes to out-of-State investors. In this case, as in many others I have seen recently, the tenant was on a month-to-month lease and the new landlord chose not to renew her tenancy and provided a 30-day notice to vacate. The woman was unable to secure other housing for herself, her sister with dementia, her granddaughter. They were all evicted from the home, with many of their possessions and medications left inside.

It is not uncommon for these new landlords to introduce themselves to their tenants with notices of large rent increases, making remaining in the home completely unworkable. In this case, the new landlord was the SFR3 Fund, an LLC from Mill Valley, California, with the mission statement of "acquiring, renovating, and renting thousands of single-family homes."

Unlike mom-and-pop landlords, large out-of-State investors typically do not have much empathy for their tenants. Residents can be a day late in paying rent and face an eviction notice. In this case, the tenant had never been late on rent, but the landlord refused to allow her to remain in the home as he realized that he could get a higher rent from a nonsubsidized tenant.

For the past couple of years, my office has received many calls from tenants in similar circumstances. Prospective homebuyers are finding the market nearly impossible to navigate. In South Euclid, a community with traditionally modest home prices, cash offers and bidding wars have become the norm. Buyers requiring mortgages are unable to compete. Desperate homebuyers are borrowing from 401(k) funds, relatives, or even hard money lenders in order to compete with investors.

For a subsidized tenant, the market realities are sobering. When I began my position in 2008, South Euclid had approximately 300 housing choice vouchers in force. When I left this month, there were less than 200. Those with public assistance cannot compete with market rate tenants able to pay the higher rents being charged. South Euclid, unlike many cities, has taken a proactive approach to protecting tenants by enacting pay-to-stay legislation and by passing a comprehensive antidiscrimination ordinance, including source of income protection.

Even so, we cannot stop many of the predator behaviors we are seeing in the market. Currently, the majority of the 1,600 or so rental units in South Euclid are owned by out-of-State and international investors. Even with the higher sale prices, investors are insatiable in their demand for more and more houses. Residents are bombarded with postcards, text messages, and other marketing materials offering to buy their homes for cash.

South Euclid has passed a number of ordinances designed to hold rental property owners accountable, including having a registration and inspection requirement, requiring owners living outside the area to name a local agent in charge, and not allowing the registration of rental properties with delinquent property tax balances. By taking these actions, we have successfully driven out many predatory landlords from the community, but it feels like an uphill battle.

Not surprisingly, research conducted by city of Cleveland data analyst Dr. Tim Kobie shows a dramatic and alarming increase of business buyers, especially in communities of color, on Cleveland east side and in the racially diverse inner-ring suburbs of Cleveland. For Cuyahoga County as a whole, business buyers nearly tripled from 2004 to 2020. A white paper on these findings will be published this month by the Vacant and Abandoned Property Action Council, an ad hoc group of community development professionals in northeast Ohio that is chaired by housing researcher Frank Ford of Western Reserve Land Conservancy.

For several years, Frank Ford has published an annual study on bank lending by Greater Cleveland neighborhood that has shown that on the east side of Cleveland only 18 percent of home purchases are associated with a home purchase loan. The entire east side of Cleveland, a majority minority area, has become a cash market dominated by investors.

In order to rectify these issues, the public and private sectors must collaborate. Middle neighborhoods and low- and moderate-income areas continue to lose ground in home ownership, and tenants are subject to increasing rents, making attaining the dream of home ownership nearly impossible for many and leading to housing instability on an unprecedented scale.

Thank you.

Chairman BROWN. Thank you very much, Ms. Martin.

I will begin the questions and start with Mr. Waller. On Tuesday, we heard from tenants whose ceilings had fallen in, who lived with pests and rodents, who had seen rent go up 50 percent in a single year. A lot of people might ask, why don't they just move? You gave a good example of a renter in Albany. You know renters in Georgia who face conditions like this. Do they have the option to just move?

Mr. WALLER. Thank you, Chairman Brown. No. Moving is difficult for anyone, under any circumstance. In this case, folks find that they do not have other options. There just simply are not places to move to that they can afford.

So I have spoken with tenants who live in mobile homes where their children have fallen through the floor, where there are mobile homes that do not have electricity, and they are still paying monthly rent because they have no place to go. On top of that, there are direct and measurable costs. There are early termination fees in some cases, sometimes as much as three times the monthly rent.

You have a child in school. You would have to remove them from that school. And if your child has a disability, you would have to transfer their Individualized Education Plan. This is difficult.

You have to consider your job. You have got a job perhaps, and you have figured out a way to get there. And moving to a new place in a new community because you will not necessarily find another home in your neighborhood is going to produce additional challenges.

And then there are moving costs, security deposits. It just goes on and on. They just do not have that option.

Chairman BROWN. Thank you.

Ms. Martin, a question for you. And congratulations on joining the mayor's cabinet. I am a resident of Cleveland, and I look forward to working with you for that reason and for so many others.

When you were with the city of South Euclid, you helped start the Vacant and Abandoned Property Action Council. Why did you start this council in the first place? How did the council help you and other local leaders address the problems that you point out?

Ms. MARTIN. Well, I should say first off that I did not start the Vacant and Abandoned Property Action Council. That actually started in 2005 as a response to a study done by Joe Schilling out of Virginia Tech called "Cleveland at the Crossroads". So since 2005, this group has been meeting monthly, pulling together stakeholders from educational institutions, all different cities, and county government to discuss a collective response to the issues that were plaguing neighborhoods with vacant properties. So the research that continues today through the organization has proven invaluable to us working on the ground in neighborhoods, to try to address the challenges we were seeing.

And I am very much looking forward to working with you as well.

Chairman BROWN. Thank you.

Ms. Molenda, you have experience bringing people together around a common cause in Bedford Stuyvesant and beyond, and you still face significant challenges finding and communicating with other tenants in your situation. What were some of the practices that your landlord engaged in that led residents from your building and other buildings and across the city to organize, come together, and advocate for improvements?

Ms. MOLENDA. Thank you for the question. You know, when you lose your home, you lose so many important things in your life, from stability, community, neighbors, friends, you know, potentially a job change, school change for your children.

And our organizing really started with the 30-unit apartment in Park Slope, where Greenbrook bought the building and immediately sent notices to vacate to the tenants there with 90 days' notice. Many of those tenants left, and very few stayed and fought back. When we started to do research around who this landlord was, we realized that, you know, first, they bought a dozen buildings. Then it was 40. Then it was 100. Last I checked it was 138 buildings.

And I think what really stood out here is that Greenbrook has particularly egregious practices, in particular around evictions and the massive rent hikes that many of us were experiencing for the very first time ever. And that is what really pushed me over the edge, when I got my 50 percent increase, to start to connect with other neighbors and start asking questions.

And I do have experience in the labor movement, and so I knew that bringing people together and starting conversations and building power would create space for us to start asking questions like, is this legal, and what can we do about this?

Chairman BROWN. Thank you, Ms. Molenda.

Ms. Martin, back to you. We heard from the panel that only 1 percent of homes in this country, or rental homes, are owned by institutional investors, but we also know that trends in the last few years, that 30 percent of purchases are institutional investors, which tells you where we are going to end up. How do these investors affect the communities and the cities when they buy up homes?

Ms. MARTIN. What I have seen in my practice as being in charge of code enforcement is that maintenance tends to go down, rents tend to go up, and tenants become displaced. Many tenants with month-to-month rents are just receiving huge increases, in some cases 50 percent more per month, and they cannot sustain it. So we see fewer opportunities for those with housing choice vouchers to find housing as well. So as I described in my testimony, we lost a large proportion of residents who have housing choice vouchers. So it is detrimental, especially to lower- and moderate-income residents. They are having very little luck finding houses to purchase or finding houses to rent.

Chairman BROWN. Thank you.

Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman.

Mr. Peter, we have discussed how much rents have increased. I think it was something like 12 percent across the country last year alone. Some of this hearing seems to be an attempt to blame institutional landlords for these, but it has been pointed out by Mr. Griffith what a very, very small percentage institutional owners own in the housing market.

But it is also important, I think, to note that rent has gone up a lot; housing prices have gone up even more. Right? I think as of November year-over-year prices according to FHFA are up about 17 percent nationally, much higher in some markets, lower in others, but 17 percent.

And so I guess my question is I would tend to expect that renting a house, which is, let us face it, that is a substitute for owning house, that they are going to move together. So let me ask you, Mr. Peter, over the medium term, let us say, should we expect housing prices and rental rates to generally move roughly together and in the same direction?

Mr. PETER. Yes, Ranking Member Toomey, you are absolutely correct. Over the medium term, we would expect to see home prices and rents to move in lock-step. And for the same—for the reason that you pointed out, those are indeed substitutes.

However, over the short term, there can be discrepancies that arise, and those discrepancies can arise because there are many investors, landlords, and mom-and-pop shops who generally only tend to raise rents when there is a turnover.

Senator TOOMEY. Right.

Mr. PETER. And there is generally about a lag of about a year between rents and home prices. So we are going to see a lot more rent raises in the future.

Senator TOOMEY. Right. So there is a sticky element because people are not locked in, in a given lease.

So you know, there is a very old economic truism that the solution for higher prices is higher prices. And of course, what is meant by that is that when people see the opportunity to make more money because the price of something has gone up it brings new entrants into the market, they create more supply, that tends to reduce the prices, and thereby you have a solution.

So we have also heard that a lot of folks have no place to move, which sounds like a supply problem, and high prices normally call for an increase in supply. So could you talk a little bit about why we are not seeing a huge surge in supply in the face of these rising prices, and specifically, are local governments partly to blame for this?

Mr. PETER. Yes, absolutely. I mean, there is a common saying that, demand responds quickly, supply responds slowly. And in particular on the housing front, the reason why supply responds so slowly is because we have artificially limited what and where we can build. And this comes down to the mistaken notion by elites that they can produce better outcomes than the market.

And so they have used zoning. They have used environmental review processes. They have urban growth boundaries in some instances. They have used rent control in some cities, to really slow down what the market has been doing. And this has resulted in this massive housing shortage and massive unaffordability that we have been seeing, and this is very much more pronounced in these high, high regulation States.

Senator TOOMEY. Right. Let me go to Mr. Griffith for a quick thought here. So the GSEs clearly led us into the 2008 financial crisis through excessive risk taking. Congress established FHFA to be a tough regulator, to make sure that never happened again.

But rather than being the cop on the beat, it seems the Biden administration's intent is to turn FHFA into a co conspirator with the GSEs. And what we are seeing is all kinds of policies that undermine, I think seem to undermine, the GSEs' financial condition, whether it is reductions in GSEs' capital requirements, lowering g-fees, suspended restrictions on risk layering, and on and on.

Here is my question for you. Does it ever feel like they could be setting up for repeating the mistakes that led us into the 2008 financial crisis?

Mr. GRIFFITH. Thank you, Ranking Member Toomey. Well, regardless of whether or not the current state of the housing market completely mimics what happened in 2006, with the collapse of home prices of 30 and 40 percent across the country, even if that does not happen, the pain that the GSEs are inflicting on the American families, it is undeniable. And by that, I am referencing the home prices that are at all-time record levels right now. Whether those prices collapse or whether they stay elevated, American families are severely impacted. And the only way to have a way out of this without an even more prolonged period of sharp contraction would be to gradually remove their footprint, to allow prices to gradually return to something that is more affordable.

Senator TOOMEY. Thank you.

Chairman BROWN. Thank you, Senator Toomey.

Joining us from his office is Senator Menendez, and after Senator Menendez I believe will be Senator Tester, so if you can line up that way.

Senator Menendez from New Jersey.

Senator MENENDEZ. Thank you, Mr. Chairman. You know, there is a massive racial home ownership gap in this country, which is a serious problem because owning a home is a key to building intergenerational wealth and reduce racial wealth inequality overall. According to the Census Bureau data, the White home ownership rate is about 74.4 percent compared to about 43.1 percent for African Americans and 48.4 percent for Hispanics.

So, Ms. Martin and Mr. Waller, what are some of the barriers to minority home ownership, and how do large commercial landlords mitigate or exacerbate those obstacles?

Ms. MARTIN. Yes. Hello. I could respond to that. What we have discovered in northeastern Ohio through the analysis done by Frank Ford of Western Reserve Land Conservancy, who is the Chair of VAPAC, is that lending disparities are very real, and we are finding that majority minority neighborhoods do not have equal access to credit. So essentially, we still see redlining going on in those neighborhoods.

We also see very disturbing trends where Black borrowers, even high-income Black borrowers, are having less of an opportunity of getting mortgage capital than even moderate income White borrowers. So Frank's research is very startling in that.

It is very clear, as stated, you know, in some of our low mod areas there is almost no opportunity for home ownership as it has become a completely investor-dominated market. There are essentially few to no mortgages being written in some parts of our community.

Mr. WALLER. And if I could add, Senator, these practices and these types of landlords are often concentrated in low income and Black and Brown communities. The effect is that they are extracting wealth from these communities. And to buy a home you need wealth. You need to buildup money to pay for your downpayment, also have a stable income.

And so these practices, because they put so much pressure on the families that live in these homes, that are renting these homes, they are often feeling like they are in a constant state of fiscal emergency. And it is very difficult under those situations to have the kind of stability that lends itself to the purchase of a home. Thank you.

Senator MENENDEZ. Well, thank you. Well, I am concerned, the fact that institutional investors in real estate are potentially squeezing minority first-time homebuyers out of the market. According to the National Association of Hispanic Real Estate Professionals, one of the critical barriers Latino homebuyers face is that Latinos are overwhelmingly concentrated in areas of the country with acute housing shortages. So what can we do to ensure that first-time minority homebuyers have a fair chance at competing with deep-pocketed institutional investors?

Ms. MARTIN. I think first and foremost we need to make mortgage capital available. I think we need to provide some backstops to keep the investor behavior curbed in some of these areas where they are just essentially raiding neighborhoods.

Mr. WALLER. And I would add that, you know, it is a multifaceted problem. So there is a lot of different solutions that need to be employed. So I think some, you know, direct spending to State and local governments, mission-driven nonprofits, to help actually increase supply, which is not increasing. It is not increasing fast enough. There simply is not enough affordable housing in Georgia.

Also, local governments need better information about these types of investors and institutions in order to make decisions at the local level to help increase supply.

Senator MENENDEZ. OK. Now as more and more housing is bought up by institutional investors, I am concerned about the lack of transparency this is creating in real estate ownership. Imagine a scenario when an unoccupied house needs maintenance or the neighbors cannot notify the owner because the house is owned by an anonymous LLC.

Ms. Molenda, how does the difficulty to determine and communicate with the true owner of a property negatively impact neighborhoods? I am thinking about the 2019 Harvard study of rental properties in Milwaukee that found that properties bought by LLCs became more likely over time to receive code violations, fall into disrepair, particularly in high-poverty neighborhoods. In other words, corporate ownership can degrade the quality of housing, and that could have negative impacts not only for the tenants of those properties but for the surrounding neighborhood.

Ms. MOLENDA. That is exactly right, Senator. We see this all the time around—you know, the paperwork that I got when my building was owned lists a different name than what I was told I should be sending my rental checks to. It is a very convoluted system of trying to investigate for folks like tenants, right, who do not have the skills and the research time and capacity to investigate this kind of really tangled web of who is in a relationship with whom.

And the violations that you mentioned, I mean, these have included dangerous, unpermitted work and careless construction. We have had—you know, one of my neighbors in a different building had to get sent to the hospital for asthma from unmanaged dust and debris from construction that was unpermitted that was happening. And the entire Greenbrook portfolio, according to the New York City Department of Housing, Preservation, and Development, has received just over 3,000 total violations across their portfolio of just, you know, 130 plus buildings.

Senator MENENDEZ. That is pretty amazing. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Menendez.

Senator Tester from Montana is recognized from his office.

Senator TESTER. Yeah, thank you, Mr. Chairman and Ranking Member, for having this hearing. You know, we all have—all the Senators on this—in this group have offices all around our States. And I have heard with previous representatives that institutional investors are 1, 2, maybe 3 percent. The interesting thing is, you are right, that is pretty small, the overall buy.

But I will also tell you—and I do not think I am alone in this—damn near every call I get that is a problem with housing is with institutional investors. And the points that are made by the people who are in these homes, who cannot move easily, are: These folks see an opportunity to take advantage of us, and they are, and it is wiping us out.

And so it is not about blaming institutional investors. It is about getting people to do the right thing and have a little bit of compassion, just a little bit of compassion for your common man.

But, yeah, housing has been an issue. Montana struggled with a lack of housing before the pandemic. And you know, folks want to move to Montana. I do not blame them. It is the greatest State in the Union. A little biased on that, but it is the truth. But the fact is, is that the pandemic has made these challenges more difficult.

So this is a question for you, Ms. Martin. During your time in South Euclid following the last economic crisis, you all worked to preserve local involvement in control of affordable housing so that it did not get monopolized by big out-of-State investors. What did you learn from that experience?

Ms. MARTIN. What I have learned as a code enforcement official is it is almost impossible to track down these investors. So as you said, they hide. Many of them are not registered with our Secretary of State. It is very hard to untangle who is responsible. We have gone to the lengths of actually questioning tenants about who they are paying their rent to because we could not service on anyone.

And as you might be aware, most code violations are criminal offenses. So for us to prosecute that, we have to perfect service on whoever the owner is, which can be very, very difficult.

So again, you know, in Cleveland through our collaboration, by working together through the Vacant and Abandoned Property Action Council, we have helped make that a little bit of an easier process, but there are no legal safeguards that allow transparency in that way for cities to see who is really behind it. So for us to try to get control of dilapidated properties—you will find a property with no heat, a property where the water has been cut off—it makes it very, very difficult. And also, the environment of code enforcement having declining resources, so fewer code enforcement people in the nation, makes it even harder still.

Senator TESTER. You know, it is interesting. In Montana, the state of the population is just over a million people. We have some mobile home parks that have been bought by institutional investors, and we have had some other properties bought by institutional investors. And the kind of complaints that are brought forth and called into my office, with pictures I might add, are unbelievable. I mean, the Billings properties, for example, sent us pictures of what the water looked like coming out of their taps, and I guarantee if you drank it you were going to be sick because it was not clear. It was not even close to clear. It was primarily brown.

And a mobile home park in Great Falls talked about the fact that over the time since the institutional investor bought this property they did nothing but jack the rent and add fee after fee after fee, making it impossible for folks to be able to live there. And as has already been pointed out, it is not like folks can just pop up and move somewhere else. It is their home, number one. And number two, a lot of these folks do not have the resources to be able to move at the drop of a hat.

Mr. Waller, we have seen success in Montana from manufactured housing communities converting to resident-owned cooperatives. Hopefully, you know about these ROCs. Are there other opportunities to improve communities by giving options like the first right of refusal or providing programs so the properties can stay affordable and stay in local hands?

Mr. WALLER. Thank you for the question. Yes, I think in general providing options to homeowners, or potential homeowners, or tenants and families that live in rental homes is exactly the right way to go. And that is part of the issue we are talking about today, that folks do not have choices. So our State laws in Georgia are not set up to support tenant choice. In fact, it is quite the opposite. So those kinds of programs, I think, would have a beneficial effect.

Senator TESTER. Appreciate that. Once again, thank you, Mr. Chairman and Ranking Member, for having the hearing. Appreciate all the participants.

Chairman BROWN. Thank you, Senator Tester.

Senator Van Hollen from Maryland is recognized.

Senator VAN HOLLEN. Thank you, Mr. Chairman and Ranking Member Toomey. Thank all of you for your testimony here today.

A few days ago, we heard testimony from a number of individuals who were impacted by absentee owners who were not taking care of the apartments that were owned. One of them was Juan Cuellar. He is a tenant at the Bedford and Victoria Station Apartment Buildings in Langley Park, Maryland. It is owned by an out-of-State, publically traded company. This community is about 84 percent Latino. Many recent immigrants often do not know their rights, and there is a huge sort of information disparity.

Mr. Waller, this issue of information asymmetry obviously puts this kind of tenants at a disadvantage. Do you have thoughts on how we can address this so that those tenants can have a better ability to navigate these systems and protect their rights?

Mr. WALLER. Thank you, Senator. Information is really important. So there are some basic low-hanging fruit that court systems and local governments could do, like providing things in languages that people can read and also providing navigators so people understand the law and what their rights are.

But I would say that even so, even with knowledge, in many cases tenants simply cannot exercise their rights even when they know what they are because there is a lack of legal representation for low-income tenants. In fact, it is virtually nonexistent despite the heroic efforts of our legal services attorneys across the country.

And so local communities and States need to think about the benefits that they would receive if they would provide legal support to tenants. These are very complex litigation. I mean, a legal—a landlord in an eviction case may move really quickly, as quickly as 3 weeks in Georgia, but it is a very complex proceeding and tenants simply do not have a chance.

Senator VAN HOLLEN. So we also have an issue where, you know, tenants are engaged in making complaints and they often go unheard and neglected and problems buildup. Sometimes it is pest infestation. Sometimes it can be deadly situations. We had back in 2016 in Silver Spring, Maryland, which is not too far from the Langley Park area I just described, an explosion that demolished 2 buildings and took 7 lives, injured 30 people, displaced 100.

And there was an investigation that determined there were lots of problems and missing things that had happened here. There was finally a settlement that was not disclosed. But the NTSB did look into it, the National Transportation Safety Board, and they concluded that a number of tenants in the building had reported smelling gas in the lead-up to this deadly explosion and that those reports went unheeded. Nobody reported the smell of gas to the gas company, and as a result, 7 people died and 30 were injured.

Can you talk, and others, just in my remaining time about how we can change the systems and incentives in a way to prevent that kind of deadly tragedy? This was again a building primarily populated by recent immigrants, and people were just not listening to their complaints.

Mr. WALLER. That is an extraordinarily tragic event, and those kinds of tragedies do happen in Georgia as well. One of the challenges that we face is that there is lack of investment in the enforcement of local housing safety laws, and so the housing code enforcement staff is often chronically underresourced. In some places like Georgia, in fact, their power or their authority to actually inspect homes is limited by State law.

So in Georgia, it is unlawful for a community to inspect a property at all or even have a rental registry without probable cause. So they cannot go in and inspect unless there is someone there to invite them in. And so if the landlord does not do that or tenants are afraid to reach out, then the property will simply just not be inspected.

So looking at those kinds of laws and the resources that we provide these communities and the role that Federal Government might have in terms of oversight when it, you know, supports investments by out-of-State investors I think is really important.

Senator VAN HOLLEN. I appreciate that. Thank you.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Van Hollen.

Senator Smith from Minnesota is recognized from her office.

Senator SMITH. Thank you, Mr. Chair and Ranking Member Toomey, and thanks to all of our panelists today.

So I start from the place that if you do not have a safe, decent, affordable place to live nothing else in your life works, not your job, not your education, not your health, nothing. And as Molenda said so well, when you lose your home, you lose more than just that; you lose your community. And that is why this hearing is so important.

Seems to me, Mr. Chair, our system is failing way too many people who are being victimized by these big corporate and institutional private equity landlords. And on Tuesday, as you said, we heard some stories about what this really means in the lives of people, including Rachel, who is a single mother in north Minneapolis, who had to sign her lease as she was leaving an abusive relationship. And Rachel shared her own experience with this institutional landlord: flooded basement with an unsafe electrical hazard in it, a garage torn down because it was unsafe, and other significant problems. And she told us how it was impossible, nearly impossible, to get anyone to pay attention to what she needed to have happen.

Now Rachel is not alone. In the city of Minneapolis, we have found dozens of violations of city ordinances in homes owned by this large landlord. By one estimate, 58 percent of homes have code violations. In nearby Columbia Heights, the problems were so bad that the City revoked the landlord's rental license.

Now Rachel's rental is owned by a firm called Pretium, a large private equity fund which acquired this portfolio last year. Pretium tells me that they are committed to fixing these problems and they are going to do away with some of these onerous lease terms. And they need to meet their commitments to me, and I am going to make sure that there is accountability here.

But in the meantime, this speaks of course to a larger problem that we have in our nation. We are seeing increased corporate consolidation in a lot of sectors of our economy, in food, and we are seeing it driving up food prices, heating prices, and now rent prices. And this is happening because this big out-of-State firms, out-of-town firms, driven by Wall Street expectations, are buying homes by the thousand, with the single minded goal of driving up profits and turning these properties into cash cows.

Now I went to business school, and I know what "cash cow" means. It means that you maximize cash spin-off while you minimize investment and maintenance. And we know who wins and loses in this deal when it comes to tenants.

So I want to ask a question along this topic to Mr. Waller and also to Ms. Martin. You both have been involved in the housing sector for a lot of years. Can you help us understand a little bit how these big institutional investors are turning these properties into cash cows and what impact that has on tenants? For example, what do you see in terms of the different experiences between tenants who are tenants of this big out-of-State, cash cow investors versus local landlords? What do you see as some of the differences?

Ms. MARTIN. What I have seen in my work is that these landlords tend to not have a lot of empathy for tenants. So things will break in the house. Things will start to—the basement will flood, for instance. The tenant will need a plumbing repair. It will not be done, or it will take months and months for the tenant to get relief.

So again, this speaks to the need for code enforcement as being a critical tool, and code prosecution, but again, it is very hard to find them. They typically employ local property managers that are very hard to pin down, and they hide behind the corporate veil, making it very, very difficult.

But they do milk the properties, as you stated. That is what is going on. They buy them for the lowest possible price. They try to put nothing into them and milk them for all the rent they can get.

Senator SMITH. And let me just ask, following up on this, Mr. Waller, large institutional investors in housing, do you think that that has a downward trend on rents or do you think it has an upward trend on rents? What is your——

Mr. WALLER. What we have observed in Georgia is that these institutional landlords are well known for driving up rents, the cost of rent, in fact, year-on and year-on. But it is not just the rents. I also think it is important to note that there are fee schemes that are imposed that, you know, we have not seen and we do not see with other types of landlords. These are very creative fees that can cost tenants a tremendous amount of money.

There is one example. An Atlanta Legal Aid Society lawyer reported that her client had—her lease payment was 1,300, I think, and 73 dollars under the lease. But when—with the accumulated fees, it was $2,157 per month. That is a 60 percent increase. And so you can imagine what kind of—what that does to tenants over time.

