Keeping Up with the Blackstones: Institutional Investors and Gentrification

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Discussion by

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This paper: investor concentration and housing markets

- New evidence on effects of investor concentration in single family home (SFH) markets
  - Case study of 4 mergers of large SFH investors across six counties in Atlanta Metro area
  - Trend accelerated during early part of COVID-19 era $\longrightarrow$ not just building SFH portfolios from distressed sales
- Main findings are that prices and rents $\uparrow$ but racial diversity of neighborhoods actually improves, contrary to concerns in popular media
  - Mechanism #1 (first stage): **economies of scale** incentivizes mergers
  - Mechanism #2 (second stage): **spillovers from home improvement** activity among incumbent owner-occupiers, small landlords, and new large landlords
- Separate set of results showing part of scale effects arise from aggressive legal pursuit of **property tax appeals**
  - For a few reasons, probably better as a follow-up paper $\longrightarrow$ my comment #3

Who are these large institutional investors?

Acquirer				Target			
Name	Status	Properties in ATL	% Portfolio in ATL	Name	Status	Properties in ATL	% Portfolio in ATL
Invitation Homes	Public	7,517	20.6%	Colony Starwood Homes	Public	5,540	17.8%
Starwood Waypoint	Public	2,475	19.2%	Colony American	Private	3,206	18.0%
Tricon American Homes	Public	1,062	13.7%	Silver Bay Realty Trust	Public	2,949	32.6%
American Homes 4 Rent	Public	2,802	7.2%	American Residential Properties	Public	1,062	11.9