Senator SMITH. This is the kind of predatory behavior that I think is so damaging to a housing market that is already struggling because we have a shortage of supply, as we all acknowledge. So thank you, Mr. Chair, for this hearing, and I look forward to our continued work on this issue.

Chairman BROWN. Thank you, Senator Smith.

Senator Toomey has one question he wants to ask, and then I will turn to Senator Warnock, remote.

Senator Toomey.

Senator TOOMEY. Yeah, thanks, Mr. Chairman.

Mr. Peter, in your written testimony, you speak about the extraordinary growth in the GSEs' footprint in the multifamily market. You also state that many of the institutional landlords, including many that have been subject to criticism this morning, have actually been funded by the GSEs. So here is my question. Does the GSEs' role in subsidizing multifamily loans really do much to increase affordable housing or even the supply of rental units?

Mr. PETER. Senator Toomey, that is a great question, and the answer is precious little. And the way it works I have documented in my written testimony on page four. As you pointed out, there has been this massive increase in multifamily mortgage debts guaranteed by Fannie and Freddie.

However, when an investor comes in, they find a property where renters are already making below 80 percent of AMI, Area Median Income, and then the GSE requires that the tenants in this building continue to earn incomes below 80 percent AMI. So due to the liberal GSE lending terms, the buyer or the investor is able to load the property with a lot of debt. And as long as the buyer can then make some renovations or not and typically tends to then raise rents. But as long as the occupants are just still generally earning incomes below of 80 percent of Area Median Income, Freddie then gets to tout that they preserving success in maintaining affordable rental units while the owner can brag about financial returns.

So as long as there is—so this is—I think you need to follow the bouncing ball here. So long as the system is all underwritten by Fannie and Freddie, I think we need to get to the root causes of this problem. The root causes are really the financing which is done by the Government, which is then raising these rents on these low-income rental units. And I think that is something that we should have a close look at because if it is underwritten by the Government it is creating also distortions in the marketplace, which should not happen.

Chairman BROWN. Thank you, Mr. Peter.

Senator Warnock is next, and then he will be followed by Senator Cortez Masto. Both are calling from their office.

Senator Warnock from Georgia.

Senator WARNOCK. Thank you so very much, Chairman Brown. We are in the middle of a housing crisis, and this is true obviously all across the country, but it is especially true in Georgia. We are certainly feeling it all across my State, where constituents are facing difficulties finding affordable housing, in the Atlanta area and all across the State.

In this time of difficulty, some corporate landlords have been aggressively issuing eviction notices. Between January and April of 2021, in the middle of a pandemic, Pretium Partners and its subsidiaries filed 155 evictions in DeKalb County alone. Ventron Management has filed for eviction against the tenants of Brooks Crossing Apartments a total of 427 times since April of 2020.

I am happy to see Mr. Waller here, a fellow Georgian who has been on the front lines of this problem in helping these families who are facing eviction. When we think about housing, you are talking about health care also. People are more likely to be able to maintain a health care regimen. Kids will be better able to study. We are talking about education and a whole range of issues. Stability in housing is dignity.

Mr. Waller, based on your experience working directly with communities, are these companies targeting evictions to specific areas, or is this just, you know, part of the marketplace?

Mr. WALLER. Thank you, Senator. It is a pleasure to see you. So, yes, they are targeting. Their activity, we observe, is concentrated in communities of color and low-income communities. And as a result, although there might be a smaller or, you know, larger part of the marketplace, in those communities, the threat of this type of institutional landlord is very real.

And it causes additional destabilization. Again, it extracts wealth from these communities, reduces their ability to improve their circumstances or find new places for their children to live. It also reduces the ability of communities to support the education of kids and support the employment potential of their families.

Senator WARNOCK. Well, you describe well the impact of all this. But what is motivating these companies to file so many eviction notices during a public health crisis?

Mr. WALLER. The eviction system in Georgia is set up to support the needs of landlords, and so when you look at why landlords use evictions it is not necessarily to remove a tenant. Eviction in Georgia is a very inexpensive process for a landlord. It can be very quick. And landlords have attorneys that are at their disposal, of course, but also the way the courts are set up it is very inexpensive to use a landlord attorney.

And so they use eviction filings not just to push people out and bring new people in. They also use them to threaten, intimidate, and coerce tenants into paying often unlawful fees as well as paying up-rent when tenants complain about miserable living conditions.

And I should point out that tenants have zero leverage in Georgia. Regardless of the conditions of the home, the tenant is still obligated to pay, and so if they do not pay they can be evicted. And so landlords know this, and they use it to their advantage.

Senator WARNOCK. Right. And you talked already about the effects of this on families. Can you talk a little bit more specifically about the impact of this on children?

Mr. WALLER. Yes, sir. That is very near and dear to my heart, of course, at Georgia Appleseed. And the impact is really profound and cannot be overstated. So first of all, these evictions and threatens—you know, the threat of eviction, eviction filings has a tremendous psychological effect on the parents and puts them in sort of state—feel like they are in a state of constant emergency. So there is a lot of stress associated with that.

But involuntary moves caused by eviction have measurable, well-studied, and negative impacts on children. And there is learning loss every time there is a move. There are behavior challenges that appear after several moves.

These impacts also affect their classmates. There is something called "school mobility," which has been measured a great deal. And the more school mobility that a school experiences, in other words, the more children move in and out of the classroom during the year, the worse the effect on their classmates as well as on teacher morale and teacher retention. So the communities end up paying the costs and not—you know, when the landlords act in this way.

Senator WARNOCK. So all of us have a reason to want to curb the activities of these bad actors. We all have something at stake here, whether it impacts us directly or not. Think about Dr. King saying, whatever affects one directly affects all indirectly.

And so I have introduced legislation to make downpayments more affordable for first-time, first-generation homebuyers and support affordable housing construction and transparency on restrictions for building new homes. But at the same time, we have got to do something to address these bad actors, particularly in the middle of a pandemic.

Thank you so much.

Chairman BROWN. Thank you, Senator Warnock.

Senator Cortez Masto from Nevada is calling from her office.

Senator CORTEZ MASTO. Thank you. Thank you, Mr. Chairman, and thank you to the panelists. This is a great conversation and so appreciate you being here.

Ms. Martin, let me start with you. In your written testimony, you noted that cities that want to take a proactive approach to code enforcement have a difficult time ensuring their compliance. So let me ask you, Ms. Martin and Mr. Waller, if you have any thoughts on strategies to improve municipal efforts and what we can do here at a Federal level to support those local government efforts.

Ms. MARTIN. Thank you for asking the question. Code enforcement departments universally are stressed. It is very hard to find applicants. It is very hard to afford to have adequate staffing at the code enforcement level. And as you can see from the testimony today, it is imperative. It is the way we protect the life, health, and safety of these tenants. So any assistance that local governments could have to augment and support code enforcement as a function would be very helpful, for sure, and also certainly anything we can do to help increase the transparency of these investors so they can be held accountable for their behavior.

Senator CORTEZ MASTO. Right. And so I am curious if you have any thoughts, what we can do at a Federal level. And this is—I think many of us have the same challenges. We understand a lot of this enforcement is at the local level, where it should be, and there are challenges at the local level for municipalities and counties. Is there some thought at a Federal level, what we can do at a Federal level to support them?

Ms. MARTIN. Perhaps creating some sort of regulatory environment where they have to be more transparent in the reporting of what they own and what the addresses are of the properties. They tend to be hidden in individual LLCs. We also find, you know, many of them are not paying their property taxes until—you know, they are very delinquent. So, milking properties. So anything where information and data can be collected and shared would be helpful.

Senator CORTEZ MASTO. And you touched on it. This, to me, is my biggest challenge right now is the data. There is a lack of it. There is a lack of accurate information. It is not easily transparent, I think for many of us, to even understand who the true property owners are. And to me, I think that is the first step here moving forward, if we are even looking Federal legislation, is to capture that data.

And I do not know of anybody who really has accurate data. I am still putting it together in the State of Nevada.

And so how do we ensure that we have the most up-to-date information to really address the tenants' needs and address the issues and help our local municipalities? I am curious, Mr. Waller, any thoughts on that?

Mr. WALLER. Yes, Senator. Thank you for the question. I would underline Ms. Martin's testimony and also say, you know, there may be some basic corporate accountability measures that could be helpful. So, requiring investors in this kind of situation to identify an ultimate owner, some kind that could be held accountable when there are violations of the law and costs pushed on the communities in this way, that would be really helpful.

I think also thinking about housing code enforcement and housing safety enforcement as part of the necessary—a necessary part of the tapestry of Government supervision and encouragement of investment in affordable housing and so perhaps even direct grants to housing code enforcement offices. I think the conditions are often forgotten.

And historically, one way that we have had some idea of what was going on in homes and had some Federal investment in improving the conditions of homes was by funding voucher programs and funding local housing authorities so they could provide inspections of these properties because in a State like Georgia that is the only regime in which there are inspections. Again, it is unlawful for Georgia for local communities to have, for example, an annual registry or inspection of rental properties.

Thank you.

Senator CORTEZ MASTO. Thank you. I appreciate that. One final question, at Tuesday's listening session, which was a great conversation, really so informative, there was a Nevadan there by the name of Kathleen Hernandez, and she discussed her horrible experience with renting a property with malfunctioning sewage pipes. And one thing she and other witnesses mentioned was being charged hundreds of dollars for service calls to address malfunctioning sewage pipes.

And so, Ms. Martin, my question to you is: What can local governments do to prevent these additional fees for basic landlord services? I mean, what else can we be doing to address this, the concerns that we see here with these fees adding up and really not achieving a correction or a cure for the ultimate problem when they are called out?

Ms. MARTIN. I have seen many unconscionable leases that tenants have signed in their desperate—desperation to obtain housing. So one of the things that is an effort in Cuyahoga County is right to counsel so that tenants have a right to legal help. The Legal Aid Society is doing tremendous work locally, and there is some funding that has come through Cuyahoga County and also from the city of Cleveland that ensures that, but that is not widespread.

And one of our agencies—and I am sure this is true throughout the country—it was called the Cleveland Tenants Organization. They were there to help with questions like that. Is this legal that they are putting all this on me? So in some cases, I was seeing the landlord put the burden of paying property taxes onto the tenant and things that just are simply in conflict with Ohio landlord–tenant law, yet it was going on. So I think educating tenants and providing some means to fund organizations that do that will be very, very helpful.

Senator CORTEZ MASTO. Thank you. I know—Ms. Molenda, I see you nodding your head. You would agree with that, I would assume.

Ms. MOLENDA. Absolutely. And I think, you know, just the lease terms that I have seen from Greenbrook and Carlyle have just been awful. And having rented many, many apartments in New York

City and elsewhere, I have just never seen these kinds of lease terms, where they are really building in things like, you know, if you have a pet, you forfeit your entire security deposit even though I have already lived in my apartment and have a pet. And so they are just writing in all of these really ridiculous terms into the leases that a lot of folks are signing.

Senator CORTEZ MASTO. Thank you.

Mr. Chairman, I know I went over my time. Thank you so much. Thank you to the panelists again.

Chairman BROWN. Thank you, Senator Cortez Masto.

Senator Warren from Massachusetts is recognized.

Senator WARREN. Thank you, Mr. Chairman. So last year, while families were struggling to make ends meet during a pandemic, vulture investors saw a big opportunity. Private equity firms and other Wall Street investors were busy scooping homes in communities across the country even in the middle of a historic housing shortage.

So I recently wrote a letter to a few of the largest investors to get answers about their activities in the housing market, and they all told me not to worry. They gave similar defenses to what was going on. Part one, they told me that institutional investors play a relatively small role in the housing market, and part two, they said that by buying homes to convert rentals they were increasing the rental supply and making rental housing more accessible for those who prefer to rent. So I want to see if we can just explore those two defenses from the industry.

Mr. Waller, I would like to start with you. Institutional investors are telling us that they are just a small player in the housing market. You work closely with families across the State of Georgia. Is that what you are seeing on the ground?

Mr. WALLER. The role of institutional investors is growing and growing quickly. So you know, if you look at some of the research that is available just, I guess, in the last third quarter of last year, I think they were responsible for about 40 percent of single-family home purchases in the Atlanta area.

Senator WARREN. Forty percent?

Mr. WALLER. And in the five-county region, corporate landlords were responsible for, I think, 76 percent of the eviction filings in the end of last year.

Senator WARREN. Wow. So, thank you. You know, we have reached the point where nationwide more than one in every four single-family homes in America is purchased by investors, and that is a huge increase. And the vast majority of investor purchases, more than 75 percent, were made in cash, which is really hard for a family to compete with.

So if investors are buying up more and more homes, and new construction is not keeping up, who gets the short end of the stick? And I think the answer is pretty clear. Families that dream of buying their first home. When investor home purchases skyrocketed last year, the share of purchases by first-time homebuyers, most of whom cannot compete with those all-cash offers, fell to its lowest level since the crash of 2008.

So, Ms. Martin, let me ask you. You have spent 14 years leading South Euclid's housing department. Families are being priced out of home ownership across the country, forcing many of them to rent even if they would have preferred to buy. Are big investors at least making it easier for families to access affordable rental housing the way that they claim they are?

Ms. MARTIN. Absolutely not. In my experience, that is not what is happening at all. I think what we are seeing on the ground is more scarcity. We are seeing more of a concentration of poverty as the tenants are forced to find substandard housing in areas that they did not want to live in because the opportunities in areas that they would like to live in are so scarce. These units are getting locked up and locked out of most—most of the people, you know, who are seeking housing just do not have a shot at it.

Senator WARREN. Well, thank you, Ms. Martin, and thank you, Mr. Waller. Appreciate your information on this.

You know, institutional investors like to say that they are helping out renters and potential homebuyers across the country, but that is just the story they want to tell while they just keep raking in the profits. With mountains of cash on hand and access to exclusive listing, these Wall Street firms are buying up already scarce homes from right under American families. And then they jack up rents and exacerbate the inflation that is straining family pocketbooks.

So think about what this means. Big investors are blocking the main path that families have traditionally had to build wealth and financial security, that is, buy a home. They are also standing in the way of opportunities to narrow the racial home ownership gap and the racial wealth gap that are a blight on our country.

So there is a lot we need to do to fix the housing crisis, and we should start with building more housing, just as Build Back Better would do. But we also need to loosen the grip that Wall Street investors have on our housing market. This would help level the playing field so that every family in America has an opportunity to pursue the dream of owning a home.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Warren.

Senator Ossoff from Georgia is recognized.

Senator OSSOFF. Thank you, Mr. Chairman. And I want to particularly welcome Mr. Waller from Georgia. Thanks for making the trip. Thanks for your testimony. Thanks for all the work you do in the community.

I want to ask a question of you, Mr. Waller, and I would also like to hear from Mr. Peter on this. Why is it that institutional investors, private equity firms are so much more liquid now or have so much more capital at their disposal to allocate toward investments such as buying up housing stock? Do you agree that is a fair characterization of shifts in market dynamics? Thank you.

Why don't we begin with you, Mr. Waller.

Mr. WALLER. At Georgia Appleseed, we are focused primarily on sort of the tenant experience and protecting the tenant. So I do not have the kind of research I think that Mr. Peter could provide.

What I can say is that what we are seeing is that there is a lot of money available for these investments, but what we do not see when these investments are made are, you know, the construction of new properties, or buying a property and investing in the property and upgrading the property, the kinds of things that you think about when you think about community investment. Instead, this is the purchase of a property, the extraction of as much money from it as possible, then often in the end a derelict building where nothing else can be done. There are stories in the newspapers, in the AJC, or in Atlanta, just yesterday about properties just like this, that are essentially left to communities to pay for. So these investors come in, buy the properties, and then push those costs onto the community and onto the families living there.

Senator OSSOFF. Thank you.

Mr. Peter, your perspective, please.

Mr. PETER. Thank you, Senator. If you refer to the chart in page four of my written testimony, you see that multifamily mortgage debt outstanding has grown exponentially, and this is because of the Federal Government, particularly the GSEs, Fannie Mae and Freddie Mac. And so just in 2014, there were $400 billion outstanding, and now this is—by the most recent quarter that we have, Q3 2021, this has grown to $900 billion.

And the reason why this is happening because the GSEs are offering more liberal credit terms than the private sector, and hence, they are able to crowd out the private sector from this business. And this is making it attractive for private equity firms to come into the market and take advantage of these liberal terms that they otherwise would not get from the private sector. So I think the solution, if you look at it, is to shrink the GSE footprint in this market but also on the single family side if you want to solve this problem that you have identified.

Senator OSSOFF. Thanks for that input.

Mr. Waller, how does the tenant experience vary typically between a tenant occupying a home or an apartment owned by an institutional investor, such as a private equity firm, and a tenant who is in a home or apartment that is owned and run by someone in the community?

Mr. WALLER. Thank you, Senator. So the way I tend to think about this is, you know, the farther that the landlord moves from the community and the family the more landlord sees the arrangement as a purely business arrangement. And so from the out-of-State institutional landlords' perspective, there are units that need to be filled, they are fungible, and there are customers that fill them.

From the tenants' perspective, this is a home. It is very expensive to move into the home and acquire the home. It is very expensive to leave. And so the farther apart—the owner is from the tenant and the owner is from the community, the worse it gets for the tenant.

And so what we see is that the landlords that are out-of-State institutional landlords, it is difficult to hold them accountable when there are problems. The tenant has no one to speak to. The community has no one to speak to except perhaps a property management firm which will come and go. They will change often. And so as a result, they are subject to increasing and novel types of abuses that we have not seen before.

Senator OSSOFF. Thank you, Mr. Waller.

I want to come back to you, Mr. Peter, and reflect on some of the comments Mr. Waller made on the different approach the institutional investors will take toward property management and their incentives are different. Much has been written about how over the last 50 years the incentives in the financial services sector, among institutional investors and fund managers, have shifted toward short-term returns. That is how compensation is structured and rewarded. There has been a shift, many have argued, from a long-term approach to capital allocation to one focused only on the next month, the next quarter, maybe the next year.

Do you agree with that? Do you think that dynamic prevails in our economy? Do you think that impacts how institutional investors might manage the housing stock that they are buying?

Mr. PETER. Yeah, I mean, I think ultimately it comes down to market power. And currently, we have this massive shortage of housing and rental units that is making it easy for landlords, be they large investors, be they mom-and-pops, but also on the single-family, to drive up home prices.

And as long as this is being financed by the GSEs, these institutional investors are working within the system, which is allowing them, afforded by the GSEs, to take on more debt, load up profit off the system that the GSEs provide. So I think you want to look at the role of the GSEs and shrink those down, yeah.

And, yeah, I mean, it is all working within the system because if you can raise rents, which is allowed by the terms that the GSEs can lend, you increase the cap rate which then allows you to extract even more equity, which is underwritten by the GSEs. So it is kind of a circle.

Senator OSSOFF. Thank you, Mr. Peter.

And finally, Mr. Waller—and feel free if you want to take some time on this and contemplate and get us something for the record. I do not want to put you on the spot, but if you have any suggestions for Congress as we consider housing policy, of what we can do to increase supply. Right? To reduce barriers to increase supply and to incentivize investment in supply and growth of housing stock. We have shortages across the country, driving up rents, driving up prices.

If you have anything you want to offer now and then we would also welcome anything for the record. That is my final question. Thank you.

Mr. WALLER. Thank you. And we would be happy to offer something for the record later, but I can say that, you know, thinking about the fact that there just simply are not enough homes for folks to move into. So I had mentioned April earlier, who simply cannot find another home in Albany, Georgia, where she can live with her mother who is in a wheelchair. There needs to be additional housing. The system we have now is not providing it. So I do think that there is a role for direct spending to State and local governments and mission-driven nonprofits to invest in the development of affordable housing. I think that would be a big help.

I also want to again underscore something that has been said a couple times, accountability and information. Local governments need information to make good policy, and right now we have very little information about how these landlords operate, who they are. And so measures to increase that would be very helpful.

Senator OSSOFF. Thank you, Mr. Waller.

Chairman BROWN. Thank you, Senator Ossoff.

The Senator from Arizona is recognized, Senator Sinema, from her office.

Senator SINEMA. Thank you, Mr. Chairman, and thank you to the witnesses for being here today. The rapidly changing costs in Arizona's housing market have been a major concern of mine for a number of years. Now more than ever, middle-income and fixed-housing Arizonans are struggling to afford housing.

Recently, an out-of-State investor purchased an apartment in Tucson that was originally affordable housing for seniors, but after purchasing the building the investor doubled the rent for residents, forcing many of these seniors to seek increasingly difficult to find housing options. According to the *Arizona Daily Star*, Tucson's newspaper, the investor described his method as rehab; kick the tenants out and raise the rents. He describes the outcome he seeks as, quote, forced appreciation, where he tries to raise rents on Arizonans faster than market forces would normally permit.

So let us think about that for a minute. Arizona has an affordable housing shortage and some of the fastest rising rents in the country, and somehow even that is not enough for this investor.

So my first question is for all of the panelists, and I would invite you to feel free to respond or not respond. Would anyone like to defend how this investor talks about Arizona seniors and, quote, kicking them out of their homes?

[No audible response.]

Senator SINEMA. Right. I did not think so.

So my next question is: Does anyone testifying today feel like these actions and these words respect our seniors and the most vulnerable members of our communities?

[No audible response.]

Senator SINEMA. Good. We have common ground. Arizonans know we have an obligation to take care of and respect our seniors. Our seniors have worked hard, and they deserve to enjoy their golden years with dignity in the company of friends and loved ones.

But many Arizona seniors live on fixed incomes and cannot afford excessive rent increases. In Arizona, there is also an affordable housing shortage for everyone, not just for seniors. So when out-of-State investors target Arizona seniors and kick them out of their homes, they are not left with a lot of great options, and some do not have any options at all.

So, Ms. Martin, I want to thank you for being here. In your city, have you seen instances where seniors being priced out of their existing homes by practices I just described in Tucson have contributed to homelessness among seniors?

Ms. MARTIN. Unfortunately, I have, Senator. The seniors in our community are some of the most vulnerable residents, and they have the most difficulty. In fact, the example that I provided in my testimony of the woman who was evicted from her home, she was a subsidized tenant who had a housing choice voucher. She is a senior. Her sister is a senior who had dementia. And they were evicted from their home even though they had never missed a rent payment. So I think, you know, we need to take note of the impact this is having on seniors and on disabled residents, which is, in my experience, very commonplace.

Senator SINEMA. I have heard from AARP in Arizona and affordable housing advocates about a disturbing rise in senior homelessness in Arizona. It is something I previously discussed in the Aging Committee and, of course, have talked about here in the Banking Committee.

Now, Ms. Martin, losing your home no matter who you are is a life altering event, but I believe that losing your home as a senior on a fixed income is uniquely challenging in this housing market. So my question is: Do you agree, and if so, can you share a few reasons why it is uniquely challenging for seniors?

Ms. MARTIN. Typically, seniors are not employed. So they have no income other than what they are receiving in Social Security or small pensions. So they typically cannot afford market rate rents.

And units in affordable buildings such as, you know, our low-income housing tax credit project building designed for seniors, in Cleveland at least, there is a long waiting list, at least a year, maybe more. So in the example I provided in my testimony, the woman had put her sister with dementia in a house with another family member and her grandchild, and she was living in her car. And it is winter in Cleveland.

So I think it is very real, what is going on, and it is absolutely tragic. And, no, they cannot easily find other housing.

Senator SINEMA. Yeah, thank you.

Mr. Chair, I want to thank you for holding this hearing today. I want to continue working with my colleagues in a bipartisan way to protect our seniors and to expand access to true affordable housing in Arizona and across the country. Thank you. I yield back.

Chairman BROWN. Thank you, Senator Sinema.

Senator Reed is recognized from Rhode Island.

Senator REED. Thank you, Mr. Chairman. We are in the midst of an affordable housing crisis that is exacerbated, in my view, by the behavior of these institutional investors. But one aspect of this affordable housing crisis is the lack of supply of homes.

And, Ms. Martin, how do local zoning rules and not in my backyard mentalities contribute to this phenomenon of limited housing or affordable housing?

Ms. MARTIN. I have seen that in my experience, especially with low-income housing tax credit projects. There typically can be a lack of understanding of what that would mean for a neighborhood and sort of a not in my backyard mentality does come to bear with that.

In Cleveland and Cuyahoga County, we are taking a very hard look at our zoning codes now. In fact, our First Suburbs Consortium has been working with our County Planning Commission to see if we can increase density and do things that would help allow for accessory dwelling units, for instance, where, you know, we can create more affordable housing opportunities. So that is a project that we are currently working on. So I agree with you that it is a true problem.

Senator REED. Thank you.

And, Mr. Waller, from your perspective, this issue of zoning reform or at least reevaluation, do you have any comments?

Mr. WALLER. It is a conversation that is also going on in Georgia, particularly in the larger urban areas, where part of the reason for affordable housing, or the lack of affordable housing is the property to build it on. The conversation is going on, and we could provide more information about that afterwards. You know, in the rural areas, that is not as much of an issue of course.

Senator REED. Thank you. This question is probably in the purview of the Finance Committee, but I am curious particularly, Mr. Waller, from your experience. Are there unique tax advantages to these institutional investors that give them even more incentive to buy property and to operate the way they do?

Mr. WALLER. I would be happy to provide more information about that after the hearing. I will say that it is to me. It does seem strange. There must be lots of different types of incentives because this is not a type of investment that we were seeing a lot of in the recent past. So the idea that you would build—you would buy, borrow a lot of money or invest a lot of money in an older building with low-income tenants paying low rent, that that would be seen as a lucrative investment seems strange to me. And so I am sure there are some issues there that we could provide more information for.

Senator REED. And it was, I think, listening to your comments to Senator Warren about the eviction rate that it seems to me a business plan, not just a coincidence. Is that your view?

Mr. WALLER. That is exactly what we are seeing. And the institutional landlords are better positioned than other types of landlords to take advantage of the eviction system and to—you know, like I said, it is very inexpensive and easy in Georgia, particularly if you have lots of properties where you can run all of your evictions through a single attorney.

So the way that these court hearings go is that the landlord attorney will sit at the front of the court at the plaintiff's table and all of the tenants, hundreds of them, will sit behind that attorney and that attorney will handle many, if not all, of those cases some days. And so it is very efficient, very quick, very cheap for these institutional landlords.

Senator REED. Well, thank you. Again, this is an area where we have to look much more closely in terms of the behavior of these institutional investors. I share some of the sentiments, obviously, with Senator Sinema that the beneficiaries of this are far away.

The people who bear the burden are, many times, seniors, poor, immigrants, et cetera. And that is one factor. And then the other factor is, as we discussed, we have to get much more housing built that is affordable and accessible also to all Americans.

So thank you very much. Keep up the good work, ladies and gentlemen.

Thank you.

Chairman BROWN. Thank you, Senator Reed.

Thank you all for testifying today.

It is obvious from our hearings, from reporting by journalists in our communities, and from the firsthand testimony of renters earlier this week and today that private investors and landlords exploit our housing shortage and lack of renter protections to exact greater and greater profits for themselves. They often do it while hiding behind opaque LLCs and ownership structures.

They add fee after fee, as our Georgia representative pointed out. They ignore maintenance. They exploit loopholes and tenant protections. They drive out longtime tenants. They think they can make a bigger buck from somewhere else. I was particularly taken by our witness from Bedford Stuyvesant, where she had owned a dog all this time and then they can write into the new contract with a new purchase or penalties for that.

We heard the same tired arguments we always hear from corporate defenders; let the market sort it out. If you people listen to the words of renters from this week, from Minnesota and Nevada and Montana, you would know the market is not in fact sorting it out.

We also heard a lot about inflation today. If we are serious about bringing down inflation, not just using it as a political talking point, let us bring down housing costs. It is the biggest item in most families' budgets. Prices have been going up for years.

We have a plan to reduce housing costs for more families by increasing the supply of safe, decent housing, and also help State and local governments remove barriers in places like South Euclid and Cleveland to increase the supply of housing, something we have heard bipartisan support from witnesses over several hearings. And if my colleagues really want to bring down housing prices, I hope they will join us to get that legislation passed. I look forward to working with colleagues to help increase access to safe, affordable housing through these policies.

I thank the witnesses again.

Senators who wish to submit questions for the record, those questions are due 1 week from today, Thursday, February 17th.

To the witnesses, you then have 45 days to respond to any questions. Thank you again for that.

With that, the hearing is adjourned. Thank you.

[Whereupon, at 11:53 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

Whenever there's a problem in the economy that's hurting families and driving up prices, there's a pretty good chance you'll find a Wall Street scheme either causing it, or taking advantage of it and making it worse.

One of the reasons housing prices have gotten so out of control, is that corporate America sensed an opportunity.

Private equity firms and corporate landlords and investors saw a shortage, and they saw a captive market. They bought up properties, they raised rents, they cut services, they priced out family homebuyers, and they forced renters out of their homes.

Our failure to invest in new, affordable housing has left these renters with few options.

Before the pandemic, nearly one-in-four renters was paying more than half their income for housing.

All across the country, we see headlines about the skyrocketing cost of housing, and the squeeze it's putting on our families.

Potential homebuyers looking for a home in the communities where they grew up or where they work are outbid by out-of-town, all-cash buyers.

Rents in communities from Atlanta to Boise to Columbus to Denver are growing far out of reach for families and workers.

While most of us see high rents and a lack of housing choices as a problem to solve, deep pocketed investors see an opportunity for profit.

Investment firms have been touting rising rents and renters' lack of options to attract investors.

One large landlord proudly advertises under their, quote, "market strategy" that the "recent mortgage meltdown has raised the bar for those who can qualify for a mortgage, thereby increasing the pool of people who must rent for the foreseeable future."

But rather than providing the essential affordable housing that families need, many of these firms are just exploiting people.

On Tuesday, our Committee held a listening session to hear directly from renters about what happens when investors put profits over people's lives.

As one renter was told when she asked why her rent suddenly increased by hundreds of dollars, "we have to please the investors."

Think about that, "we have to please the investors."

Renters in apartment buildings and single-family homes and manufactured housing, from Las Vegas to Great Falls to Hyattsville, shared their stories.

Over and over, no matter where they lived, no matter what type of home they had, renters told us how they were overlooked and overcharged by the big investors that owned their homes.

Long-time residents described double-digit rent increases and new fees for everything from water and trash to family pets.

One resident of a manufactured home community in Senator Tester's home State said the increases amounted to "about an 86 percent increase for the dirt our homes sit on."

Seniors on fixed incomes and working families can't afford that.

Renters in Nevada and Maryland and Texas and California had their homes repeatedly flooded with wastewater, lived with pests and rodents, and went long periods without working showers or hot water.

In Senator Smith's home State of Minnesota, a working mother's continual complaints about her home's flooded basement and dangerous garage went unanswered, and the city itself was forced to step in because of code violations.

Another renter in Senator Van Hollen's home State of Maryland told us that "[t]he owners think that because we are immigrants, we are not important. For them, they want the money to arrive every month without doing anything for us. We have the need to live in an apartment, but not live like this."

No one is arguing that landlords—whether a teacher renting out the home her parents raised her in, or a professional company—shouldn't be able to make a living.

Of course rental housing is a business: You provide a decent place to live, in exchange for collecting people's hard-earned money in rent each month.

But if your building is full of mold and mice and doesn't have working heat or a working stove, you're not holding up your end of the deal.

That's not a real business. And families are paying a very high price for it.

Investors increasingly structure their purchases through LLCs and real estate investment trusts, with different names for each property or fund.

And when owners hide behind LLCs, it makes it impossible to track down all the neglected properties they own and all the tenants they force out.

This leaves local leaders like Ms. Martin with only two options—let investors continue to run down neighborhoods and run out residents, or use time and money they don't have to connect with other local leaders to track down bad owners one-by-one.

For investors, homes and rent increases are distilled down as returns to shareholders. Code violations and eviction filings are the cost of doing business.

But for Ms. Martin and the residents of Cleveland and South Euclid, these are their homes. These are their neighborhoods. And no one seems to be tracking their returns.

When Matthew Desmond, the author of the book *Evicted* signs copies of the book, he signs it with the words "Home = Life".

Those of us who are lucky enough to go home each night to a safe home we can afford may not think about it much, but it's a simple truth.

Where we live matters. It determines so much about our lives, and our children's lives.

I look forward to hearing from our witnesses today about how we can strengthen our homes and our neighborhoods with investments and protections that will make it easier for people to find safe, decent, affordable homes, and how we can give local leaders like Ms. Martin and Mr. Waller the tools they need to improve the homes of all families in Cleveland and Atlanta and across the country.

PREPARED STATEMENT OF SENATOR PATRICK J. TOOMEY

Thank you, Mr. Chairman. And welcome to our witnesses.

In October, this Committee held a hearing criticizing people who invest in—and even build—rental housing. It looks like that's again the plan for today's hearing. And why is that?

This morning inflation came in at 7.5 percent, the fastest pace in nearly 40 years. Housing costs are skyrocketing even faster. Rents increased around 12 percent in 2021. Home prices jumped an astounding 17 percent.

Whether you're a renter or a homebuyer, housing is taking up more and more of your paycheck, with inflation quickly eroding the rest. Wages are rising, but inflation is increasing faster. And that means workers are falling farther and farther behind.

This is a direct result of the Administration's massive overspending. The Administration is desperate for someone else to blame. But there's nothing wrong with people renting homes instead of, or before, becoming homeowners. And there's also nothing wrong with investors—whether institutions or individuals—putting their own money to work to meet the needs of these renters.

This is a simple issue of supply and demand. Institutional investors are the ones with the deepest pockets, the ones with the most capital available to invest in building new housing stock. Just imagine how expensive housing would be if some Democrats got their wish and most institutional investors were driven out of the housing market.

Instead of blaming those who actually build housing stock, Democrats should take a look at their own role in creating this disaster. Housing is expensive and getting more expensive in part because this Administration has doubled down on 50 years of failed big Government housing policies.

Its illegal eviction moratorium deterred landlords from investing in new housing stock and likely contributed to rent increases. Its March 2021 wasteful $1.9 trillion spending bill included almost $22 billion in rental assistance even though $25 billion in rental assistance Congress provided in 2020 was not close to spent. Its reckless tax-and-spend Build Back Better plan seeks another $35 billion in rental and downpayment subsidies that would further increase the demand for housing.

It has broken from decades of bipartisan efforts to reform the failed GSE model that now subsidizes the purchase of even $1 million homes. It has pushed the GSEs to take on more loans to risky borrowers.

Today, we will hear from two witnesses—Tobias Peter and Joel Griffith—about the negative effects of these failed policies. They will testify to the role of monetary policy in contributing to rapid house price inflation. They will testify to the increase in risky mortgage lending at the GSEs. Their testimony also will make clear that we need a different direction.

To improve housing affordability for all Americans—whether renters or owners—we should pursue reforms that leverage the power of free enterprise to increase housing supply and make markets more competitive. To that end, we need to scale back the role of Government and increase the role of private capital.

We need to phase-out demand-side subsidies that just drive increases in house prices and rents. We need to end the failed GSE model that fosters excessive risk taking and risks taxpayer bailouts. And we need to end the GSE conservatorships that confer on the Government far-reaching power to replace market forces with executive fiat.

The state of the housing market affirms the urgency of reform. The housing market is cyclical. It's a question of when—not if—there will be a housing downturn.

The housing finance system is not prepared. The system is still dominated by the very same GSEs that did so much to cause the crisis. The $7 trillion behemoths actually have an even larger market share than they had before the crisis, and they still remain "too big to fail."

Just as before the financial crisis, these flaws in the system continue to encourage excessive risk taking, risk future taxpayer bailouts, undermine market forces, and threaten financial stability. They also do little to make housing more affordable. Fifty years and many hundreds of billions of dollars in Federal housing assistance have had no meaningful impact on home ownership rates—64 percent in 1970 compared to 65 percent in 2021.

Last month, the Chairman reiterated the housing finance reform principles that he had released in 2019. His principles overlap considerably with the reform principles I've released. I look forward to continuing to work with the Chairman to develop consensus on this critical issue.

Meanwhile, I hope the Administration will finally engage on reform. Treasury has still not met its obligation to deliver a reform plan to Congress—it's now 4 months overdue.

Instead of shifting blame for its reckless mismanagement of the economy, the Administration should look to opportunities for bipartisan legislation—like housing finance reform—that relies on free enterprise—not Government—to make housing affordable for all Americans, whether they own or rent.

PREPARED STATEMENT OF R. MICHAEL WALLER

EXECUTIVE DIRECTOR, GEORGIA APPLESEED CENTER FOR LAW AND JUSTICE

FEBRUARY 10, 2022

Good morning Chairman Brown, Ranking Member Toomey, and other Members of the Committee. My name is Michael Waller, and I serve as Executive Director of Georgia Appleseed Center for Law and Justice. Georgia Appleseed is a nonpartisan, nonprofit law center that advances justice and equity for all Georgia's children through law and policy reform, community engagement, and legal representation of children in foster care. We focus our efforts on removing barriers to justice experienced by Black and Brown children, children experiencing poverty, LGBTQ+ children, children with disabilities, and children in foster care. Our three priority areas of work are (1) keeping kids in class and out of the juvenile justice system by dismantling the school to prison pipeline; (2) increasing children's access to needed behavioral and academic supports; and (3) ensuring that low-income families have stable, healthy housing. Georgia Appleseed believes justice requires that every child has access to strong, nurturing schools and a healthy home.

This morning, I will provide information on the impact of institutional landlords on the lives of low-income Georgia families and the housing market. Georgia Appleseed listens closely to the communities we serve and our community partners. I've come to Washington and this hearing today to amplify their voices and bring their stories to you. I will also relate some of the research and findings of Georgia universities and other institutions working to end Georgia's low-income housing crisis.

I will begin by sharing the story of April, who lives in Albany, GA, in an apartment complex owned by an out-of-State institutional investor. April's struggles are the direct result of callous and abusive business practices that are common to some institutional landlords and place profit over the well-being of families. In this testimony, I will use the terms institutional landlord and institutional investor somewhat interchangeably—both meaning a corporate owner that is usually out-of-State, often owns multiple properties, is generally in the business of investing money (not managing rental homes), and with little-to-no direct contact with the communities where the properties are located and the families living in those properties.

April's story highlights the harmful business practices of these institutional landlords and the impact on children, families, and communities. Georgia Appleseed and other community partners have identified a common business model among institutional investors in low-income housing—Institutional investors purchase properties;

quickly drive up rents; impose unwarranted fees; refuse to provide upkeep or repairs; abuse eviction systems to coerce tenants; and hide from accountability. These practices do long-lasting harm to families and communities. Institutional investors concentrate these practices in Black and Brown communities and low-income communities, perpetuating historic and system injustices.

April is a single mom to a teenage daughter and the primary caretaker for her mother, who has multiple sclerosis and needs a wheelchair. April rents their home, like most Albany residents and millions of other Georgians. When April signed her lease, every indication suggested that the handicapped accessible apartment was affordable, safe, and a healthy place to live. She was thrilled. Like many tenants, April's interaction with property owners was through a third-party management firm. An out-of-State company owned the apartments, a common occurrence across Georgia. In recent years, investors, like the LLC who owns April's complex, buy large swaths of property, including single-family rental properties, often in low-income neighborhoods. In a recent study by the Planning + Property Lab at Georgia Tech, researchers found that by summer 2021, large corporate investor purchases in Gwinnett and Dekalb Counties (two of Georgia's most populous) covered 53 percent of single-family rentals, and 17 percent of single-family home sales. These purchases were concentrated in non-White areas. [1]

Soon after April moved in, serious health and safety problems appeared. Sewage regularly came out of the bathroom drains as well as from the ground outside, pooling in the yard. Bees came out of April's HVAC vents, and mold grew on the walls. Shootings and criminal activity occurred at the complex. One shooting left bullet holes in April's windows.

Neither the property management firm nor owners made the needed repairs after April requested them. April complained to the local housing code enforcement office and local government. But these agencies claimed that they were powerless to force the landlord to address the housing conditions and make the property safe.

April also sought the support of SOWEGA Rising, a local nonprofit. SOWEGA Rising and April spoke with around 50 residents, most of whom reported similar problems with their rented homes, including a child whose congenital heart condition was exacerbated by mold infestation and others who suffered from acute respiratory conditions. April's landlords continued to charge her rent and added hundreds of dollars in late fees. Her daughter experienced mental health issues directly related to the housing conditions and moved out of the apartment.

April eventually reached out to local media and began organizing her neighbors to work together. She showed reporters the conditions in her apartment and told them how it impacted her family. In response, April's landlord mailed apartment residents a letter threatening eviction if they persisted in publicizing the complex's treatment of the families living there. The threat worked and residents ceased their campaign for better housing conditions. April continues to reside in her apartment but was recently served a notice that her landlord will not be renewing her lease. As of this testimony, April and her family have 30 days to vacate the property. In spite of the dangerous conditions and mistreatment, April and her family have stayed in the apartment. She feels that she has nowhere else to go. In Albany, there are very few affordable rental homes that can accommodate her mother's wheelchair.

My testimony about April and the information I provide below draws upon Georgia Appleseed's conversations with tenants across Georgia and information from our nonprofit organizations that advocate for low-income families. In addition to SOWEGA Rising, Atlanta Legal Aid Society, Georgia Legal Services Program, Atlanta Volunteer Lawyers Foundation, GeorgiaACT, Africa's Children's Fund, and Hearts to Nourish Hope, among others, have shared information and tenant stories with us. April's experience is commonplace in Georgia and likely to become more so as long as institutional investors continue to purchase rental properties and emphasize short-term profit over family and community well-being.

Here is what we have found.

Institutional landlords often seek profit through ever-increasing rents and abusive or predatory fees. In Georgia, large corporate investors are particularly known for instituting aggressive year-on-year rent increases, making housing increasingly unaffordable for families and reducing alternative housing options. A Lending Tree

[1] Raymond, Elora, "Large Corporate Investors Purchase Thousands of Atlanta Single-Family Homes During the Pandemic". ATLS, Emory Center for Digital Scholarship, 1/28/2022, *https://www.atlantastudies.org/2022/01/28/large-corporate-investors-purchase-thousands-ofatlanta-single-family-homes-during-the-pandemic/*.

survey found the average monthly cost of a one-bedroom apartment in Georgia went up more than 20 percent in 2021.[2]

These investors also seek to make a profit by increasing tenant fees, including upfront fees, recurring fees, and hidden fees. Community partners reported to Georgia Appleseed that tenants must pay one-time activity fees, pest control fees, utility service fees, a renter's insurance fee/penalty, valet trash fees, package locker fees, common area electric fees, amenity fees, property management fees, month-to-month penalties, upfront first and last months' rent, safety deposits equal to one month rent, pet deposits, and application fees, and early termination fees triple the amount of a month's rent.

An Atlanta Legal Aid attorney reported an example of a typical fee-for-profit scheme: my client's "rent" is $1,373, according to her lease. But with all the fees (late charges, month-to-month fees, eviction fees, amenities, utilities), she was being charged $2,157 per month (almost 60 percent more!) after falling behind during the pandemic.

Other Atlanta Legal Aid attorneys report seeing eviction fees written into the lease that are often four times the cost to file an eviction, and large daily accruing late fees in violation of Georgia law.

Institutional landlords increase their profits and reduce costs by refusing to perform needed repairs, basic maintenance, security, or needed health and safety measures. Investment firms that own rental properties can be almost completely unidentifiable to tenants and community Governments. Out-of-State shell companies make it impossible to hold owners accountable for repairs (or even the demolition of abandoned properties). Renting families and communities must cover the costs to individual health, wealth, and safety (asthma and other respiratory problems, physical injuries, anxiety, depression, criminal activity, etc.) as well as the negative community economic, educational, and public safety impacts.

Tenants across Georgia report illness and injury from substandard living conditions in homes owned by institutional landlords. For example, Georgia Appleseed spoke with a mobile home tenant—about his out-of-State landlord in Carroll County, Georgia. The landlord refused to repair leaks in the home's roof. The leaks caused the floor to rot, and the tenant's child fell through the floor, injuring her leg. Even after the injury, the landlord did not make repairs. Instead, the landlord moved to evict the family (after 7 years of renting) when the child's father was laid off from work as the COVID–19 pandemic closed his workplace. In a mobile home next door, the same landlord refused to fix electrical problems. That tenant had to get his electricity via an extension cord from a neighbor's mobile home. In Columbus, Georgia a malfunctioning air conditioning system caused the death of a man when temperatures in his room hit one hundred degrees. Local community leaders spent years trying unsuccessfully to hold the owners (an out-of-State corporate landlord with properties in several other States) accountable. In Clayton County, a tenant reported to Africa's Children's Fund that she was unable to cook food in her home because the landlord refused to provide an operable stove. These are just a few of the stories that Georgia's tenant advocates hear every day.

Renting families and communities confront numerous barriers to holding institutional landlords accountable for housing conditions. One of the most significant and confounding is that it is often practically impossible to determine who owns the property. Corporate shells and multiple layers of corporate ownership make it difficult for tenants to speak to anyone with authority when there is a problem. Tenant advocates and communities can find no person or entity to hold responsible for violations of leases, laws, or ordinances.

A lack of continuity in ownership and transparency also make it easy for landlords to avoid legal liability. In one case handled by Atlanta Legal Aid Society, advocates spent 2 years trying to collect a judgment against the landlord. Though the tenant could not collect the judgment amount, the landlord continued to collect rent from hundreds of tenants over the same 2-year period.

Atlanta Legal Aid lawyers and a pro bono attorney representing multiple tenants challenging illegal and dangerous housing conditions report a related, and equally confounding problem—corporate ownership changes quickly and often.

Institutional landlords are well-positioned to abuse Georgia's eviction and housing safety laws and ordinances. Georgia's housing laws are notoriously landlord friendly. Evictions are inexpensive in Georgia. The filing cost for an eviction is typically around 75 dollars.

Georgia's over-burdened eviction courts have court procedures and practices that prioritize the efficient disposition of evictions instead of preserving tenancies and

[2] Cohen, Raime, "The Cost of Rent Is Skyrocketing in Georgia, Putting a Squeeze on Tenants". 12/27/21. www.wmaz.com.

homes. In eviction court on any given day, a single landlord attorney may represent many different landlords in hundreds of eviction cases, saving attorney fees. If a tenant successfully files an answer to an eviction action and appears in court at the appointed time (often having to take off work, find childcare, arrange transportation, etc.), courts will generally grant the landlord's attorney a new trial date to present evidence. In most cases, however, tenants are unable to file correctly an answer to the lawsuit and they lose their case automatically. Tenants are generally on their own to litigate their cases and navigate complex landlord-tenant law. There are relatively few attorneys available for low-income tenants—they are not provided for tenants by communities or courts.

In terms of housing conditions and safety, the State's housing safety laws provide spotty protection. Indeed, State laws preempt local communities from enacting ordinances and programs that would create registries of rental properties, require inspections, or investigate housing conditions complaints without independent probable cause. [3]

While all landlords benefit from the pro-landlord orientation of State laws, institutional landlords often abuse the eviction system and safety laws to a greater degree than other landlords. A 2017 study published by the Federal Reserve Bank of Atlanta found that corporate landlords, especially large institutional investors, were far likelier than other owners to evict their tenants. [4]

Other research in Atlanta suggests that such landlords are also more likely to use threats of eviction and serial court filings as a routine business practice. [5] In the final quarter of 2021, corporate landlords filed 76 percent of all evictions in a five-county sample. [6] Landlords (and the property management firms they employ) favor Georgia evictions because the process is so quick. Evictions can happen very quickly, in 3 weeks when the tenant files an answer and a the court holds a hearing. In an eviction proceeding where the tenant fails to file an Answer within 7 days, the process moves at break-neck speed. A default Order is granted, and a Writ of Possession is issued immediately. Tenants and their families have little or no time to find rent assistance or legal advice.

In terms of the enforcement of local housing safety codes, local housing code enforcement offices lack capacity and are chronically understaffed. Even when housing code enforcement officers have capacity to pursue investigations, local custom and State law tend to favor institutional landlords. In many areas, housing code enforcement offices lack the resources to investigate alleged violations if a tenant is behind on rent, or a landlord has filed an eviction. Moreover, Georgia law preempts local communities from registering and inspecting properties and prohibits inspections without probable cause. [7]

Profit-mongering at the expense of family and community well-being is not "investment in affordable housing." Families and communities are left to repair the damage done when these absentee landlords have extracted as much money as possible from the families and communities.

The impact goes beyond just making families and communities poorer. Unsafe, unstable housing has long-term and devastating impacts on the physical and mental health of children and families, threaten educational achievement and employment potential, increase criminal justice system involvement, and reduce overall community wealth and well-being.

Federal policy can support needed reforms that would protect families from abuses. I applaud this Committee's study of the impact of institutional landlords on affordable housing availability, their predatory practices, and the unacceptable housing conditions they are responsible for. While there are many reforms to Georgia law and policy that would benefit renting families, we support Federal Government fiscal and monetary policy reform that discourages abusive investors.

Moreover, local policy makers and advocates could make better policy decisions if they had more information about institutional landlords. Federal Government could

[3] O.C.G.A. 36-74-30 (2010).

[4] Raymond, Elora; Duckworth, Richard; Miller, Benjamin; Lucas, Michael; Pokharel, Shiraj, "Corporate Landlords, Institutional Investors, and Displacement: Eviction Rates in Single Family Rentals". FRB Atlanta Community and Economic Development Discussion Paper, 2/22/2018, Paper No. 2016-4.

[5] Immergluck, Dan; Ernsthausen, Jeff; Earl, Stephanie, and Powell, Allison, "Evictions, Large Owners, and Serial Filings: Findings From Atlanta". Housing Studies, 7/14/2019, pp. 923–924.

[6] The five Counties studied were Fulton, Gwinnett, DeKalb, Clayton, and Chatham. Chang, Melissa, "Record Acquisitions and High Evictions by Corporate Landlords in 2021 Draw Scrutiny From Congress". Private Equity Stakeholder Project, 1/31/2022. www.pestakeholder.org.

[7] O.C.G.A. 36-74-30 (2010) ("[n]o local government is authorized to perform investigations or inspections of residential rental property unless there is probable cause . . . in no event may a local government require the registration of residential rental property.")

help by collecting and sharing information about these investors with the public, States, and local government. In addition, local tenants and landlords have faced tremendous financial pressures from economic havoc caused by the COVID–19 pandemic, and continued support of Emergency Rental Assistance Program (ERA) efforts in Georgia will help families stay in their homes and provide local landlords with much needed funds. In particular, we have found that State and local government need additional (and public) guidance on best practices from the Department of Treasury, particularly concerning the types of identification and documents and attestations that governments should and should not collect from ERA applicants.

Chairman Brown, Ranking Member Toomey, and Members of the Committee, thank you again for the opportunity to share the experiences of my fellow Georgians with you today. I look forward to answering any questions you might have.

PREPARED STATEMENT OF ANETA MOLENDA

TENANT

FEBRUARY 10, 2022

Good morning Chairman and Members of the Committee. I appreciate the opportunity to speak with you all today. My name is Aneta Molenda and I'm a New York tenant in a building owned by private equity.

I've lived in Brooklyn, New York, for 6 years. I moved into my current apartment last winter in the middle of the pandemic. I signed a 1-year lease for $2,550 per month. It was pricey for a small apartment measuring just over 400 square feet, but not out of the ordinary for Brooklyn.

In just a few months, my building was bought by a private equity firm called Greenbrook Partners through a joint venture with the Carlyle Group, the third largest private equity firm in the world with $276 billion dollars in assets. Just last week, Carlyle announced that real estate drove a large jump in their quarterly earnings and that the earnings they will return to shareholders is at a record high.[1]

When my lease expired in November, my new landlord told me they needed to reevaluate my rent based on the market bouncing back. They suggested nearly a 50 percent rent increase from what I had been paying. That's right—that's a 50 percent increase which would put my rent at about $3,800 per month. This was happening while Omicron was surging. I was shocked.

I tried to negotiate. I sent them listings of other apartments in my neighborhood, some even on my block, to show that the increase was unreasonable for what was available in the area. Eventually, they were willing to come down on the rent but when they sent me the lease renewal there was a section that gave the landlord the right to terminate my lease at any point and double my rent to more than five thousand dollars with only 30 days notice. It was clear they wanted me out.

I told them I was willing to sign the lease renewal with a more reasonable rent increase if they removed the section that could double my rent on such short notice. They refused. I've continued to pay my rent on time, every month, but the landlord has stopped cashing my checks. I suspect they are getting ready to start eviction proceedings against me.

The eviction moratorium in New York ended last month. My sense of security is gone. These private equity landlords count on people like me to be thrown out of our homes to maximize their profits.

This is not an isolated incident. I immediately started talking to my neighbors and tenants in other buildings owned by the same landlord and noticed similar patterns: massive rent increases, evictions, hazardous violations and harassment, and confusing ownership structures that make it hard for tenants to know who truly owns our buildings.

According to the New York City Department of Housing, Preservation, and Development (HPD), Greenbrook's portfolio has received 3,022 total violations—this is about an average of 1.7 open violations per residential unit.[2]

My neighborhood of Bedford-Stuyvesant is considered to have the highest concentration of Black residents in the United States according to census data. In New York City, eviction rates in zip codes in which a majority of residents are people of color are three times as high as rates in zip codes that are predominately White. I'm not surprised that these predatory firms are targeting predominantly Black and Brown neighborhoods. Many of these companies go to pensions for capital to expand

[1] *https://www.wsj.com/articles/carlyles-fourth-quarter-earnings-jump-11643886001*

[2] *https://whoownswhat.justfix.nyc/en/address/BROOKLYN/70/PROSPECT%20PARK%20WEST/summary* (February 8, 2022)

their portfolios—in some cases pricing out union members and the retirees they are acting on behalf of.

Greenbrook Partners and the Carlyle Group are just two of the many predatory real estate firms that are fundamentally changing housing across the country. These companies treat housing as an investment vehicle rather than as shelter. But this is my home—and it serves the purpose of keeping me safe, warm, and out of the elements. This is a basic human right.

In listening to the previous hearing on private equity in housing held by this Committee, I was struck that some senators argue that these hearings are misguided because large investment firms, including those in private equity, buy just 1 to 2 percent of single family homes sold nationally. But what about private equity's role in multifamily buildings like mine? They want us to believe that private equity is a tiny player in housing.

It's just not true. According to the *Financial Times*, private equity has just had its busiest 6 months in the last 40 years, and the industry shows no signs of stopping its expansion into our homes. In just 2 years, my landlord Greenbrook Partners purchased at least 110 properties in Brooklyn. The vast majority were purchased during COVID–19.

They've done this before. In a 2019 report on private equity companies, we learned of a similar business model used on mobile homes: buying parks, jacking up rents and fees, and counting on it being too expensive for residents to move.

They are perfecting this extractive business model and are taking it to new extremes. These firms promise their investors returns while obscuring the devastating consequences, leaving tenants like me and my neighbors in impossible situations. They buy up homes in New York and all across the country that would have otherwise been affordable.

As our communities faced the trauma and grief from losing loved ones, losing jobs, and following guidelines to stay home to mitigate the spread of the virus, these predatory firms made it impossible to feel any sense of safety in our homes. We saw our communities come together to support each other; health care workers working around the clock, people bringing their neighbors groceries. We looked out for one another. Meanwhile, Wall Street took the opportunity to rake in unfathomable profits.

This tangled web of high finance is incredibly difficult to navigate for tenants like myself. This ruthless business model is entirely reliant on disaster capitalism and systematic displacement of families. Our basic human right to housing is being exploited to make these firms slightly wealthier.

As a tenant directly impacted by these predatory practices, I am asking that you consider establishing comprehensive, nationwide tenant protections like rent control, prohibition on excessive fines and fees, just cause eviction protections, and a tenant right to counsel. This would end unreasonable rent increases, unfair fees, and landlord refusal to renew leases without a reasonable justification. We need to give tenants a fair shot at defending ourselves against evictions and unsafe living conditions.

The housing market is rapidly consolidating. As the largest landlords, builders, and investors increasingly partner with one another, people like myself and my neighbors all across the U.S. will continue to feel the consequences. But I can promise we will continue to grow a strong tenants movement to demand a more just housing system. The Members of this Committee have a choice to make: you can either support housing as a human right or allow investors to use our homes as investment vehicles to generate endless profits.

PREPARED STATEMENT OF TOBIAS PETER

RESEARCH FELLOW AND ASSISTANT DIRECTOR, AEI HOUSING CENTER

FEBRUARY 10, 2022

Chairman Brown and Ranking Member Toomey, and distinguished Members of the Committee, thank you for the opportunity to testify today.

Executive Summary:

The housing market is changing and the real culprit is a massive house price boom fueled by federal housing and monetary policies, which is increasingly crowding out lower-income Americans out of the housing market.

Institutional landlords, particularly on the multifamily side, are taking advantage of more liberal credit terms provided by Fannie Mae and Freddie Mac (the GSEs) than the private sector, which is a violation of their Charters. They use their taxpayer guarantee and other advantages to greatly expand their business, while crowding out multifamily private investors. Since 2014 outstanding multifamily mortgage debt has doubled, with the GSEs accounting for most of the growth. At the same time they tout that they are supporting affordable rental housing, but in reality they create government profit seeking.

The current single-family housing boom, which began in 2012, was entirely foreseeable and was noted by the AEI Housing Center beginning in 2013. Since then, the housing market has been marked by too much demand chasing too little supply. Yet the policy response was to boost demand even more: Federal housing agencies have loosened underwriting and the Fed has pursued multiple rounds of quantitative easing, continuing even when the housing market was already appreciating over 10% per year. In 2021, home price gains were 16%, and in 2022 are expected to come in at around 12%, the third year of breakneck growth.

As a result, homeownership has gotten further out of reach for many lower-income, minority Americans. Consider that since 2012, wages have grown 40% but entry-level home prices have increased over 100%.

This out of control price spiral means increased competition for fewer and fewer affordable homes. Potential entry-level buyers are increasingly pushed to the sidelines as they cannot compete with more deep pocketed individuals, who experience the same competition only higher up the price spectrum.

This is creating knock-off effects for people downstream. Left unable to buy a home, they remain in the rental pool, helping to drive up rents, which are now increasing at 12% nationwide. Many who cannot afford these rent hikes will be pushed into homelessness.

If that were not enough, inflation is now running at 7%. A Gallup survey from last month finds "49% of Americans saying rising prices have caused hardship for their family… Lower-income Americans are suffering the most from inflation. Two-thirds of U.S. adults with an annual household income of less than $40,000 say they have experienced hardship, with 20% describing it as severe."[1]

Inflation is a regressive tax and getting by – not to mention building savings to buy a home – is becoming increasingly difficult. Thus, misguided policies have severely hamstrung lower-income Americans, in

[1] https://news.gallup.com/poll/389129/americans-expect-inflation-persist-next-six-months.aspx

particular minorities, which severely lag White Americans in homeownership and intergenerational wealth. If they can no longer reach the first rung of the housing ladder, how will they ever catch up?

The solutions are straightforward. First and foremost, we need more supply. However, federal mandates are not the answer. Zoning and land use policies are fundamentally a state and local issue and should be addressed at those levels. We are already seeing promise across the country, even in California, where the legislature has recently passed laws, which could meaningfully encourage new construction activity.

At the same time, demand boosters have shown to be counterproductive. The Fed has belatedly realized that it needs to tighten the monetary spigot. But its policies have already done a lot of damage and they will continue to haunt lower income Americans in the form of higher home prices, inflation, and rents.

The signals from federal agencies and regulators are less than encouraging. Rather than shrinking the government's footprint and reducing risk, Fannie Mae is again increasing its share of risk layered loans, where one risky loan product feature is layered on top to ultimately make a very risky loan. More could be in store: FHFA recently made policy changes that increases GSE competition with the private sector and will lead to greater risk-layering. The GSE affordable housing goals may be increased and other policies are being discussed. The FHA is also considering changes that will increase its competition with the GSEs, which does not bode well.

Equally worrisome are increases to the GSEs appraisal waiver practices, particularly purchase loans. In the past, human appraisals on purchase loans have successfully alerted lower-income and minority borrowers when they were overpaying. An appraisal waiver may simply confirm the negotiated sale price, while the competition between Fannie and Freddie for market share may create a race to the bottom on standards – not to mention that these processes can be gamed, which was commonplace with respect to the GSEs automated underwriting systems in the lead up to the Financial Crisis.

The compounding effect of these changes will mean less resiliency for borrowers and neighborhoods, many of which are lower-income and minority, to withstand an economic stress event. With many economic dangers from rising interest rates, inflation, and sky-high home prices, lurking, regulators should do more to protect borrowers and taxpayers, rather than lowering lending standard. We have seen this movie before and we know how it ends. It should not be allowed to happen again.

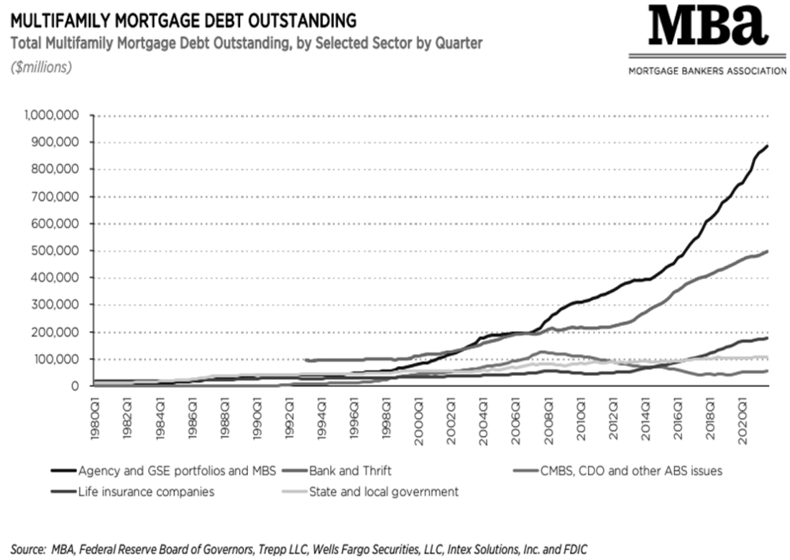
1) **Institutional landlords:**

Multi-family

The GSEs have seen an explosion of multifamily mortgage debt outstanding. According to the MBA, the GSE's multifamily debt outstanding has grown from $50 billion before 2000, to $400 billion in 2013, before taking off again in 2014.[2] As of 2021:Q3, it stands at $900 billion. This growth has far outpaced other market participants, such as banks and thrifts or life insurance companies (see chart). At the same

[2] MBA "Commercial / multifamily mortgage debt outstanding" Q3 2021. https://www.mba.org/news-research-and-resources/research-and-economics/commercial/-multifamily-research/commercial/multifamily-mortgage-debt-outstanding.

time, the GSEs market share now stands at around 50%, up from around 38% in 2013 and around 20% before 2000.



We found this case in Florida where Freddie touted its preservation of low income rentals, while the property owner bragged about the ability to raise rents:

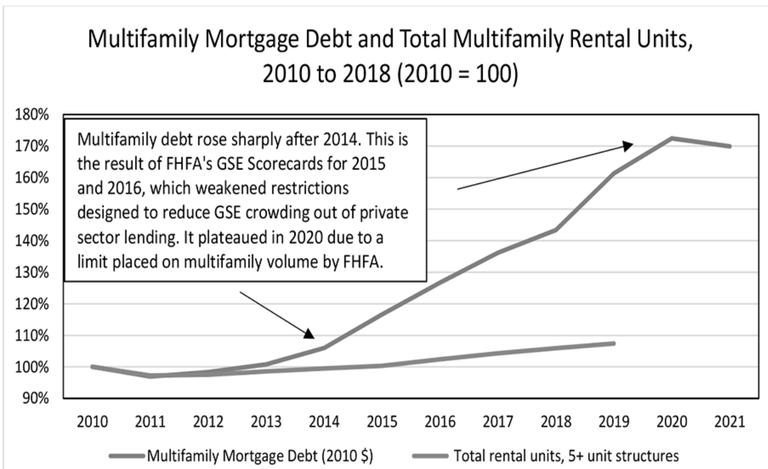
- The buyer/investor finds a property that already provides work force/low-income housing at well below 80% of area median income (AMI).
- The GSEs requires that tenants earn below <80% of AMI.
- Due to liberal GSE lending terms, the buyer/investor is able to load up the property with debt.
- The buyer/investor then makes renovations to take advantage of an "extraordinary value-add opportunity" to “significantly enhance revenue”. This allows a repositioning to a higher income tenants.
- Occupants are still generally below 80% AMI so Freddie gets to tout its "preservation success," while the owner brags about its financial acumen.[3]

[3] For example, according to a Wall Street Journal article on a 352-unit complex in the Tampa area that was purchased in the spring of 2018 by Bridge Investment Group. The development is named Plantation at Walden Lake, in Plant City, FL, "Freddie Mac, the country’s largest backer of apartment loans, will offer low-cost loans to real-estate owners willing to keep their buildings affordable to middle-class families for years to come.” Bridge Investment Group, the investor, said about its plans for this development that was 95% leased back in the spring of 2018: "Over the last three years, Mercury Investment implemented a multimillion dollar capital improvement program that included enhancements to the community’s pool and other shared amenities, as well interior upgrades. The remaining renovated units present a significant value-add opportunity for the buyer. 'Plantation at Walden Lake’s strong occupancy and potential for further renovation make it an extraordinary value-add

- Of the seven institutional landlords mentioned during the Senate Banking Committee Member and Staff Listening Session on "Renters Who Live in Housing Owned by Corporate Owners" from February 8, 2022, four received financing through either Fannie Mae or Freddie Mac.[4]

This system is putting taxpayers at risk under the guise of "affordable" lending without delivering meaningful results. The next chart shows the growth in GSE multifamily mortgage debt and the growth in total rental multifamily units from 2010 to 2021. While debt had grown over 60% by 2019 compared to 2010, rental units have only grown around 10% over the same time.

Since the GSEs activities in the multifamily sphere crowd out private business without delivering any meaningful supply addition, it would best to end GSEs financing of multifamily homes.



Source: ACS, Federal Reserve Flow of Funds Data, and AEI Housing Center.

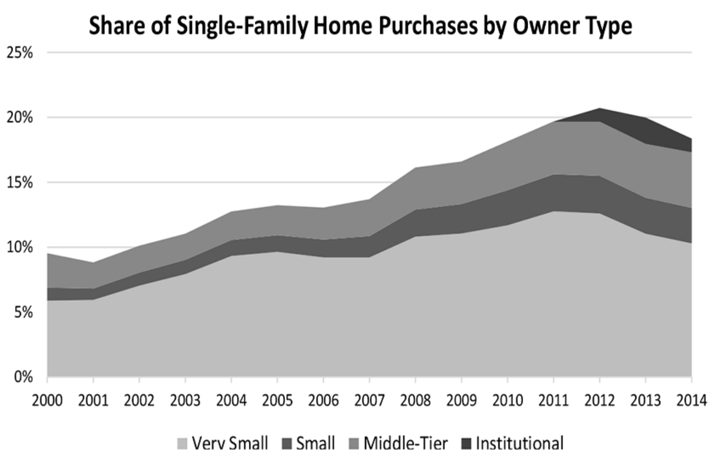
Single-Family

opportunity,' said Elorza. 'Renovating the remaining units will help the property compete with newer communities nearby, and will significantly enhance revenue.'" https://www.tampabaynewswire.com/2018/04/26/cushman-wakefield-negotiates-35-7m-sale-of-tampa-area-apartment-community-for-mercury-investment-67396

[4] A number of institutional investors buying single and multifamily homes have agreements with the GSEs. Invitation Homes, the largest institutional investor in single family housing, signed an agreement that Fannie Mae would guarantee up to 1$ billion in debt. Other major players in the single-family rental market, saw this is as a green-light to the institutional rental-home business: the CEO of progress residential stated in the WSJ "This is a great outcome not just because it obviously will reduce the cost of our financing, but it puts a further stamp of approval on this industry." Front Yard Residential, another large player in the single-family rental business, acquired HavenBrook partners as part of a $508.7 10-year loan backed by Freddie Mac through their affordable single-family rental pilot program. Havenpark capital, which has been cited for buying mobile home parks and hiking rents, use loans guaranteed by Fannie and Freddie.

Single-family institutional landlords have received a lot of attention, yet a review of the data indicate there is little evidence that they are having a measurable impact on either rents or home prices. Here is a summary of key findings from various research studies:

- Institutional landlords accounted for around 1% of America's single family rental homes.[5]
- Lambie-Hansen et al. (2019) find that institutional landlords helped to stabilize the housing market during 2006-2014.[6]
- Mills et. al. (2015) find that institutional landlords are a relatively recent phenomenon and account for a small share (~1%) of purchases over time (see next chart).[7]



Source: James Mills, at al. (2015). Classifications based on Freddie Mac.

- More recent data find that institutional landlords acquired about 4,000 homes in 2021 (through September) or about 0.1% of all sales.[8] According to industry figures, their stock of total U.S. housing units accounted for about 0.2%.[9]
- Amherst Capital finds:
    - "Institutional purchases have been somewhat concentrated in a few geographies. … the top 10 metro areas account for about 63% of all 2016 purchases by institutions. However, even in such higher ranking metro areas, institutional purchases only represented 1–3% of total annual homes sales."
    - The report however cautions that parts of a metro could have higher shares.

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[5] Freddie Mac Spotlight on Underserved Markets: Single-Family Rental, An Evolving Market. The data are most likely for 2016.
[6] Institutional Investors and the U.S. Housing Recovery
[7] James Mills, Raven S. Molloy, and Rebecca E. Zarutskie (2015). "Large-Scale Buy-to-Rent Investors in the Single-Family Housing Market: The Emergence of a New Asset Class?," Finance and Economics Discussion Series 2015-084. Washington: Board of Governors of the Federal Reserve System, http://dx.doi.org/10.17016/FEDS.2015.084
[8] John Burns Single Family Rental Market Index 20021:Q4 cited in National Rental Housing Council Single-Family Rental Home Companies, iBuyers, and the Market for Home Purchases 2021:Q3.
[9] National Rental Home Council

  - And concludes that "given the generally small share in metro area sales, any broad-based narrative suggesting that institutions are driving up prices and crowding out retail buyers seems rather stretched, in our opinion." [10]

The recent emergence of institutional landlords in the single-family sphere begs the question why this is happening. The main reasons are:

- New opportunity created by the collapse in home prices after a government affordable housing policy-induced lending boom and subsequent price collapse.
  - Institutional landlords purchased mainly fixer-uppers or foreclosures at rock-bottom prices.[11]
  - Analysis by Amherst Capital seems to support this: "institutional investors have tended to concentrate their investment in certain markets in Southeast Texas, and parts of the Midwest such as Atlanta; Dallas-Fort Worth, Texas; Chicago; and Indianapolis, particularly where there was a low price-to-rent ratio and where properties had experienced substantial declines in value during the Great Recession."[12]
- Search for yield due to central banks holding down interest rates.
  - Steady stream of income in a low interest rate environment.
  - Home price appreciation of over 100% since 2012 due to government policies (more below), which could be higher on foreclosures and fixer-uppers.
  - Stable demand from a growing population and would-be homebuyers getting priced out of the market.
- Investment diversification and safe haven due to impact of pandemic.
- More recently, hedge against COVID stimulus inflation risk from expansive monetary and fiscal policies.

Some of these reasons beg the question as to whether institutional landlords would be in existence today had government polices not created a housing crash and then engineered a subsequent house price boom.

2) The housing market is becoming less affordable, not because of institutional landlords, but rather misguided policies

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[10] AMHERST CAPITAL MARKET UPDATE U.S. Single Family Rental—Institutional Activity in 2016/2017, | AUGUST 2017.
Particularly, the point about moving the market seems plausible to us given that our research on FHA's mortgage insurance premium cut from 2015 found that in order to move the market, FHA's concentration in a census tract needed to be around 20%. For more, see Davis, Oliner, Peter, and Pinto, The impact of federal housing policy on housing demand and homeownership: Evidence from a quasi-experiment, http://www.aei.org/wp-content/uploads/2018/01/Oliner-homeownership-WP-Update.pdf?x91208

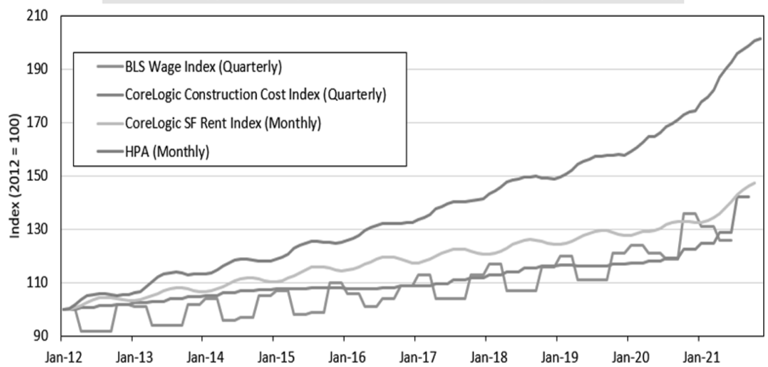
[11] See https://www.urban.org/urban-wire/institutional-investors-have-comparative-advantage-purchasing-homes-need-repair or Institutional Investors and the U.S. Housing Recovery and James Mills, Raven S. Molloy, and Rebecca E. Zarutskie (2015). "Large-Scale Buy-to-Rent Investors in the Single-Family Housing Market: The Emergence of a New Asset Class?," Finance and Economics Discussion Series 2015-084. Washington: Board of Governors of the Federal Reserve System, http://dx.doi.org/10.17016/FEDS.2015.084

[12] Freddie Mac Spotlight on Underserved Markets: Single-Family Rental, An Evolving Market

Here is a list of data on the recent single-family housing boom, which started in 2012:

- Uninterrupted seller's market since 2012, which is now the longest ever recorded.
- Housing supply is currently at its lowest level ever. In December 2022 the months' supply of low- and low-median price tiers was 0.9 and 1.0 months respectively. Traditionally about 75% of homes at these price points are first-time buyers.
- Since 2012, home price appreciation has far outpaced the growth in market fundamentals (wages, construction cost, rents).

Home Price Appreciation (HPA) and Market Fundamentals (Index: 2012 = 100)



Note: Data are for the entire country. Wage data come from the Quarterly Census of Employment Wages (QCEW).
Source: CoreLogic, BLS, and AEI Housing Center, www.AEI.org/housing.

- Since 2012, home prices have appreciated 102%. Entry-level prices are up even more (118%).
- Home price appreciation (HPA) has further accelerated in the aftermath of the pandemic.
  - Since Jan. 2020 prices are up 27%.
- Affordability has been worsening with the median price to median income ratio increasing from 3.42 in 2012 to 4.37 in 2020.[13]
- There are anecdotal reports that first-time home buyers are increasingly waiving home inspections or overbidding. Yet, they have fewer financial resources to handle the fallout if the home requires repairs that would have been found during an inspection.[14]

Because of this boom, home prices levels will be higher for years, which means that all subsequent buyers have to match that level.

3) Lower income Americans are getting crowded out of the housing market

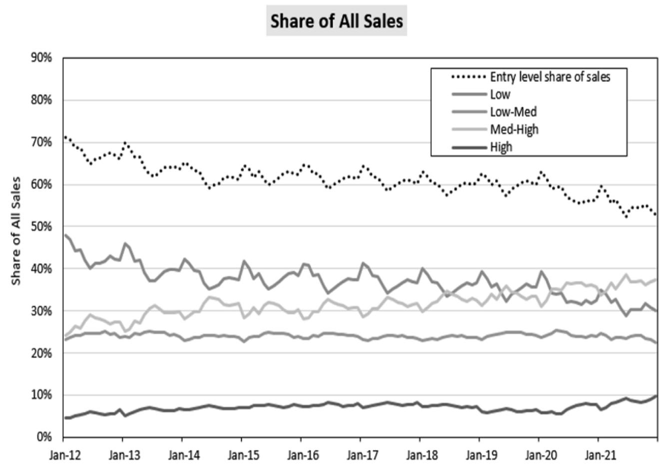
Due to the rapid home price appreciation, potential buyers that otherwise would have been able to buy a home are getting crowded out of the market. Just this week the Wall Street Journal reported on the middle class getting priced out of the housing market. But while borrowers with incomes of $75,000 to

[13] Harvard Joint Center for Housing Studies, State of the Nation's Housing 2021
[14] https://www.forbes.com/advisor/mortgages/homes-for-sale-hit-record-low/

$100,000 have the option to buy a lower-priced home. Low-income and many minority Americans may be squeezed out of the market entirely. .[15]

Example 1:

- The entry-level share of home sales has been declining from 71% in Jan. 2012 to 53% in Dec. 2021.



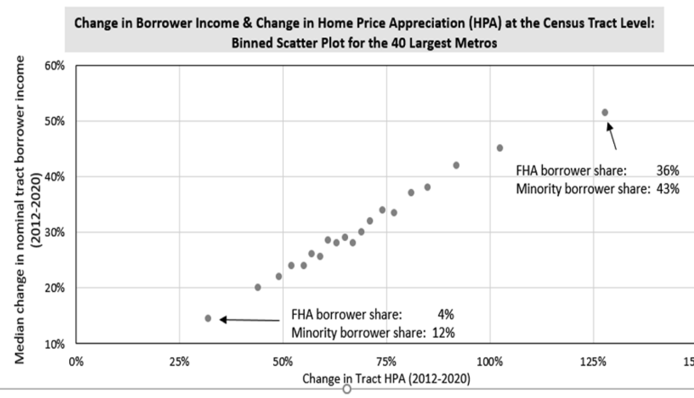
Source: AEI Housing Center.

Example 2:

- For census tracts with the fastest HPA (+125% since 2012), we observe borrower income growth (+50%) twice the rate of the national income growth (~27%).
    - Unfortunately, it is highly implausible that the incomes for this group of borrowers has gone up that fast.
    - What is more likely happening is that due to the rapid price spiral, a different mix of buyers is buying in these neighborhoods.
    - For example:
        - In 2012, the borrowers purchasing in census tract A had a median income of $40,000.
        - By 2020, these borrowers should be making $51,000 according to wage statistics from the Atlanta Fed.
        - However in 2020, we observe that the borrowers now purchasing in census tract A have a median income of $61,000.

[15] https://www.wsj.com/articles/in-covid-19-housing-market-the-middle-class-is-getting-priced-out-11644246000?mod=mhp

    - Had the borrowers from 2012 not purchased in 2012, but rather tried to purchase in 2020, their income would not have sufficed to compete with the higher income borrowers that actually purchased in 2020.
- The census tracts with the fastest HPA also had the highest share of FHA purchase loans (an indicator for lower-income) and minority borrowers.



Note: Tracts are weighted by their respective loan counts. Binned scatter plot accounts for differences in metros. FHA and minority borrower shares are for 2020. HPA stands for constant-quality home price appreciation
Source: HMDA and AEI Housing Center, www.AEI.org/housing.

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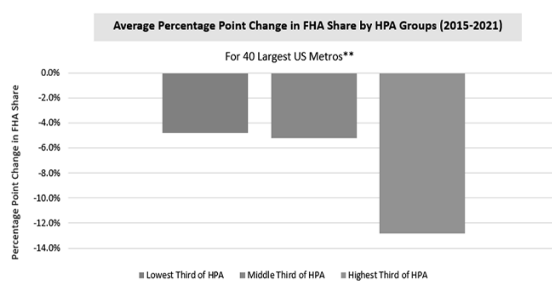
Example 3:

- The top one-third of large metros with the highest growth in HPA have seen a 13 percentage point reduction in FHA purchase loan share compared to a 6 percentage point reduction for the two-thirds of metros with lower levels of HPA.
- Since FHA is a proxy for lower-income and minority borrowers, this trend is indicative of substantial crowding out of low income and minority potential home buyers.



* FHA purchase share is used as a proxy for lower income, minority, first-time, and first-generation borrowers
**__Metro Cities in Lowest Third HPA Category__: Baltimore, MD; Chicago, IL; Cincinnati, OH; Cleveland, OH; Houston, TX; Kansas City, MO; New York, NY; Philadelphia, PA; Pittsburgh, PA; Raleigh, NC; San Antonio, TX; St. Louis, MO; Virginia Beach, VA; Washington, DC.
Metro Cities in the Middle Third HPA Category: Austin, TX; Boston, MA; Cape Coral, FL; Charlotte, NC; Columbus, OH; Dallas, TX; Detroit, MI; Indianapolis, IN; Jacksonville, FL; Los Angeles, CA; Miami, FL; Minneapolis, MN; North Port, FL.
Metro Cities in Highest Third HPA Category: Atlanta, GA; Denver, CO; Las Vegas, NV; Nashville, TN; Orlando, FL; Phoenix, AZ; Portland, OR; Riverside, CA; Sacramento, CA; San Diego, CA; San Francisco, CA; Seattle, WA; Tampa, FL.

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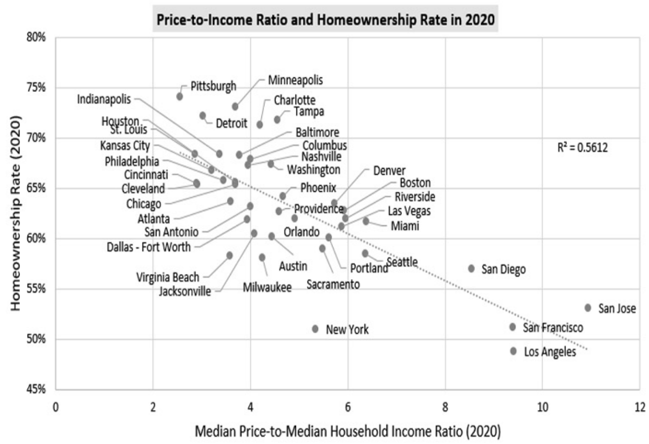
Source: American Community Survey, Public Records, and AEI Housing Center, www.AEI.org/housing.

The rapid home price appreciation, which is beyond market fundamentals, is primarily affecting lower income, first-time, and first-generation home buyers.

The conclusion is that because of an out of control price spiral there is increased competition for fewer and fewer affordable homes. Potential entry-level buyers are increasingly pushed to the sidelines as they cannot compete with more deep pocketed individuals, who experience the same competition only higher up the price spectrum, and so on. These trends are indicative of the crowding out of low income and minority potential home buyers, which results from the house price boom due to federal monetary and housing policies. It is a violation of the Fair Housing Act.

When would be buyers are being crowded out of the market, it creates problems downstream:

- If potential buyers can no longer afford homeownership, they continue to rent, which lowers the homeownership rate.
    - There is already a noticeable correlation between home prices and the homeownership rate for the largest metros. The higher prices are, the lower the homeownership rate is.

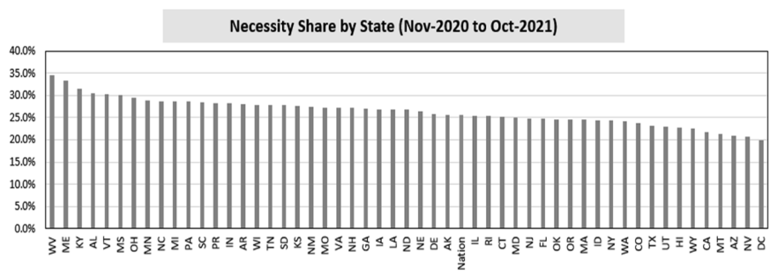


Note: Data are for the largest 40 metros based on the number of households.
Source: Harvard Joint Center for Housing Studies, Census Bureau, and AEI Housing Center, www.AEI.org/housing.

- With more borrowers being crowded out, there is additional demand for rentals, which increases rents.
    - Rents are now going up at 12% nationally and are expected to remain elevated for years to come.[16]
- Higher rents mean potentially higher rates of homelessness.
- Higher inflation, now running in the 7% range, further threatens people's paychecks, especially lower income ones.

[16] See https://www.zumper.com/blog/rental-price-data/ and https://www.dallasfed.org/research/economics/2021/0824.

- A Gallup survey from Jan. 3-13, 2022 finds:
  - "49% of Americans saying rising prices have caused hardship for their family, including 9% who say it has caused 'severe' hardship affecting their ability to maintain their current standard of living."
  - "As would be expected, lower-income Americans are suffering the most from inflation. Two-thirds of U.S. adults with an annual household income of less than $40,000 say they have experienced hardship, with 20% describing it as severe."[17]
- The effect will be particularly high on people spending a higher shares of their incomes on necessities such as spending at Discount Stores, Drug Stores, Food Stores, Gas Stations, and Utilities.
- Certain states, which a higher share of necessity spending will be more affected than others:



* Necessities are defined as spending at Discount Stores, Drug Stores, Food Stores, Gas Stations, and Utilities.
Note: Spending refers to national household credit card and debit card total spending.
Source: Commerce Signals, a Verisk Analytics business, BLS, and AEI Housing Center.

4) Policies by the federal government and Federal Reserve have been the culprit for crowding lower-income Americans out of the housing market

Economics 101 teaches that more demand against a limited supply will drive up prices.

In housing, when supply is constrained (as it has been since 2012), credit easing will make entry-level homes less affordable. This is the paradox of accessible lending.

Yet there have been plenty of demand boosters, which have powered the current housing boom are crowding out lower-income and minority Americans:

- Federal Reserve – Easy monetary policy during a seller's market has contributed to rapidly rising home prices and also, more recently, inflation.
  - Quantitative Easing (QE) 3 announced in September 2012: coincides with the start of the current housing boom.

[17] https://news.gallup.com/poll/389129/americans-expect-inflation-persist-next-six-months.aspx

- QE4 announced in March 2020: While justified at the beginning of the pandemic, it became quickly clear that the housing and labor markets did not need the massive support. The Fed is finally, albeit belatedly and slowly, unwinding the GSE asset purchases.
- Artificially low interest rates: All else equal a 1 ppt. drop in the mortgage rates translate into a 9% increase in buying power. Since all borrowers, as well as anyone shopping in the market benefits from it, most of the benefit gets capitalized into higher home prices, thus benefitting the home seller, not the buyer. In addition, lower rates attract new buyers into the market (second or investment home buyers, renters, etc.), thus also increasing the pool of potential buyers.

The outcomes for the housing market have been outlined above. But there are also other effects on inflation and rents.

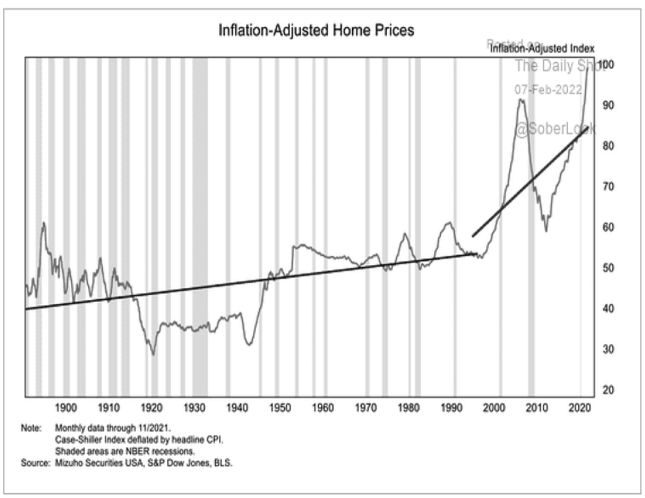
- My colleague Ed Pinto estimates that just since the beginning of the pandemic, the Fed's monetary policies have contributed about $1 trillion in wealth effects available to be used for additional spending.[18]
- Researchers at the Dallas Fed have found a "high correlations between current house price growth and future inflation of rent and [owners'-equivalent rent] OER" and predict rent and OER inflation to reach 6-7% by 2023, up from around 2% today.[19] According to data from CoreLogic, Zillow, and Zumper, rents are already increasing 11-14% year-over-year.[20]
- It is highly likely that inflation will be more sustained than anticipated. Since inflation is a regressive tax, it will predominantly hurt renters and low-income Americans.
    - Larry Summers just this week warned that "And housing — one-third of the CPI — has been a transient factor holding down measured inflation, as the CPI's housing component has increased less than the overall index even as measures of homes prices and rents have risen at rates approaching 20 percent. Even if all other prices were flat and housing prices stabilized, housing alone will likely be enough to push core CPI above 2 percent in 2022."[21]
    - He continued with "Macroeconomic policies that push demand well past the economy's capacity, such as those we have pursued over the past year, do not just lead to inflation but rather to increasing inflation — with the inflation rate accelerating for as long as the economy overheated. The painful lesson of the 1960s, 1970s and the 1982 recession is that excessive demand stimulus leads not just to inflation, but to stagflation and ultimately recession, as inflation must eventually be brought under control. Overly easy policies also lead to bubbles in

[18] About $420 billion ($15 trillion in stock market valuation increase since end of 2019 x 2.8 cents per year in increased consumption), about $180 billion (home equity gains over the last 18 months yields an average $2,200 per household in additional consumption spending over the next couple years, or about $180 billion of additional spending summed up across all homeowners, about $280 billion/year from monthly payment savings on Rate and term refinances, and about 90 billion/year from equity extraction on cash out refinance loans. CITE CONFERENCE
[19] https://www.dallasfed.org/research/economics/2021/0824
[20] For CoreLogic: see chart above, for Zillow: https://www.zillow.com/research/data/ (ZORI series), for Zumper: https://www.zumper.com/blog/rental-price-data/
[21] https://www.washingtonpost.com/opinions/2022/02/03/inflation-warning-history-lawrence-summers/

financial markets that ultimately burst with catastrophic consequences for unemployment and poverty."[22]

- Agencies (primarily GSEs and FHA) – Looser government underwriting policies during a seller's market have contributed to increasing house prices, not to better housing outcomes.
  - Leverage, albeit lower than during the 2000s, has been increasing.[23] The AEI National Mortgage Default Rate (NMDR) -- which measures underwriting standards or leverage—increased from 2012 until efforts by FHFA Director Mark Calabria and FHA leadership started to rein it in starting around mid-2019.[24] The pandemic has further contributed to a tightening of underwriting, however, there are worrying signs again:
    - FHA's NMDR is close to matching its series' high.
    - The NMDR is likely lower because of the crowding out of the riskiest borrowers. However, there are concerted efforts under way to bring them back into the market. The proposals brought forth have focused on further credit easing (discussed below).
    - Because supply is at an all-time low, any increases in leverage will likely push home prices even higher, thus extending the current housing boom and further worsening affordability.

The confluence of monetary and government policies have contributed to increasing house prices, which – by historical standards – is highly unusual. In addition, the increase in housing wealth has furthered inequality.



Source: Mizuho Securities USA

[22] IBID

[23] Davis, M.A., Larson, W.D., Oliner, S.D. and Smith, B.R., 2019. A Quarter Century of Mortgage Risk. American Enterprise Institute, working paper, 4.

[24] https://www.aei.org/housing/mortgage-risk-index/

5) How to build sustainable generational wealth for lower-income and minority Americans

There is a growing consensus that to make housing more affordable is to increase supply, not to ease credit, increase government subsidies, or suppress interest rates. Even a few progressive think tanks and cities have come around to this view.[25] In order to stop the price spiral that is pricing lower-income Americans out of the housing market and driving up rents, we need to address the following issues:

- More supply:
  - Federal mandates are not the answer. They have crashed and burned every time (more below).
  - Zoning and land use policies are fundamentally a state and local issue and should be addressed at those levels. Fortunately, many cities and states are already experimenting with increasing housing supply. California's ADUs law and SB-9, for example, relax single-family zoning by restoring property rights and relying on private enterprise. If California can pass this, then this should be the blueprint for others too.
  - One needs to be both patient and careful, reversing the effects of 100-year-old policies on zoning will take decades.
- Eliminate demand boosters as they create unaffordability until balance between supply and demand has been restored:
  - Congress should task FHA, not the GSEs, with guaranteeing loans for high-risk, low-income borrowers.
    - FHA should limit mortgage default risk at loan origination through the use of shorter loan terms.
    - HUD should study how to increase borrower resiliency by examining the effectiveness of the residual income test, month's reserves at closing, the Massachusetts Housing Finance Agency unemployment program, and a loan with a reserve accumulation component. In all cases, the data should be made available to private researchers for independent study and evaluation.
  - FHFA should set a limit on mortgage default risk at loan origination.
    - The MDR is a comprehensive stressed default rate, which represents the worst-case scenario stress test similar to a car crash test or a hurricane safety rating. The NMDR has shown to be incredible predictive of loan defaults during the COVID- 19 pandemic.[26]
    - The MDR would also help end policies, especially risk layering, that have had a disparate impact on low-income households, especially ones of color, and would therefore affirmatively further fair housing under the Fair Housing Act.
- Shrink the government's footprint in the housing market:

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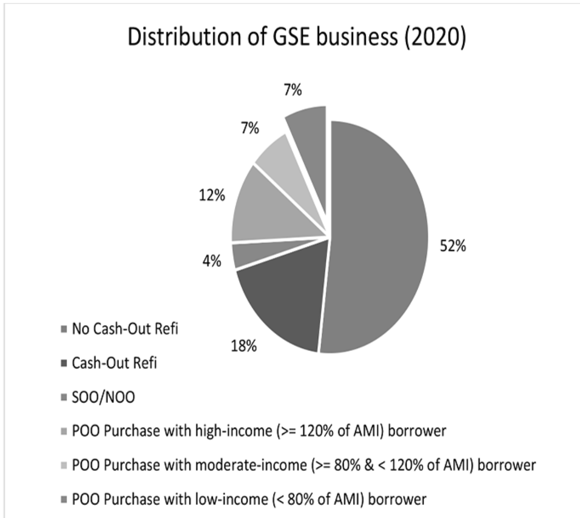
[25] Sightline Institute has tackled that notion directly. Not only can you build your way to affordable housing, in fact, building more supply may be the only effective way to reduce the pressure that is driving up rents and producing displacement. There's ample evidence for this position, but there's still the strong sense that addressing our housing problem by building more high end housing is a cynical and ineffective kind of "trickle down" economics. "The battle cry of the low income housing advocates is "you can't build your way to affordability."" See for example https://cityobservatory.org/the-end-of-the-housing-supply-debate-maybe/ and https://www.sightline.org/2017/09/21/yes-you-can-build-your-way-to-affordable-housing/.

[26] https://www.aei.org/housing/mortgage-risk-index/

- The rational for doing so is that
    - Despite the government's efforts over the last 60 years, homeownership today stands at about the same level as in 1964.
    - The GSEs continue to dominate lending with about 50% market share, with total government involvement at about 80%. This is not allowing the private sector to gain more than a foothold, much less grow.
    - GSE subsidies are not well targeted to helping low- and moderate-income, first-time buyers. The lion's share of the benefit is going to existing middle- and increasingly upper income homeowners, as evidenced by conforming loan limits of almost $1 million used by the GSEs.
    - Housing finance policy is on autopilot, creating harmful market distortions while failing to deliver meaningful results.
    - The private sector can actually compete with the GSEs. Since 2013 (excluding a year interruption due to the pandemic), jumbo portfolio loans have consistently had lower mortgage rates of about 25 basis points than GSE conforming loans.[27] Yet, despite a higher mortgage rate, most borrowers opt for a GSE loan because of the looser underwriting terms, which is a violation of their Charters.
    - If the goal is to have the GSEs accumulate enough capital so they are no longer too big to fail and release the them out of conservatorship, the acting FHFA commissioner Sandra Thompson has made it clear in her confirmation hearing that she would "defer to Congress" on such action.[28] This adds renewed urgency to the task of shrinking the GSEs' footprint through legislative, rather than administrative means.
- Latest HMDA data show that 70% of the GSEs 2020 business were refinances. This is not an aberration. Since 2012, about 60% of the GSEs' acquisitions have been refinance loans. And only 14% of acquired loans went to low- or moderate-income borrowers who were purchasing a home.

[27] Fisher, L.M., Fratantoni, M., Oliner, S.D. and Peter, T.J., 2021. Jumbo rates below conforming rates: When did this happen and why?. Real Estate Economics, 49(S2), pp.461-489.

[28] https://www.tradingview.com/news/reuters.com,2022:newsml_W1N2SF00I:1-u-s-housing-agency-nominee-thompson-says-will-defer-to-congress-on-fannie-freddie-conservatorship/



Source: HMDA and AEI Housing Center.

- How to gradually shrink the GSE footprint while ensuring access to housing finance:
    - Communicate to the market place that the following changes will arrive sequentially and according to a fixed timetable.
    - Remove high-cost loan limits, which are now approaching $1 million. These limits were intended to be temporary.
    - Reduce or cap national loan limits.
    - Eliminate GSE loans for second and investor homes, which do not increase homeownership.
    - Eliminate Cash-out refinances, which do not promote homeownership.
        - The gradual nature of this plan ensures that it can easily be paused and reversed, if the private sector fails to step in.
        - One should also consider that the current system has not materially increased the homeownership, not to mention, closed the racial homeownership gap.
- Build resiliency in neighborhoods and borrowers by reducing the loan term on high risk loans to 20- or 15-years on high-risk loans:
    - The FHA should implement LIFT Home for low-income, first-time, first-generation home buyers.[29]

[29] LIFT loans should be structured as an interest rate buy down on a 20-year loan made to first-generation homebuyers, rather than down payment assistance. The rate buy down, combined with a slightly lower rate due to the shorter term, along with a lower mortgage insurance cost, allows LIFT Home to have the same buying power as a 30-year loan. For the rate buy down, assistance should be provided as compensation to HUD/Rural Housing/Treasury for buying a below market yield Ginnie MBS.

- The GSEs should implement the Wealth Building Home Loan to reduce risk to taxpayers and to encourage borrowers to build equity.[30]
- The advantages are:
  - A shorter term loan builds equity much faster than a traditional 30- year loan.
  - The earlier pay-off date provides access to additional cash flow to pay children's post-high school education, and fund retirement.
  - The 20-year term reduces default risk by about 50%, which allows for lower FICO score loans to be made more safely.
  - This is a big boost to expanding Black and Hispanic home ownership, as a low credit score is a major impediment.
  - The 20-year term has better default mitigation and remediation options compared to 30-year.
  - The rate buy down limits the subsidy from being capitalized into higher prices, thus limiting the potential for crowding out.

6) How to avoid unintended consequences

Relaxing underwriting requirements in an overheated housing market has been tried many times since 1954 and has not worked.

There is a growing consensus that the way to make housing more affordable is to increase supply, not to ease credit, increase government subsidies, or suppress interest rates.

Yet, rather than shrinking the government's footprint or reducing risk, Fannie has already increased risk layering and FHFA has recently made policy changes that increases GSE competition with the private sector and will lead to greater risk-layering. Many other changes are being discussed.

The most significant policy and regulatory changes are listed below:

- June 2021: CFPB delayed the mandatory compliance data of the QM rule until Oct 1, 2022. The CFPB's 2020 replacement of the QM rule with a new standard based on the Average Prime Offer Rate) would similarly relax underwriting requirements and thus promote higher risk loans and unsustainable home price appreciation. The same applies to an expansive stand-alone DTI limit.
- August 2021: FHA updated its student loan monthly payment calculations.
- August 2021: FHFA proposed new benchmark level for minority & low-income tracts home purchase in 2022-24.

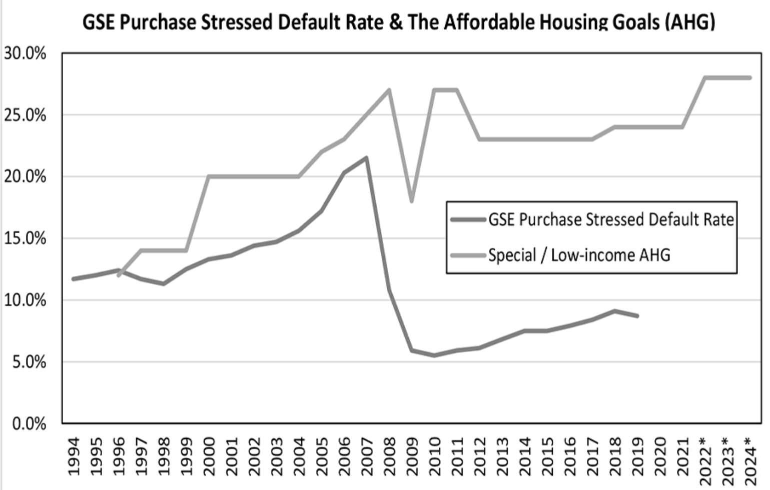
FHFA proposed to raise the Low-Income Home Purchase Goals affordable housing goals for low-income 2022-2024 to 28%, up from the current 24% level. The risk of this approach becomes obvious when compared to the period before the last financial crisis when the affordable housing goals were last raised.

[30] Applies the same concepts as LIFT Home, but runs through conventional loans and without federal subsidy.

From 1996 to 2008, the Special Affordable Housing Goals for purchase loans were raised from 12% to 27%. At the same time, the GSE purchase stressed default rate increased from 11.7% to 21.5% in 2007, before lending standards were significantly tightened. The tight correlation between both lines becomes evident in the chart below.

Due to the ever increasing Housing Goals, the GSEs were forced to lower their underwriting criteria in order to fulfill those goals. The result, of course, was a massive build-up of risk, which eventually ended in 8.6 million foreclosures and other forced dispositions, which were proportionally higher in low-income and minority neighborhoods.

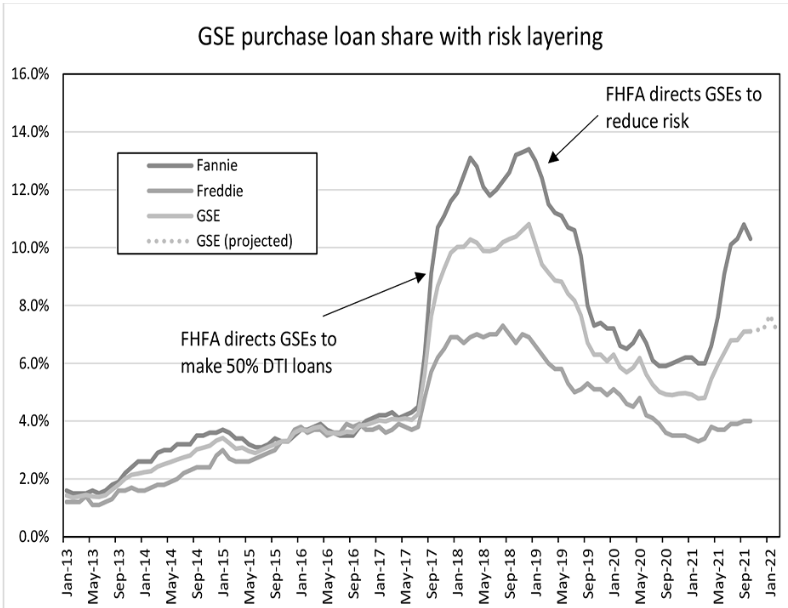
By historical standards today's GSE mortgage risk looks fairly benign, but FHA's mortgage risk is about at the same level as in 2006. These loans are highly geographically concentrated and the GSEs will be forced to compete with FHA when the goals are raised.



* proposed.
Until 2008, the Low-income Home Purchase Goals were known as the the Special Home Purchase Goals.
Source: FHFA

- <u>September 2021</u>: Fannie and Freddie suspended limits on second homes and investment properties, and risk layering limits on loans due to higher risk characteristics

There has already been a troubling increase in the share of GSE purchase loans with risk layering, which may have been anticipated by Fannie or been connected to a change in its Desktop Underwriting (DU) system.



Note: Risk layering is defined as having a credit score < 680, a DTI > 45, and a CLTV > 90 present in the same loan.
Source: AEI Housing Center.

- September 2021: Fannie started to include rental payment history in its risk assessment processes.
- Possible for 2022:
  - Pressures on FHA are building to lower FHA's current level of mortgage insurance premiums (MIP). Secretary Fudge has for the moment ruled out a cut to the MIP, but if a cut were to be implemented during an overheated housing market, it would have similar consequences as the 2015 MIP cut, which drove up prices and did not materially expand homeownership.[31] A move such as this would restart a dangerous bidding war

[31] At the time, the FHA claimed that the premium drop would result in 250,000 new first-time buyers over the next three years, and save each FHA buyer $900 annually. Our research found that home prices went up by about 2.5% for FHA borrowers. These borrowers had to use part their new found "wealth" — obtained by paying lower FHA insurance premiums —to pay for the higher house price. Prices also went up for non-FHA buyers in neighborhoods with FHA insured sales. After all, it is one housing market, where borrowers, no matter the financing, compete for houses. This caused the non-FHA buyers, who did not receive the benefit of lower premiums, to largely offset the price increase by buying a home of lesser quality (perhaps a smaller home, a smaller lot, or in a different location) – they were the clear losers. We estimate that about 500,000 of these non-FHA borrowers were first-time homebuyers. Each of these non-FHA homebuyers paid approximately $6,200 extra per house, a total extra payment of about $3.1 billion. From a cost-benefit perspective, this averages to an incredible $180,000 for each of the roughly 17,000 new FHA first-time buyers! The big winners were the realtors who received hundreds of millions of dollars in higher commissions from higher prices. For more, see Davis, Oliner, Peter, and Pinto, The impact of federal housing policy on housing demand and homeownership: Evidence from a quasi-experiment, http://www.aei.org/wp-content/uploads/2018/01/Oliner-homeownership-WP-Update.pdf?x91208

- between FHA and the GSEs, who would be facing higher affordable housing goals for low-income and minority borrowers, which leads a race to the bottom in terms of lending standards.
- Acting FHFA Director Thompson announced in September 2021 that "the agency is weighing changes to the loan-level price adjustments enacted in 2008 to help the government-sponsored enterprises manage risk."[32]
- Expanding the Community Reinvestment Act (CRA) to non-depository institutions. Due to its opaqueness, CRA lending has not properly been evaluated, however, it will likely lead to an expansion of credit as non-depositories with less reputational risk "sell what they originate and originate what they can sell." Such proposals have already been implemented in New York and are being discussed by Fed Governor Lael Brainard.[33]
- Research from at least one think tank is pushing for looser underwriting relating to the Three Cs of Mortgage Credit (Credit, Capacity, and Collateral) under the guise of "closing the homeownership gap" and "rooting systemic racism out of mortgage underwriting". The proposed policies largely mirror similar 1999 research by the same think tank to loosen the Three Cs lending standards. That research was funded by HUD and had devastating results.[34]
- Others, like the Underserved Mortgage Markets Coalition would push the GSEs into riskier loan types, and looser underwriting.[35]

Each one of these proposals on its own seems innocuous. However, the accumulation and combination of them should raise alarms.

With new leadership at federal agencies and regulators, a concerted effort to lower underwriting standards again – as happened during the 1990s and 2000s – seems to be underway.

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[32] https://www.americanbanker.com/news/fhfa-weighs-cutting-price-adjustment-fees-on-fannie-and-freddie-loans

[33] See https://www.governor.ny.gov/news/governor-hochul-signs-legislation-expanding-new-york-community-reinvestment-act-non-depository and https://www.federalreserve.gov/newsevents/speech/brainard20200921a.htm.

[34] For 2022, see" https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting. In April 1999 the Urban Institute released a report commissioned by HUD two years earlier. The report, entitled "A Study of the GSEs' Single-Family Underwriting Guidelines"[1] advised: "Almost all the informants said their opinion of the GSEs has changed for the better since both Fannie Mae and Freddie Mac made substantive alterations to their guidelines and developed new affordable loan products with more flexible underwriting guidelines." … "Informants did express concerns about some of the GSEs' practices. The GSEs' guidelines, designed to identify creditworthy applicants, are more likely to disqualify borrowers with low incomes, limited wealth, and poor credit histories; applicants with these characteristics are disproportionately minorities." By 2000, the GSEs had largely done away with down payments, raised debt ratios, entered the "A-minus" and "B" subprime market and re-entered the low doc/no doc market. http://www.urban.org/publications/1000205.html

[35] Policies advocated include a "substantially increase the number of purchased mortgage loans secured by manufactured real property," that "Fannie and Freddie should revive their plans to begin to purchase chattel loans", "offering exceptions for the income limits in the HNRRs," "targeted use of credit exceptions," "instituting a 4% deferred second mortgage to cover closing costs and boosting the seller concession from 3% to 6%," or that the "GSEs eliminate their loan-to-value limits to better align with FHA rules." See https://www.insidemortgagefinance.com/articles/223669-nonprofit-coalition-offers-blueprint-to-improve-fanniefreddie-dts-plans?v=preview.

Raising the Affordable Housing Goals requires lessening criteria on risk layering, otherwise the goals could not achieve much. At the same time, the effort to bring in higher-risk borrowers requires larger cross-subsidies, which requires lower changes to the LLPAs.

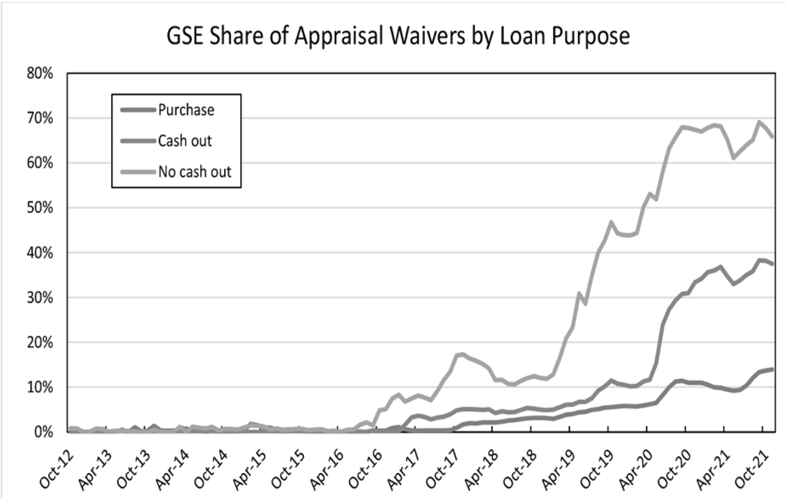
While lower-income Americans are being crowded out of the housing market, bringing them back by lowering underwriting standards through a concerted efforts by federal agencies and regulators is a recipe for disaster and risks creating more housing risk. This will put the exact people the policies are intended to help into harm's way.

Be mindful of automated system and competition between Fannie Mae and Freddie Mac

The GSE's use of automated system such as appraisals waivers, which rely on a proprietary model to establish the value range of a property, have grown tremendously over the last 4 years (See chart below). While we have only looked in detail at refi waivers, we found a salutary effect for the time being. Our concern for both refis and purchase waivers relates to gaming:

1) The GSEs are constantly competing with each other.
2) Each one thinks they can devise a better model than the other. This breeds overconfidence and creates a race to the bottom on standards, particularly when market participants, who can become aware of gaming opportunities, exploit them. History tells us that their automated processes can be gamed. This happened with automated underwriting systems during the 2000s.[36]
3) This result is inevitable given their low capitalization and duopolistic nature.

[36] "At the behest of Congress, HUD and the GSEs played the central role in weakening lending standards and increasing leverage. The community groups responsible for drafting the affordable housing portion if the GSE Act of 1992 knew that unless and until the GSEs were forced to loosen their underwriting standards, the primary market would 163 maintain their conservative standards. The GSEs started loosening their underwriting standards early in the 1990s. By the late 1990s their automated underwriting systems had become the industry standard, effectively replacing many proprietary ones. By the early 2000s much of the industry was using the GSEs' automated systems regardless of whether the loan was destined for purchase by the GSEs. Each time the GSEs loosened their guidelines, originating lenders both knew what new flexibilities were now "acceptable" to the GSEs and what flexibilities they would need to implement in order to maintain or grow their market share of loans sold away from the GSEs." See Pinto, E., 2010. Government housing policies in the lead-up to the financial crisis: A forensic study. Available at SSRN 1675959.



Note: For the appraisal waiver charts, we are assuming a one month shift between first payment date and origination date. Data are for November 2021.
Source: AEI Housing Center.

Equally worrisome are increases to the GSEs appraisal waiver practices, particularly purchase loans. In the past, human appraisals have successfully alerted lower-income and minority borrowers when they were overpaying. [37] An appraisal waiver may simply confirm the negotiated sale price, while the competition between Fannie and Freddie for market share may create a race to the bottom on standards – not to mention that these processes can be gamed, which was commonplace with respect to the GSEs automated underwriting systems in the lead up to the Financial Crisis.

Vilifying institutional landlords distracts from the underlying issues facing the housing market.

These landlords are a symptom of the housing boom and bust cycle created by the government, rather than the cause for today's unaffordability.

Institutional landlords, particularly on the multifamily side, are taking advantage of more liberal credit terms provided by Fannie Mae and Freddie Mac (the GSEs) than the private sector, which is a violation of their Charters, which stipulate that they shall adhere to the same lending standards as imposed by the private sector with the objective of purchasing loans "at such prices and on such terms as will

[37] See for example: https://www.aei.org/research-products/report/aei-housing-center-critique-of-freddie-macs-note-on-racial-and-ethnic-valuation-gaps-in-home-purchase-appraisals/ and Fout, Hamilton, Nuno Mota, and Eric Rosenblatt. "When Appraisers Go Low, Contracts Go Lower: The Impact of Expert Opinions on Transaction Prices." The Journal of Real Estate Finance and Economics (2021): 1-41. and Fout, Hamilton, and Vincent Yao. Housing market effects of appraising below contract. Working paper, available at: http://www.fanniemae.com/resources/file/research/datanotes/pdf/fannie-mae-whitepaper-060716.pdf, 2016.

reasonably prevent excessive use of the corporation's facilities."[38] They use their taxpayer guarantee and other advantages to greatly expand their business, while crowding out multifamily private investors. Since 2014 outstanding multifamily mortgage debt has doubled, with the GSEs accounting for most of the growth. At the same time they tout that they are supporting affordable rental housing, but in reality they create government profit seeking.

On the single-family side, they account for too small a share of purchases and of the housing stock nationally. Even in the few metros where their share is higher, it is not enough to move the price needle, especially at the low end of the market.

An overly narrow focus on racial equity is not based on the data and such a focus in federal housing policies could do lasting harm to minority borrowers.

The Biden administration and the media have concluded that there is racial discrimination in the housing market, including systemic racism and bias in housing valuations and property appraisals.

On June 1, 2021 President Biden established the Property Appraisal and Valuation Equity (PAVE) Task Force to be directed by HUD Secretary Marcia Fudge:

> "The Administration will take action to address racial discrimination in the housing market, including by launching a first of-its-kind interagency effort to address inequity in home appraisals, and conducting rulemaking to aggressively combat housing discrimination…."[39]

The readout from PAVE's first meeting held on August 5, 2021 stated:

> "Task Force members discussed how current appraisal practices are a significant contributor to the disparity in housing values. The practice of comparing properties within similar neighborhoods can be a proxy for racial demographics, which leads to the perpetuation and exacerbation of the legacy of segregation and redlining."[40]

Rather than systemic racism and bias, the issue is about systemic disadvantage.

The view of systemic racism and bias in housing is based on a couple recent studies and reports by:

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[38] For example, Fannie Mae charter stipulates that "… the operations of the corporation under this section shall be confined so far as practicable, to mortgages which are deemed by the corporation to be of such quality, type, and class as to meet, generally, the purchase standards imposed by private institutional mortgage investors. In the interest of assuring sound operation, the prices to be paid by the corporation for mortgages purchased in its secondary market operations under this section, should be established, from time to time, within the range of market prices for the particular class of mortgages involved, as determined by the corporation. The volume of the corporation's purchases and sales, and the establishment of the purchase prices, sale prices, and charges or fees, in its secondary market operations under this section, should be determined by the corporation from time to time, and such determinations should be consistent with the objectives that such purchases and sales should be effected only at such prices and on such terms as will reasonably prevent excessive use of the corporation's facilities,…" (Fannie Mae's Charter (12 U.S.C. 1719)).

[39] https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/01/fact-sheet-biden-harris-administration-announces-new-actions-to-build-black-wealth-and-narrow-the-racial-wealth-gap/

[40] https://www.whitehouse.gov/briefing-room/statements-releases/2021/08/05/readout-of-the-first-interagency-task-force-meeting-on-property-appraisal-and-valuation-equity-pave/

- Brookings, Howell & Korver-Glenn, Redfin
- Freddie Mac
- Media reports on refi appraiser bias
- The MarkUp/Associated Press (AP)

However, these studies are not based on rigorous data analysis. As work by the AEI Housing Center has shown, these studies conflate race with socio-economic status (SES), i.e. income, buying power, marriage rates, credit scores, etc.

- Race-based gaps found in the Brookings and Freddie Mac studies either entirely or substantially disappear when adjusting for differences in SES.
- Furthermore, our analyses show that similar gaps are present in majority White or White-only tracts when across different SES levels, raising serious questions regarding a race-based explanation.

Thus, systemic disadvantage has more explanatory power than systemic racism and bias.

- We are mindful that lower SES certainly reflects a legacy of past racism and lingering racial bias, leaving Blacks at a large income and wealth disadvantage relative to most Whites.
- Recognizing the importance of SES factors is key to fashioning appropriate public and private responses.
- The overarching policy goal should be to promote sustainable access to housing finance and support opportunities for income and wealth growth among lower income households.
- In so doing, we must be mindful that many public policies aimed at addressing racial discrimination have had unintended consequences that have done substantial harm to low-income households generally, and minority households in particular.
    - At least one think tank is pushing for looser underwriting under the guise of "rooting systemic racism out to mortgage underwriting", which risks a repeat of the failed policies that produced the last financial crisis.[41]

The following table provides a summary of studies and findings on racial bias in the housing market:

Bias in ...	Study by	Type	Finding
Home valuation	Brookings	Original	Large and systemic differences, which can only be due to race.
	Howell & Korver-Glenn	Original	Large and systemic differences, which can only be due to race.
	Redfin	Original	Large and systemic differences, which can only be due to race.
	AEI	Rebuttal to the other studies	Differences can be explained by socio-economic status (SES).
	Brookings	Rebuttal to AEI	Raises objections to SES variable selection and methodology.

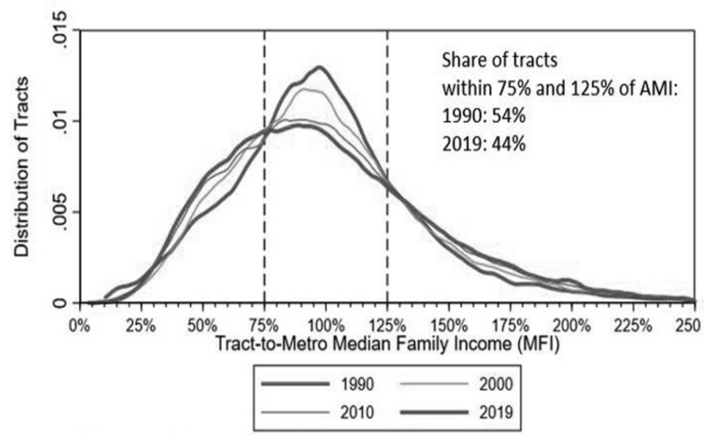
[41] See https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting.

	AEI	Response to Brookings	Differences can be explained by socio-economic status (SES); Brookings rebuttal shows as much. Refutes their claims.
Appraisers (refinance loans)	Media stories*		Imply a persistent and large gap.
	AEI	Original	Racial bias by appraisers on refinance loans is uncommon and not systemic.
	Ambrose et al. (2021)	Original	"We do not observe large, systematic differences in the ratio of appraised values."
	Fannie	Original	Black borrowers received on average received a "slightly lower appraisal value relative to automated valuation models."
Appraisers (purchase loans)	Freddie	Original	“Substantial appraisal valuations gaps” for minority versus White tracts.
	AEI	Rebuttal to Freddie	Gap can be largely explained by differences in SES; appraiser may be providing a consumer benefit.
	Fannie	Comment in study on bias in Appraisers (refinance loans)	Inappropriate to examine appraisal differences using purchase transactions due to Fannie research showing likely substantial consumer benefit, which grows with price vs. value differential.
Lending	MarkUp/AP	Original	“Lenders were still more likely to deny people of color home loans than White applicants."
	AEI	Rebuttal to MarkUp/AP	MarkUp/AP fail to consider credit scores and lending outcomes. On aggregate, there is no evidence of systemic bias by mortgage lenders.

*Examples of initial media stories include the NYT, Denver News Channel 7, or the Chicago Sun.
Source: AEI Housing Center, www.AEI.org/housing.

Public policy should focus on SES rather than race. Income stratification has been increasing. The next chart measures the share of tracts within 75% and 125% of area median income, which is a proxy for the middle class. By this simple measure we can see that 54% of tracts in 1990 were within this range, compared to 44% in 2019. Income stratification has grown in virtually all of the largest 100 metros and does not appear to be correlated with a metro’s minority share.

Chart: Distribution of Census Tracts by Income Level and Year (Largest 100 Metros)



Notes: Largest 100 metros are determined by total sales over 2012-2019 from public records. Sample of tracts is limited to tracts with nonmissing income data and below 250% of the area MFI. Dashed lines indicate income levels at 75% and 125% of the area MFI. Kernel bandwidth is 2.5%.

Note: MFI stands for Median Family Income and AMI stands for Area Median Income.
Source: Census, FFIEC, and AEI Housing Center, www.AEI.org/housing.

Increasing income stratification by geography is a poor policy outcome and threatens the ability of low-income households to build wealth. As home prices rise faster than incomes, it will permanently price low-income and minority households out of areas of opportunity.

Simply spending more has not worked in the past and has had unintended consequences.

If government spending were the problem to ensure affordability, hearings such as this would be superfluous. Plenty of programs already exist, they are just not well targeted or properly evaluated.

On the supply side, Congress should avoid funding programs that have a poor track record (see appendix):

- Stop pouring tens of billions of dollars into public housing, in a futile effort to get public housing right.
- Stop providing tens of billions in subsidies to build or rehabilitate millions of homes, in a futile effort to subsidize our way out of our housing supply problems.
- Stop expanding the LIHTC program which has worked to reinforce racial discrimination and crowd out naturally affordable housing that could be built by the private sector.

Another example is the passage of the Housing and Community Development Act of 1968, the last time Congress provided subsidies to build or rehabilitate millions of homes. This 1973 book's title sums up devastation that followed the 1968 Act: Cities Destroyed for Cash: The FHA Scandal at HUD. The 1968 Act contributed to unprecedented levels of FHA foreclosures.[42]

Similarly, thirty-five years ago, Congress established the Low-Income Housing Tax Credit (LIHTC). Yet the LIHTC program has worked to reinforce racial discrimination. Just last month the City of Chicago reported that "since 2000, the majority of Chicago's LIHTC developments have been new construction located in high-poverty, majority Black areas, with a quarter located in higher-income "opportunity" areas." (See for the appendix for more examples.)

On the demand side, programs currently debated will similarly fail unless the supply shortage is addressed first:

- Refrain from providing first-time buyer down payment assistance in an overheated housing market.
- Refrain from forgiving student loan debt during an overheated housing market, which would increase first-time buyer buying power and increase demand, which would result in higher home prices.
- Refrain from Build Back Better's many demand-side subsidies (e.g., BBB's down payment assistance and rental assistance). My colleague Ed Pinto has completed list of troubled programs that were considered for funding under Build Back Better.

The Build Back Better Act as passed out by the Rules Committee contained about $184 billion in housing related funding (including additional funding of $10 billion for the Low Income Housing Tax Credit). These appropriations would largely go to fund either programs that a have a troubling history of scandal and failure or support programs that will promote house price and rent inflation.

- Public Housing Investments: $65 billion (see NYT: The Rise and Fall of New York Public Housing: An Oral History)
- Investments in Affordable and Accessible Housing Production: $10 billion (see Washington Post: They found dream homes through D.C.'s first-time homeowners program. Now they have to evacuate)

[42] Pinto and Pollock document this in detail: "The first time began in 1968 when HUD developed a "10-year housing program to eliminate all substandard housing." Since there were then, like now, very large budget deficits, this program was implemented off-budget. The answer was the 1968 Housing and Urban Development Act, which had FHA insuring the 10-year plans' subsidized single- and multifamily loans and Fannie funding them. Fannie was up to then a government agency with its debt on-budget. The 1968 Act converted it to an off-budget GSE. Now it was in a position to fund the largest expansion of newly built and rehabilitated subsidized housing in the nation's history with up to 40-year fixed-rate loans. There have been only two years where privately owned single- and multifamily housing completions exceeded 2 million: 1972 (2.00 million) and 1973 (2.10 million)—when the population was 210 million and the number of households was 67 million, 36% and 48% respectively and smaller than today. As a reference, in 2006, at the peak of the Housing Bubble, there were 1.98 million completions. In just a few years, HUD's program turned into a disaster for cities and their residents, as described in the book Cities Destroyed for Cash: The FHA Scandal at HUD written in 1973. Detroit, Chicago, Cleveland, and many other cities never fully recovered from the effects of HUD's scheme. By the early 1980s, Fannie's investment in these loans had suffered huge interest rate risk losses that left it effectively insolvent. It was only able to continue in business given its GSE status and backing by the Treasury." https://lawliberty.org/the-next-housing-bust/.

- Housing Vouchers and Project-Based Rental Assistance: $25 billion (see City Journal – Glaser: Don't Universalize Housing Vouchers; Subsidizing demand in America's constrained housing markets will further increase rents.
- Low Income Housing Tax Credit (LIHTC): $10 billion (see ProPublica: Separated by Design: Why [LIHTC-Supported] Affordable Housing Is Built in Areas With High Crime, Few Jobs and Struggling Schools and NPR: Affordable Housing Program Costs More, Shelters Fewer)
- Community Development Block Grant Funding: $3.05 billion (see Urban Institute: Community Development Block Grant (CDBG) is an important potential source of LIHTC funding)
- National Flood Insurance Program Forgiveness: $20.5 billion (see R Street: Risky business, reforming America's flood insurance model)
- First-Generation Down payment Assistance: $10 billion (see: Higher demand could lead to higher home prices throughout the market. If you are already dealing with a hot market in your area, the competition could increase even further)
- Miscellaneous other programs: Community Restoration and Revitalization Fund: $3 billion, Housing investment Fund: $750 million, Section 811 Supportive Housing for People with Disabilities and Section 202 Supportive Housing for People with Disabilities: $500 million for each, Improving Energy or Water Efficiency or Climate Resiliency: $2 billion, Revitalization of Distressed Multifamily Properties: $1.6 billion, Investments in Rural Rental Housing: $2 billion, Investments in Native American Communities: $1 billion, Unlocking Possibilities Program: $1.75 billion

PREPARED STATEMENT OF JOEL GRIFFITH

RESEARCH FELLOW, INSTITUTE FOR ECONOMIC FREEDOM AND OPPORTUNITY, HERITAGE FOUNDATION

FEBRUARY 10, 2022

Chair Brown, Ranking Member Toomey, Members of the Senate Committee on Banking, Housing, and Urban Affairs.

My name is Joel Griffith. I am a Research Fellow in Financial Regulations at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

What Is Happening With Housing Prices?

Echoing the last housing bubble, Government policies are once again artificially driving up housing prices. Spanning the pandemic era from February 2020 through September 2021, home prices soared 27.1 percent. [1] Over the past 12 months, home prices are up 19.5 percent, dwarfing the prior 12 months jump of 7.1 percent, while residential property prices in the United States adjusted for inflation are now just 2.2 percent below the all-time record levels of the 2006 bubble. [2] Home prices are increasing far greater than family income growth is. The home-price-to-median-income ratio now stands at more than 7.2 (eclipsing the 7.03 peak in late 2005), significantly higher than the levels of well under 5.0 experienced from 1980 to 2000. [3]

Home Mortgages. The decline in long-term interest rates has induced and enabled borrowers to take out bigger loans, feeding the rise in prices. [4] The impact of the surge in home prices is now eclipsing the cost savings of lower interest rates. The mortgage-payment-to-income ratio hit 32.7 percent in September 2021—the highest level since 2008. [5] A return to 6.6 percent 30-year fixed mortgage rates (still below the historical average) from current rates of near 3.0 percent would increase a mortgage payment for a new borrower by 50 percent even with no increase in home prices. [6]

Rental Prices. Median apartment rental costs have jumped more than 15 percent this past year. [7] Because leases often roll over annually, the Consumer Price Index (CPI) data from the Bureau of Labor Statistics (BLS) does not yet fully reflect this surge. Numerous cities experienced rent increases well in excess of 30 percent. For the past 20 years, rental prices have increased at a greater pace than inflation has. Nationally, rental prices increased 38 percent in just the past decade. [8] Some urban areas have experienced far steeper jumps in rent. For instance, rental prices in the Seattle metro area jumped 58 percent over the past decade. [9] And rents in the large-

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[1] Federal Reserve Bank of St. Louis, "S&P Dow Jones Indices LLC, S&P/Case-Shiller U.S. National Home Price Index [CSUSHPINSA]", *https://fred.stlouisfed.org/series/CSUSHPINSA* (accessed December 13, 2021). The Case-Shiller Home Price Index tracks home prices given a constant level of quality. See S&P Dow Jones Indices, "Real Estate: S&P CoreLogic Case-Shiller Home Price Indices", *https://us.spindices.com/index-family/real-estate/sp-corelogic-case-shiller* (accessed January 10, 2022).

[2] Federal Reserve Bank of St. Louis, "Real Residential Property Prices for United States Data (QUSR628BIS)", *https://fred.stlouisfed.org* (accessed December 14, 2021).

[3] Longtermtrends, "Home Price to Income Ratio (U.S. and U.K.)", Home Price to Median Household Income Ratio (U.S.) Data, 1980 to 2005, *https://www.longtermtrends.net/home-price-median-annual-income-ratio/* (accessed December 14, 2021).

[4] Interest rates for 30-year fixed mortgages fell from 3.5 percent prepandemic to just 2.65 percent at the beginning of 2021 and now hover near 3.0 percent. Freddie Mac, "30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US]", retrieved from Federal Reserve Bank of St. Louis, *https://fred.stlouisfed.org/series/MORTGAGE30US* (accessed December 15, 2021).

[5] Federal Reserve Bank of Atlanta, "Metro Area Home Ownership Affordability Monitor Index", September 2021, *https://www.atlantafed.org/center-for-housing-and-policy/data-and-tools/home-ownership-affordability-monitor.aspx* (accessed December 13, 2021).

[6] Author calculations using Bankrate, "Amortization Schedule Calculator", *https://www.bankrate.com/calculators/mortgages/amortization-calculator.aspx* (accessed December 10, 2021).

[7] Chris Salviati, et al., "December Apartment List National Rent Report", *Apartment List*, November 29, 2021, *https://www.apartmentlist.com/research/national-rent-data* (accessed December 14, 2021).

[8] Federal Reserve Bank of St. Louis, "Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average Data (CUSR0000SEHA)", *https://fred.stlouisfed.org/series/CUSR0000SEHA* (accessed December 13, 2021).

[9] Federal Reserve Bank of St. Louis, "Consumer Price Index for All Urban Consumers: Rent of Primary Residence in San Francisco-Oakland-Hayward, CA (CBSA) Data (CUURA422SEHA)", *https://fred.stlouisfed.org/series/CUURA422SEHA* (accessed December 13, 2021).

ly rent-controlled San Francisco metro area soared 51 percent—both nearly triple the overall rate of inflation.[10]

Why Are Housing Prices Rising Faster Than Usual?

The Scapegoat: Institutional Single Family Residence (SFR) Investors

"Institutional owners" of rental properties are being scapegoated for the rise in home prices and rental costs. But institutional investors own fewer than 2 in 1,000 (0.2 percent) of all single-family homes (SFR) and just 1 percent of all rental homes.[11] In fact, not in single State do institutional investors own more than 1 in 100 of all available housing in the State. Despite the intense media focus, institutional investors purchased only 1 in 1,000 (0.1 percent) of homes sold in the United States in 2020—a smaller share than in 2006 just prior to the prior housing market peak.[12]

In fact, of the 10 States with no institutional SFR ownership, 7 rank in the top 10 of recent home price appreciation—with Idaho in the lead at 24 percent.[13]

The bottom line is that institutional SFR ownership is not measurably impacting local home price dynamics to the upside. In fact, the opposite may be occurring. RealtyTrac reports, "On a national basis, investors across the country paid an average 29.4 percent less than homeowners in Q2 2021."[14]

The Reality: Primary Drivers of Rising Prices Nationally Are Government Subsidies, the Federal Reserve, and Local Regulations

Government-sponsored enterprises (GSEs)—namely, Fannie Mae and Freddie Mac—continue to dominate the mortgage market. Investors who purchased Fannie Mae and Freddie Mac bonds and mortgage-backed securities (MBSs) ultimately provide funds for people to finance homes, and these bondholders and MBS investors enjoy implicit Government backing. Investors in MBSs receive cash flows from interest and principal payments on the pool of mortgages comprising the MBSs. With the GSEs under continued conservatorship, it is common knowledge that taxpayers will make good on promised cash flows if either Fannie or Freddie were to ever fail again financially. The moral hazard created by Government backing leads to riskier lending, because it allows investors to ignore the true financial risks of those underlying mortgages and securities.[15]

The Federal Reserve Continues To Purchase MBSs

Since March 2020, the Federal Reserve has driven down mortgage interest rates and fueled a rise in housing costs by purchasing $1.2 trillion of MBSs from Fannie Mae, Freddie Mac, and Ginnie Mae. The $2.6 trillion now owned by the Federal Reserve is 88 percent higher than the levels of March 2020.[16]

Proponents of such intervention often argue that it is necessary to increase the rate of home ownership. However, robust home ownership was established in the United States long before the Government became heavily involved in the housing market. From 1949 to 1968 (the year that Fannie Mae was allowed to purchase non-government-insured mortgages), Government-backed mortgages never accounted for more than 6 percent of the market in any given year.[17] Yet the home ownership rate was 64 percent in 1968, virtually identical to what it is now.

On the local level, stringent zoning restrictions, density limitations, and aggressive environmental regulation limit the supply of housing while increasing the costs of construction. Regulations often account for more than 30 percent of the costs of

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[10] Ibid.

[11] National Rental Home Council, Institutional Owners of Single-Family Rental Homes.

[12] National Rental Home Council, Institutional Owners of Single-Family Rental Homes.

[13] National Rental Home Council, Institutional Owners of Single-Family Rental Homes.

[14] RealtyTrac Investor Purchase Report, Fall 2021. *https://www.realtytrac.com/blog/realtytrac-investor-purchase-report-fall-2021.*

[15] "The unpriced implicit guarantee, which reduced interest rates for mortgage borrowers, helped cause more of the economy's capital to be invested in housing than might otherwise have been the case." Congressional Budget Office, Transitioning to Alternative Structures for Housing Finance: An Update, August 2018, p. 7, *https://www.cbo.gov/system/files?file=2018-08/54218-GSEupdate.pdf* (accessed January 6, 2022).

[16] Board of Governors of the Federal Reserve System (U.S.), "Assets: Securities Held Outright: Mortgage-Backed Securities: Wednesday Level [WSHOMCB]", retrieved from Federal Reserve Bank of St. Louis, *https://fred.stlouisfed.org/series/WSHOMCB*, December 14, 2021.

[17] Norbert J. Michel and John Ligon, "GSE Reform: The Economic Effects of Eliminating a Government Guarantee in Housing Finance", Heritage Foundation Backgrounder No. 2877, February 7, 2014, p. 6, *https://www.heritage.org/housing/report/gse-reform-the-economic-effects-eliminating-government-guarantee-housing-finance.*

rental housing construction.[18] Rent control further compounds the problem by deterring new construction, giving landlords fewer incentives to spend on upkeep and remodeling, and reducing the future supply of housing.

Congressional inaction has expanded the Government's role in the wake of the prior financial crisis. Government subsidies have increased borrowing and demand for housing without increasing supply, leading once again to higher home prices and increased taxpayer risk. Subsidies and Government guarantees of MBSs will perpetuate inflated prices, deprive other sectors of needed financial resources, and place the burden of catastrophic risk on the Federal taxpayer. It is difficult to argue that these policies improve the status quo for anyone other than the lenders, securitizers, and MBS investors who will gain additional Federal protections. Optimally, Congress would gradually remove Federal mortgage guarantees and subsidies and narrow the scope of business for the GSEs.

Policy Recommendations To Address Housing Prices

Policymakers should:

- Sever the special status given to the GSEs.

This approach would communicate to the market that this implicit guarantee is terminated and allow MBS prices to more fully reflect the risk involved. Continuation of these guarantees leads to excessive risky debt. Private investors, not Federal taxpayers, should bear the financial risks.

- Raise Fannie Mae and Freddie Mac mortgage guarantee fees immediately while the GSEs remain in conservatorship.

This fee is paid by the lender seeking the Federal guarantee, although it is effectively passed along to the borrower in the form of a higher interest rate. Raising the fees on defaults would make the rates available on nongovernment-guaranteed mortgage loans more competitive, scaling back the role of the GSEs. Some potential borrowers may choose to forgo home ownership for the time being, alleviating some of the artificially induced housing demand.

- Eliminate the geographic price differentials for conforming loan limits for loans purchased by the GSEs.

Limits in high-cost areas are up to 50 percent higher than the baseline. In 2022, the baseline conforming loan limit will jump a record 18 percent from $548,250 for a single-family residence to $647,200. In high-cost areas, the maximum will rise from $822,375 to $970,800.[19] The GSEs should also gradually reduce the baseline conforming loan limits.

- Narrow the GSEs' focus to financing primary home purchases.

Approximately 90 percent of GSE volume is currently devoted to refinances, investor purchases, lower loan-to-value loans, and pricier homes purchased by higher-income earners. This support should be eliminated. In particular, subsidizing cash-out refinances[20] impedes middle-class families from accumulating net worth.

- Reject eviction moratoria.

Initially, the decrease in cash flow from an eviction moratorium affects the landlord only. However, landlords will increase rents to mitigate the heightened risk of future moratoria and to recoup revenue already lost. Prospective renters may find themselves subject to increased security deposits and tighter credit checks. Ultimately, fewer affordable housing units may be constructed.

- Consider the impact of local regulations on housing affordability.

[18] Paul Emrath and Caitlan Walter, "Regulation: Over 30 Percent of the Cost of a Multifamily Development", National Association of Home Builders and National Multifamily Housing Council, June 2018, *https://www.nmhc.org/contentassets/60365effa073432a8a168619e0f30895/nmhc-nahb-cost-of-regulations.pdf* (accessed December 15, 2021).

[19] Federal Housing Finance Authority, "Fannie Mae and Freddie Mac Conforming Loan Limits for Mortgages Acquired in Calendar Year 2022 and Originated After 10/1/2011 or Before 7/1/2007", November 2021, *https://www.fhfa.gov/DataTools/Downloads/Documents/Conforming-Loan-Limits/FullCountyLoanLimitList2022-HERA-BASED-FINAL-FLAT.pdf* (accessed December 15, 2021).

[20] To learn more about cash-out refinancing, see, for example, Zach Wichter, "Cash-Out Mortgage Refinancing: How It Works and When It's the Right Option", Bankrate, November 11, 2021, *https://www.bankrate.com/mortgages/cash-out-refinancing/* (accessed January 6, 2022).

By reforming land-use laws—in effect, increasing supply—rental prices could plateau or even decline. Likewise, repealing rent control would incentivize construction of additional housing units.

- Discontinue State and local rent control.

Rental costs reflect the supply limitations and costs imposed by stringent zoning restrictions, density limitations, and aggressive environmental regulation. Capping rent increases does nothing to make housing less costly to build. But it will have the perverse effect of shrinking future supply by deterring new construction and incentivizing landlords to spend less money on upkeep and remodeling.

With rents capped, demand likely will increase further, but with supply unable to keep up with demand, housing shortages will likely continue.

Criticism of rent control as bad economics is hardly limited to landlords or to free-market conservatives. As far back as 1965, Gunnar Myrdal, one of the visionaries behind Sweden's welfare State, warned, "Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by Governments lacking courage and vision."

Economics professor Assar Lindbeck, Myrdal's fellow Swede, cautioned in 1972, "In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing."

In 1989, communists running Vietnam linked the abject condition of Hanoi's housing directly to rent control. Then-Foreign Minister Nguyen Co Thach said, "The Americans couldn't destroy Hanoi, but we have destroyed our city by very low rents. We realized it was stupid and that we must change policy."

Rent control may score cheap political points, rent control and handcuffing property managers does nothing to solve the affordable housing problem. Adding new controls will only force renters to live in more dilapidated conditions and preclude additional units from being built.

- Refrain from offering conforming loan amortization options beyond the traditional 30-year repayment term.

Fannie Mae and Freddie Mac extending the maximum amortization to 480 months from the current 360 months will encourage riskier lending and incentivize borrowers to overleverage their finances. Although the monthly payment may be lower, the borrower accrues substantially higher total interest payments. These extended amortization schedules result in upward price pressure as borrowers become more willing, and more able, to borrow more money.

- Terminate the Federal Reserve's monthly purchases of MBSs and begin diminishing the size of its MBS portfolio.

Artificially increasing the amount of capital available for the residential home mortgage market and distorting interest rates is exacerbating home unaffordability.

Conclusion

Optimally, Congress will work to make housing more affordable by gradually removing Federal guarantees and subsidies and eliminating Federal mandates. The economy will further benefit as the artificially large flow of capital to the housing market is allocated to other sectors. State and local governments share a responsibility to eliminate artificial barriers to housing affordability.

PREPARED STATEMENT OF SALLY MARTIN

DIRECTOR OF BUILDING AND HOUSING, CITY OF CLEVELAND, OHIO

FEBRUARY 10, 2022

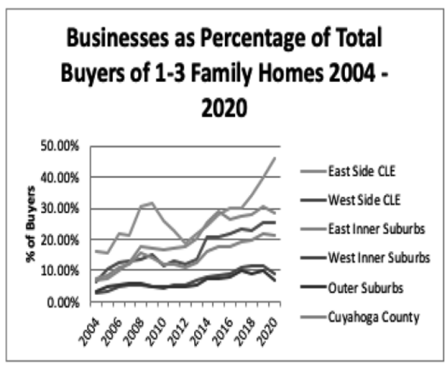
Good Afternoon, my name is Sally Accorti Martin. For almost 14 years, I was the Housing Director for the City of South Euclid, Ohio, an inner-ring suburb on the east side of Cleveland. My role was to oversee residential code enforcement for the city's 9,600 housing units. Currently, I am the Director of Building and Housing for the City of Cleveland. As most of you are aware, Cleveland and its suburbs, like many other rust belt cities, have suffered decades of out-migration and that, combined with the mortgage foreclosure crisis, created a perfect storm that resulted in tens of thousands of residents losing their homes, with municipal governments left to handle the resulting blight of an overwhelming number of vacant and abandoned properties.

One of the after effects of the decline in the housing market has been a dramatic rise of business buyers of single-family homes. The bargain basement prices of the past decade and a half, led to an unprecedented rise in the number of investors flooding the housing market. Even now, with rebounding home sale prices, we have not seen that trend diminish. It continues to increase steadily.

Last month, I assisted an elderly resident who had a housing choice voucher and was being evicted from her home of 19 years. The recent rebound in housing prices has led to many local landlords selling their occupied homes to out of state investors. In this case, as in many others I have seen recently, the tenant was on a month-to-month contract and the new landlord chose not to renew her tenancy and provided her a 30day notice to vacate. The woman was unable to secure other housing for herself, her sister with dementia, and her granddaughter and they were evicted from the home, with many of their possessions and medications left inside. It is not uncommon for these "new" institutional landlords to introduce themselves to their tenants through their property management companies with notices of large rent increases, making remaining in the home unfeasible. In this case the new landlord was the SFR3 Fund, an LLC from Mill Valley California with the mission statement of "acquiring, renovating, and renting thousands of single-family homes". Unlike mom and pop landlords, large out-of-state investors typically don't have much empathy for their tenants. Residents can be a day late in paying rent and face an eviction notice. In this case, the tenant had never been late on rent, but the landlord refused to allow her to remain in the home, as he realized that he could get a higher rent from a non-subsidized tenant. Almost two months after the eviction, the home appears to remain vacant and not renovated, yet the tenant was not permitted to have additional time to remove her belongings. For the past couple of years, my office has received many calls from tenants in similar circumstances.

In Cuyahoga County, community development practitioners from more than 30 governmental, non-profit and educational organizations have collaborated to address the challenges facing our neighborhoods since 2005 by meeting monthly through an ad hoc group known as the Vacant and Abandoned Property Action Council or VAPAC. Chaired by housing researcher Frank Ford, of the Western Reserve Land Conservancy, much of VAPAC's work has involved conducting research into housing trends and recommending policy interventions to help restore neighborhood vitality.

In the coming month, VAPAC will be releasing a white paper on the role of business buyers of 1-4 family homes. Not surprisingly, the research conducted by City of Cleveland data analyst, Dr. Tim Kobie, shows a dramatic and alarming increase of business buyers, especially in communities of color on Cleveland's east side and in the racially diverse inner ring suburbs of Cleveland. Many of these investors are not local to Cleveland. Many are international and out-of- state investors with little interest in making repairs or improving properties in any meaningful way. The result is continued deterioration of neighborhoods, increasing rents, and the erosion of home ownership opportunities, especially for those of low and moderate incomes. For Cuyahoga County as a whole, business buyers nearly tripled from 2004 at 7.17 percent to 21.1 percent in 2020. The largest increase occurred on the east side of Cleveland. From 2004 to 2020, business buyers increased by almost 30 percent. This is nearly a threefold increase over the time period. In fact, business buyers exceeded individual buyers in 2020, 45.76 percent to 44.79 percent.



Prospective homebuyers are finding the market nearly impossible to navigate. In South Euclid, a community with traditionally modest home prices, cash offers and bidding wars have become the norm, making buyers requiring mortgages uncompetitive. We have seen desperate homebuyers borrowing from 401k funds, relatives or even hard money lenders in order to compete with investors.

For subsidized tenants, the market realities are sobering. When I began my position in 2008, South Euclid had approximately 300 housing choice vouchers in force. When I left this month, there were less than 200. Those with public assistance cannot compete with market rate tenants able to pay the higher rents being charged. Many of the landlords that will accept the lower rents offered by the public housing authority often have poorly maintained properties, and engage in unethical behavior such as requesting additional money on the side, or large security deposits.

South Euclid, unlike many cities, has taken a proactive approach to protecting tenants by enacting pay-to-stay legislation and by passing a comprehensive anti-discrimination ordinance including source of income protection. Even so, we cannot stop many of the predatory behaviors we are seeing in the market. Currently the majority of the 1,600 or so rental units in South Euclid are owned by out of state and many international investors. Even with higher sale prices, the investors are insatiable in their demand for more and more houses. Our residents are bombarded with postcards, text messages, and other marketing materials offering to buy their homes for cash.

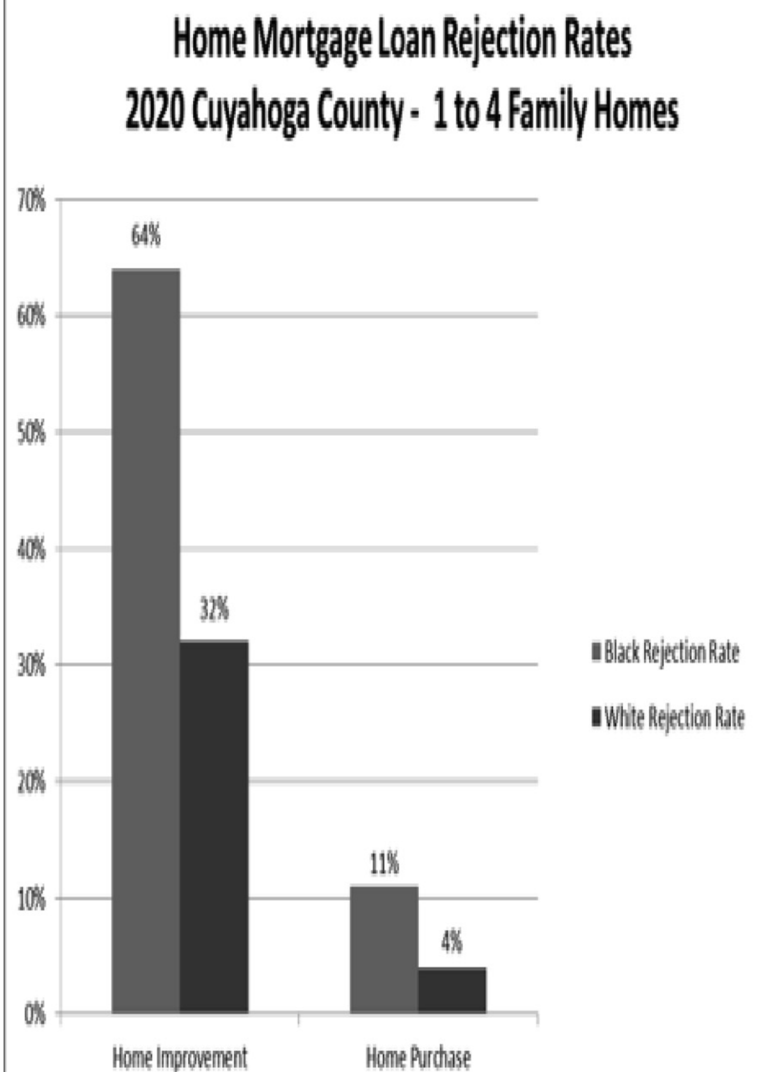
South Euclid has taken a proactive approach to managing rental properties by passing numerous ordinances designed to hold owners accountable including having a registration and inspection requirement; requiring owners living outside of the area to name a local agent-in-charge; and not allowing the registration of rental properties with delinquent property tax balances. By taking these actions, we have successfully driven out many predatory landlords from our community. But it feels like an uphill battle.

Strategic and aggressive code enforcement serves a critical role in addressing the challenges posed by these market changes, yet many municipalities lack the funding to maintain well-staffed departments and even for cities with the wherewithal to hire, there is often a lack of qualified candidates.

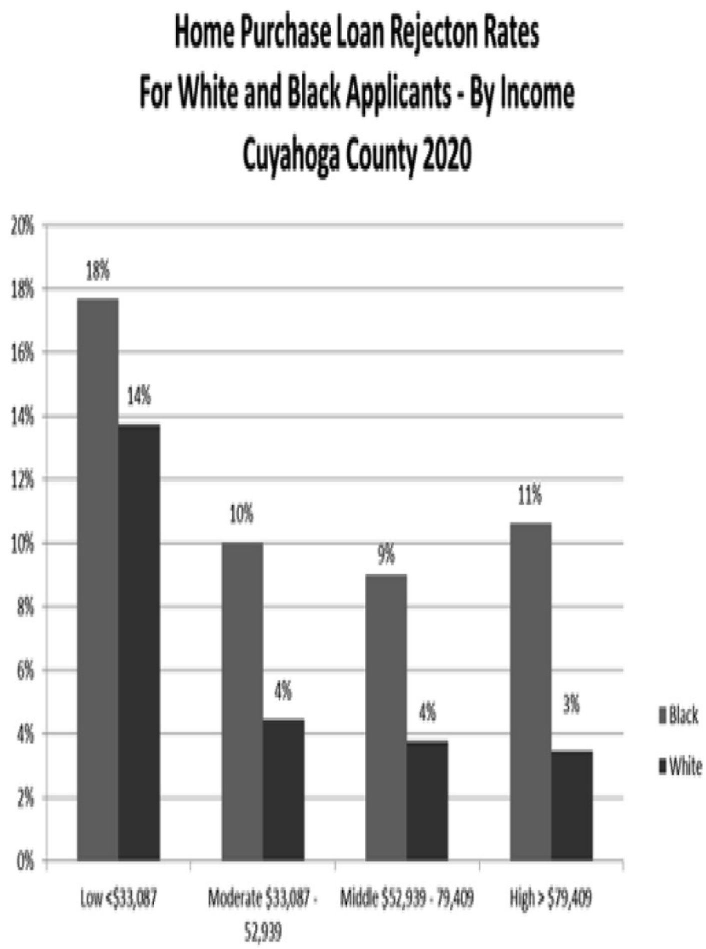
Another factor undermining our housing market is lack of access to credit in low-and-moderate income areas. In Cuyahoga County, community development stakeholders have banded together to create the Greater Cleveland Reinvestment Coalition to highlight the disparities in lending that are prevalent in our region and advocate for fair access to credit for all residents. Research by Frank Ford shows that on the east side of Cleveland, only 18 percent of home purchases are associated with a home purchase loan. The entire east side of Cleveland, a majority minority area, has become a cash market.

Ford's research shows that Black borrowers continue to be rejected more often than White borrowers. In fact, high income Black borrowers continue to be denied loans more often than high income White borrowers. And, more troubling, high income Black borrowers continue to be denied loans more frequently than middle-and-moderate income White borrowers.

In order to rectify these issues, the public and private sectors must collaborate. Middle Neighborhoods and low-and-moderate income areas continue to lose ground in homeownership and tenants are subject to increasing rents, making attaining the dream of homeownership nearly impossible for many.

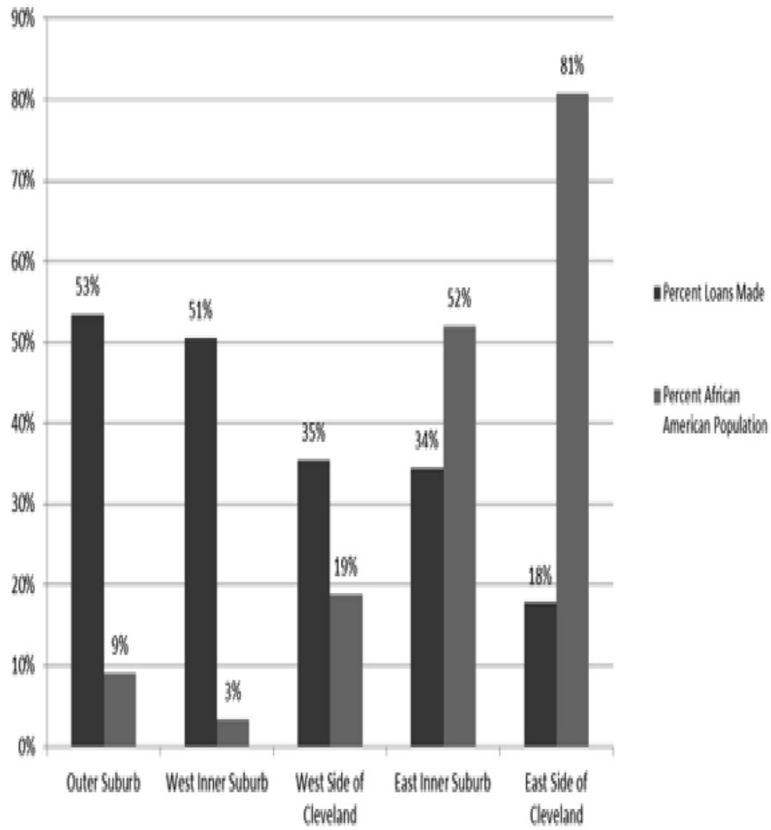


Source: Federal Financial Institutions Examination Council (FFIEC) and NEO CANDO at Case Western Reserve University.
Excludes loans that a lender purchased from another bank.



Source: Federal Financial Institutions Examination Council (FFIEC), 2017 US Census and NEO CANDO at Case Western Reserve University.
Cuyahoga median family income = $66,174 per US Census 2018 - 5 year estimate (2014-2018).
Low <50% median. Moderate ≥50% but <80% median. Middle ≥80% but <120% median. High ≥120% median.
Applications for home purchase loans on 1-4 family dwellings.

1-4 Family Home Improvement Loans
Percent of Loans Made From Applications Received
and Percent of African American Population
Cuyahoga County Regions (2020)



Source: 2019 Home Mortgage Disclosure Act (HMDA) data, 2012 US Census data, NEO CANDO at Case Western Reserve University.
Excludes home purchase, refinancing and loans that were purchased by a bank from another bank.
Prepared by Frank Ford, Western Reserve Land Conservancy, 11-6-21.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED FROM R. MICHAEL WALLER

Q.1. How do local zoning rules and "not in my backyard" attitudes exacerbate the affordable housing crisis, particularly in urban settings?

A.1. Local zoning rules and "NIMBY" attitudes can decrease access to stable, healthy housing by restricting needed development in markets where there is an affordable housing shortage. Local zoning and "NIMBYism" that decreases affordable housing options disproportionately affect children and low-income families. The lack of affordable options causes some poor families to remain in substandard unstable housing conditions. One tenant told Appleseed that she had to stay in an apartment with an unaddressed rodent infestation because she did not earn enough money to move to another apartment complex in her community. Lack of affordable options lead other families into living "doubled up" with family members, residing in extended stay motels, seeking refuge in homeless shelters, and even the living on the streets.

The effects of unsafe housing are far reaching. Poor housing conditions can cause serious physical health problems including increased rates of asthma and skin conditions like eczema. Children living in substandard conditions are more likely to experience hunger, deteriorated emotional health, and chronic absenteeism from school.

Homelessness and housing instability also lead to high student mobility (moving in and out of schools). For a child, high school mobility can lead to lower school engagement, poor grades, and an increased risk of dropping out of school. Student mobility affects teachers and the other students in the class as well, because of disruptions in the classroom environment.

Q.2. What tax or financing advantages do institutional investors receive that give them incentives to buy property, but then fail to properly maintain or invest in the properties?

A.2. Georgia Appleseed has not extensively researched these incentives and we are not able to respond to this inquiry.

Q.3. Tenants living in buildings owned by institutional landlords seem to be evicted at high rates. What factors point to those evictions being the result of strategic business decisions made by institutional landlords, rather than mere coincidence?

A.3. Research conducted by our community partners (bolstered by my experience representing clients in eviction proceedings) demonstrate that institutional landlords pursue evictions as a strategy to coerce tenants into paying disputed or unfair fees, charges, and rent and withdrawing complaints about living conditions. A December 2017 Federal Reserve Bank of Atlanta discussion paper found that corporate landlords, especially large institutional investors, were far likelier than other owners to evict their tenants. In the final quarter of 2021, corporate landlords filed 76 percent of all evictions in a five-county sample.

Georgia's eviction system has structural qualities that make it particularly useful for unscrupulous landlords to intimidate tenants. Evictions in Georgia are cheap to file, expedited in practice, and benefit all landlords, but particularly the institutional landlord. Attorneys that represent an institutional landlord in eviction proceedings can easily schedule dozens of hearings in one day. Continuances to benefit the landlord are generously granted by eviction courts forcing tenants to return on multiple occasions, possibly missing work and/or having to arrange for childcare. As a practical matter, there is no appeal for low-income tenants and legal services lack capacity to serve tenants in eviction proceedings.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED FROM ANETA MOLENDA

Q.1. Tenants living in buildings owned by institutional landlords seem to be evicted at high rates. What factors point to those evictions being the result of strategic business decisions made by institutional landlords, rather than mere coincidence?

A.1. Response not received in time for publication.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED FROM SALLY MARTIN

Q.1. What tax or financing advantages do institutional investors receive that give them incentives to buy property, but then fail to properly maintain or invest in the properties?

A.1. Response not received in time for publication.

Q.2. Tenants living in buildings owned by institutional landlords seem to be evicted at high rates. What factors point to those evictions being the result of strategic business decisions made by institutional landlords, rather than mere coincidence?

A.2. Response not received in time for publication.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

LETTER SUBMITTED BY WESLEY EDMO, MSW, INDIGENOUS PEOPLES ADVOCACY DIRECTOR, MHACTION

Honorable Senate Banking, Housing, and Public Affairs Committee:

I currently work for Manufactured Home Action as the Indigenous Peoples Advocacy Director. I have worked with assisting folks and advocating for folks in Montana by documenting stories from manufactured home owners. In addition working with a great community leader and manufactured home owner, Cindy Newman to provide needed support on these matters.

History Repeated / Indian Removal: As a formally enrolled member of a Federally Recognized American Indian Tribe, Shoshone-Bannock of Idaho, we as American Indians know and continue to experience the generational trauma based upon the experiences of people were subject to by the coming of the non-Indian to our traditional tribal lands and areas. During the brutal taking period of the Indian Removal Act starting in the 1830's our people were subject to being killed and removed from our lands. Today, some of our people who now live in manufactured home parks being taken over by big private equity firms in the same manner, via power and conflict.

Tribal View of Land vs. Capitalist Very Conflicted: Our people respect the land as we do our families and we co-exist with the land in the spiritual manner totally opposite of the non-Indian ideology of taking and owning the land in the name of progress and capitalism. I submit a short piece here to reinforce the testimony of those who were selected to give provide their stories to this honorable committee.

Advocacy and Listening: I also have been so fortunate to listen and learn so much from the Manufactured Home owner's many of whom have been so negatively impacted in Montana by Havenpark Capital and Enterprise Community Partners who have moved in and purchased over 7 parks in the past couple of years. These are private equity groups and they are extracting the last dime many seniors and disabled people, immigrants, minorities, LGBQ folks, may or may not have to give to an entity who has demonstrated no humanity to this vulnerable group.

Key To Provide Tenant Protections: One of the key points manufactured home owners want in place as Mrs. Cindy Newman of Great Falls, MT. will attest to is there requires a Legislative fix to provide more authority to FHFA prior to Fannie Mae and Freddie providing funding to Banks is to require any predatory group who receives loans, such as Enterprise Community Partners and Havenpark Capital is for them to guarantee in the language of home owner lot leases or rental language to guarantee they provide home owner or tenant protections across the board as Fannie Mae has advertised via Duty To Serve mission. Make this a national standard as part of a clearinghouse process. These poor vulnerable Manufactured Home Owner's many seniors and people who are in a protected status as folks with disabilities need protection and reasonable consumer protections. One of these people is an Indigenous man reports in his story in the document by MHAction titled, "Displacement Inc." says it feels as though we are being subject to "removal again"! Currently these tenant protections are not being instituted or adhered to by Haven Park Capital or Enterprise Community Partners but quite the opposite as reported by negatively impacted manufactured home owner's in Montana and as you will hear across the nation by predatory land speculators extracting what little if any discretionary income these populations have left. Please take the necessary time and appropriate actions to right these wrongs from your level and perhaps encourage states public officials, state attorney general's in charge of consumer protections, take the same humane actions.

Respectfully Submitted,

Wesley Edmo, MSW

Indigenous Peoples Advocacy Director

MHAction

STATEMENT SUBMITTED BY PRIVATE EQUITY STAKEHOLDER PROJECT

Private Equity Stakeholder Project (PESP) – Statement for the Record

February 10, 2022 Hearing of the Senate Committee on Banking, Housing, and Urban Affairs

How Institutional Landlords are Changing the Housing Market

Chairman Brown, Ranking Member Toomey, and Members of the Committee, thank you for the opportunity to provide a statement for the February 10, 2022 hearing "How Institutional Landlords are Changing the Housing Market" held by the Senate Committee on Banking, Housing, and Urban Affairs.

My name is Mellissa Chang with the Private Equity Stakeholder Project. The Private Equity Stakeholder Project is a non-profit organization focused on tracking the impacts of investments by private equity firms and similar Wall Street firms on ordinary people, including residents of apartments, rental homes, and mobile homes.

We appreciate the opportunity to comment on how institutional landlords are changing the housing market. Our testimony focuses on eviction filings by private equity firms and other corporate landlords over the past year.

Since early in the pandemic, we have tracked eviction filings by private equity firms and other corporate landlords across dozens of counties in several states – Florida, Georgia, Texas, Tennessee, Arizona, and Nevada.

What we have seen is striking.

Private equity firms and other corporate landlords filed to evict at least 123,761 families in various counties in Georgia, Florida, Texas, Arizona, Tennessee, and Nevada in 2021.

Since the start of the pandemic, corporate landlords have filed at least 168,902 evictions in these areas.

Last year, private equity firms and other corporate landlords poured billions into residential housing acquisitions. In the third quarter of 2021 alone, investors bought a record 90,000 single-family homes – an 80% increase over the previous year.[i]

Despite federal and state eviction moratoriums and billions in federal rental assistance, large corporate landlords consistently filed evictions throughout the year. After the federal eviction moratorium ended in August, eviction filings by corporate landlords were 21% higher in September. For the rest of the year, the number of corporate eviction filings each month remained above filings levels during the moratorium.

In total, corporate landlords filed at least 58,002 evictions between the end of the federal eviction moratorium in late August and December 31. During this time, corporate landlords were responsible for over 56% of all evictions filed in counties where PESP tracks eviction filings.

– **Georgia:** Corporate landlords filed to evict at least 42,629 families in Fulton, Gwinnett, DeKalb, Clayton, and Chatham counties last year. Between September 1 and December 31, corporate landlords filed at least 24,260 evictions. During this time, **corporate landlords were responsible for more than 76% of all evictions filed in these counties**.

– **Texas:** Corporate landlords in Harris (Houston), Tarrant (Fort Worth), and Travis (Austin) counties filed at least **28,116 eviction** last year, of which, 44% were filed in the months after the federal eviction moratorium was lifted.

– **Tennessee:** In Shelby County (Memphis), corporate landlords filed to evict **at least 6,903** families in 2021. Between the end of the eviction moratorium and December 31, corporate landlords filed at least 3,617 evictions.

– **Florida:** Corporate landlords filed **at least 27,057 evictions** in counties throughout Florida last year. Corporate landlords filed at least 12,170 evictions in Florida after the eviction moratorium ended and were responsible for at least 42% of all eviction filings during this time.

– **Nevada:** Corporate landlords **filed to evict at least 7,411 residents** in Las Vegas last year. Corporate landlords were responsible for 45% of all eviction filings in Las Vegas after the eviction moratorium ended in August, filing 5,529 evictions.

Notable filers in 2021 include:

Pretium Partners (Progress Residential, Front Yard Residential, and Havenbrook Homes) filed to evict at least 2,202 families in 2021. The majority of these filings – 87% – occurred while the federal eviction moratorium was still in place.

Invitation Homes filed to evict at least 1,372 families in 2021, primarily in Florida and Georgia. After the federal eviction moratorium was lifted, Invitation Homes filed to evict 778 families.

Ventron Management filed at least 1,579 evictions last year. 88% of these evictions occurred in DeKalb County, Georgia.

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[i] "Real-Estate Investors Bought a Record 18% of the U.S. Homes That Sold in the Third Quarter," Redfin, Nov 15, 2021, https://www.redfin.com/news/investor-home-purchases-q3-2021/.

Bridge Investment Group filed at least 1,167 evictions in counties across five states in 2021. In September, Bridge Investment Group filed at least 165 evictions – and 83% increase over the previous month when the eviction moratorium was still in effect.

American Landmark Apartments/ Electra America filed to evict at least 1,293 families in 2021 and 616 families after the eviction moratorium ended in late August.

Blue Magma Residential filed to evict at least 1,220 families in 2021. In the month after the eviction moratorium ended, Blue Magma Residential increased evictions by 67%, filing at least 211 eviction cases.

Olive Tree Holdings increased eviction filings by 163% between August and September, filing 158 evictions in September alone. In total, Olive Tree Holdings filed to evict 321 families after the moratorium was lifted.

We appreciate the attention that members of the committee have paid to this critically important issue.

Last May, Chairman Brown wrote to Pretium Partners regarding its eviction filings and the company's filing of eviction notices at higher rates in majority-Black counties.

In January, Senator Elizabeth Warren sent letters to private equity/investment firm landlords Progress Residential, Invitation Homes, and American Homes 4 Rent, demanding answers for each of the company's recent eviction filings, acquisitions, and earnings.

All three companies were among the top eviction filers in 2021. Pretium Partners and its rental home companies Progress Residential, Front Yard Residential and Havenbrook Homes filed at least 2,202 evictions last year. Invitation Homes and American Homes 4 Rent filed at least 1,372 and 556 evictions, respectively, in counties where PESP tracks evictions.

We have learned from our eviction tracking that a number of corporate landlords have been responsible for large numbers of eviction actions filed during the pandemic despite the tens of billions of dollars in rental assistance that Congress made available to ensure families are able to stay in their homes. Many of these landlords are increasing their share of the US housing market, buying up homes, apartment buildings, and mobile home communities.

A list of the top 50 filers of evictions last year in the counties the Private Equity Stakeholder Project tracked follows below.[ii]

Thank you,

Mellissa Chang
Private Equity Stakeholder Project
mellissa.chang@PEstakeholder.org

[ii] Data on eviction filings by corporate landlords during the pandemic is available here: https://docs.google.com/spreadsheets/d/1lgntfTGWT4rbylrmtYDiEWJODbrHAofNMrKaqcHXG9E/edit#gid=1363391499

Top 50 Filers in 2021 (Select counties in GA, FL, TX, TN, AZ and NV)

Landlord	**Eviction Filings 2021**
Pretium Partners (Progress Residential, Front Yard Residential, Havenbrook Homes)	2,202
Ventron Management, LLC	1,579
Invitation Homes	1,372
American Landmark Apartments/ Electra America	1,293
Blue Magma Residential	1,220
Bridge Investment Group	1,167
Western Wealth Capital	1,157
S2 Capital	1128
Camden Property Trust	1015
Main Street Renewal	936
Mid-America Apartment Communities	928
Madera Residential	886
Villa Serena Communities	883
TruAmerica Multifamily	847
Federal Capital Partners	822
Tides Equities	809
McKinley, Inc.	804
InterCapital Group	760
Crown Bay Group	751
Harbor Group International	750
J. Milton	750
Atlantic & Pacific Companies	739

Legend Homes	732
Starwood Capital Group	722
Cortland Partners	709
Avila Real Estate	687
CF Real Estate Services	658
Investcorp	642
GoldOller Real Estate Investments	631
Westland Real Estate Group	624
Columbia Residential	605
Gables Residential	598
Eaton Vance	589
Olen Properties	581
Olive Tree Holdings	579
Greystar Real Estate Partners	578
Abbey Residential	539
Independence Realty Trust	536
Finger Companies	532
Venterra Realty	527
Fillmore Capital Partners	513
Siegel Group	499
Sureste Property Services	498
Priderock Capital Management	493
Balfour Residential	484
ECI Group	481

Carroll Organization	481
Weidner Apartment Homes	463
Carter Multifamily	459
Bluerock Residential	456

Private Equity Stakeholder Project
2513 N Central Park Ave
Chicago, IL 60647

STATEMENT SUBMITTED BY CINDY NEWMAN, THE HIGHWOOD'S

Sun, Feb 6 at 10:38 AM

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----1. **MY TESTIMONY**

Thank you Senator Brown for giving us this opportunity ...... I,m Cindy Newman from The Highwood's in Great Falls Montana. I'd like to tell you about my friends and neighbors---people who choose to live in manufactured homes. In The Highwood's, <u>80 percent</u> of us are seniors, many of us have downsized from big yards and multiple floors, empty nesters in some cases seeking a simpler lifestyle and planning ahead for the more modest means of retirement. On my street, 7 of 10 are single income homes and 1 in 3 includes a person with a disability. Most of us are on a fixed income and just cannot absorb these big rent increases. 21 years ago I bought a manufactured home and moved it to The Highwood's because it was beautiful and well maintained. We had a fair land owner who kept our community safe and affordable. In just 2 years, Havenpark Capital has bought 7 parks in Montana affecting the lives of over 18 hundred families. They are a Utah-based private equity group who have re-branded themselves as the saviors of affordable housing, but their business model is clear---they tell their investors that buying manufactured home communities is a way to make large, consistent, fast profits that exploits our inability to move our homes. Right now, people who own these homes have <u>little to no rights</u> once they put them on rental property.

Our reality with Havenpark Capital as the owners of the small piece of land where we live is <u>this</u>. They are more likely to evict--even during a pandemic! There are more harsh rules and regulations with all kinds of penalties for even the slightest slip ups!. They've cut back on all amenities and strip value out of our communities. They are brutal, absentee landlords whose new management promotes bullying, fear mongering and harassment. If you get behind on your lot rent they can evict and quickly seize your
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home. They ordered us to remove yard toys like basketball hoops and wading pools, even when schools were closed because of the pandemic. There are many new fees like for our pets! As homeowners we have the same upkeep, repairs, insurance and property taxes as a stick built home. The cost of moving a mobile home is 10 to 25 thousand dollars.
New residents in The Highwood's are paying $475 dollars lot rent a month, plus the now uncoupled, water, sewer and trash removal. Before Havenpark we paid $283 TOTAL.--- that's about an 86% increase for the dirt our homes sit on. It's hard to believe we could lose our homes and life savings to such uncaring, greedy people.

We made a valiant effort in the midst of a pandemic to get protective laws passed in our Montana legislature. I thought who wouldn't vote for fair treatment for seniors, veterans and disabled folks. I thought we had good reasons when we asked for laws to secure a more level playing field. And, I thought it was a non partisan issue. Senator Hoven, who sponsored our bills apologized and said he sincerely thought his colleagues would be as mad as he was about such unscrupulous greed. It was obvious from the start that we did not have even a slight chance in the present climate.

Havenpark's past business practices have been openly questioned in state legislatures and congress. They are questioning the misuse of Fannie Mae loans to fund these predatory private equity groups like Havenpark. They drain local communities of affordable housing and harm families using funding created during the New Deal to stimulate and sustain affordable housing. In 2019 Enterprise Community Partners received one of five national awards for their outstanding affordable housing work. Two months later their subsidiary Bellwether Enterprise provided funding to Havenpark Capital to buy 7 parks in Montana and whose thirst for profit is forcing us out of once affordable homes.

With the help of MHAction, we have met with Enterprise Community Partners CEO and Vice President to tell them of the hardships caused by the Havenpark Capital. Enterprise whose mission statement is "a lovely, affordable home in a vibrant community for everyone" .Unfortunately, today, some areas of Enterprise's work are at odds with that vision and they are fueling the fire to displace us from ours. Two years later and we have no fair lease and no way to fight back.

What is hardest to live with is that I thought my home would preserve my memories and secure my future but that was taken away when the profit driven, uncaring Havenpark Capital came in. They are bleeding us dry because with few consumer protections we now live with fear and uncertainty.

I am including with my written testimony Fannie Mae's "Duty to Serve" from 2019 which outlines a solution to this huge injustice. They describe in their lease pad protections measures that should be taken. Making these suggestions a **requirement** with ramifications if not followed, is a solution.

Thank you again,

Respectfully,

Cindy Newman
406 781-6517
4182 Highwood Drive
Great Falls MT 59405

I will also attach all three as pdf' below

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----2. FANNIE MAE DUTY TO SERVE

I have attached the entire link but the excerpt below is the crux of the matter. I was shocked to find this when I did a google search on Fannie and Freddie pad (lease) protections. What was so astounding is that in 2019, the date on this piece, is the very year Enterprise Community Partners via their subsidiary Bellwether Enterprise, loaned Havenpark Capital Fannie Mae funds to buy the 7 Montana parks! What Fannie Mae saw as their "duty to serve" are precisely the protections we begged our MT legislators to put into law. Ever since those bills were tabled, I began to pursue what I thought was a requirement to give us a "fair" one year lease within one year of purchase. They bought the Montana parks 2 years ago and we still have NO lease. Havenpark says we have a month by month agreement but we actually have nothing in writing and they pretty much make it up as they go along. So, not only is Fannie Mae aware of our predicament, I now understand this is merely a SUGGESTION not a requirement. Pardon my French but WTH? The bottom line is that Havenpark is not only NOT providing us with a fair lease, they are actively lobbying against it in our legislatures! The lobbyists have made many deceptive statements that would be felonies in court of law! A monthly lease to me translates to a 30 day notice to evict! Anytime we residents don't like what is happening in our parks our only recourse it to hire a lawyer.

https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/2019-DTS-Reports/Fannie%20Mae/MH_Real_Property_Loan_Purchase_for_2019.pdf

Fannie Mae 2019
Manufactured Housing
Loan Purchase
3 of 4
While some protections are required through state laws, Fannie Mae has concluded that there are no states that require all of the FHFA Pad Lease requirements.
As part of our Duty to Serve efforts, Fannie Mae has researched ways to provide residents of MHCs additional protections in their site leases, specifically those not required on a state or local level. Through engagement with tenant advocacy groups, community owners, MHC residents, and lenders, Fannie Mae has developed a product enhancement that provides pricing incentives to the borrower (community owner) in exchange for implementing the FHFA Pad Lease protections in their communities.

In Q1 of 2019, Fannie Mae released product memo 19-01 to DUS lenders outlining the provisions of the product enhancement. Fannie Mae also conducted web training sessions for our DUS Partners and internal customer engagement teams. In addition, Fannie Mae participated in and presented on DTS efforts and new products at major industry conferences throughout the country to create greater awareness of tenant protections and obtain feedback from market stakeholders.

In Q2 we acquired the first MHC with FHFA pad lease requirements. Fannie Mae created a “Deal Spotlight” to highlight the acquisition of Harmony Pointe in Ohio, a
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property servingresidents aged 55+ and the first MHC acquisition with the protections. The spotlight was posted on all Fannie Mae social media platforms. Fannie Mae continued its outreach by meeting with lenders and borrowers to bring light to the need for tenant protections and promote its product to provide protections to tenants of MHCs.

The actions were impactful, as they enabled residents living in manufactured housing communities to receive protections in their site leases not required by state or local government that provide stability and peace of mind for these homeowners. Fannie Mae was the first GSE to provide residents with Tenant Site Lease Protections (TSLP) through its loan products and set the standard for the rest of the industry to follow. Providing lease protections is central to Fannie Mae's mission to provide stable and affordable housing for everyone. The outreach to increase industry awareness and success of this product has established a foundation for the industry to standardize the Tenant Site Lease Protections.

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2. What did the Enterprise learn from its work about the nature of underserved market needs and how to address them?

Fannie Mae has learned that the market opportunity for Tenant Site Lease Protections (TSLP) is greater than anticipated and gaining momentum as evidenced by the early success of the TSLP product. Fannie Mae was especially surprised by how eager larger, more sophisticated borrowers were to incorporate the TSLPs using Fannie Mae's Credit Facility product. This product enabled TSLPs to be incorporated over a pool of MHC properties in a single transaction. In conversations with lenders, we learned of borrower concerns specific to the complexities of implementing the protections on credit facility transactions and purchases.

3. Logistically, it was onerous for the borrower to implement the TSLPs prior to the loan origination date, as required by the product enhancement guides. Credit Facility transactions have hundreds if not thousands of units to convert. According to their feedback, more time was needed to incorporate the TSLPs. For acquisition transactions, it proved especially difficult to implement protections by the origination date, as the borrower did not have control over the park until after the loan origination date. As a result, we are developing enhancements to address these concerns, which will enable borrowers more time to implement protections, thus allowing greater usage of the TSLP product and providing more residents with Protections.

We are aware of the impact of profit-driven Private Equity firms and Real Estate Investment Trusts (REITs) entering the MHC market. Advocacy and tenant right groups voiced concerns during the FHFA DTS Listening Sessions and throughout the year in various outreach forums. They advised the GSEs to do more to protect tenants and preserve the affordability of living in an MHC. Fannie Mae takes these concerns seriously and is engaging in outreach and research to identify the challenges and work toward developing workable solutions within Fannie Mae's ability to address the concerns raised by the market

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---3. OUR LETTER TO THE ENTERPRISE VICE PRESIDENT

There was no action taken on this request. Senator Brian Hoven used this letter as the basis for the bills he had drafted and presented to our MT Legislature. They were tabled. A stripped down version of resident right to purchase did pass.

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Enterprise Community Partners

Vice President, Marion McFadden cc/CEO Priscilla Almodovar

Dear Marion,

We hope you are well. We are following up on Priscilla Almodovar's message regarding Enterprise Community Partners' commitment to advocate for policy change to protect manufactured home residents. It is vital that Enterprise publicly clarifies its policy platform in this critical housing sector as predatory investor landlords continue to aggressively purchase communities and cause significant harm to women, seniors, families on fixed incomes, veterans, and immigrants who rely on manufactured home communities.

As we laid out in our call in August, there are five critical policy protections that residents of manufactured home communities need to protect our homes and the affordability of our communities. We are calling upon Enterprise Community Partners to publicly endorse these policies now, laying the groundwork for state-specific legislative advocacy as the legislative sessions get underway.

The key policy protections that need to be put in place and/or strengthened in
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every state include:

- Rent and Fee Justification: Rent and fee gouging by predatory landlords is displacing seniors and low-income families and destroying affordable housing. Policy solutions must go beyond notice of rent increases and stop rent gouging. We need rent justification policies, like the laws in New York and Delaware, that only allow reasonable, gradual rent increases justified by specific increases in operating costs or major capital improvements, as well as prohibitions on landlords profiting off of utilities and basic services.
- Good Cause Eviction: Predatory landlords use no-cause evictions to push out residents and pressure residents to hand over their homes. Residents need good cause eviction protections that only allow evictions in the case of non-payment of rent, lease violations, illegal activity, or endangerment of neighbors, and that ensure residents at least 60-days notice before an eviction and an opportunity to cure violations.
- Healthy & Safe Maintenance: Lot rent is supposed to be going to sustaining and improving our communities, but way too often investors cut maintenance to pad their profits. State law must require community owners to maintain common land and infrastructure and ensure health and safety of residents, and clarify that basic maintenance does not justify rent increases.
- Decent Treatment: State law must protect against retaliation and unconscionable lease provisions and sales scams as well as ensure language access.
- Opportunity to Purchase: State law must provide residents with an opportunity to purchase their communities when the community is up for sale or an offer has been made, including sufficient time to organize

residents and make and finance a competitive offer and resources to support community purchase.

It's imperative that Enterprise signals to manufactured home owners across the country that you support policy solutions to preserve our communities, especially given the disturbing, direct organizational relationship Enterprise Community Partners has with predatory owners like Havenpark Capital. We are calling on Enterprise to send letters to the leadership of the state legislatures in Michigan, Iowa, Montana, North Dakota, and Missouri expressing the need for these policy solutions, as you've done with other policy reforms that you support.

It's essential that Enterprise clarifies its organizational position on these policy solutions quickly. We notified you of these issues a year ago and we have still seen no action from Enterprise. As we are literally watching our neighbors being displaced by the investor landlord Enterprise supports and benefits from, it is fair to expect a clear answer to on these demands by December 7, 2020.

Sincerely,

Cindy Newman

cc: Holly Hook, Michigan, ,Matt Chapman, Candi Evans, Jean Parker, Iowa, Elizabeth Voigt MHAction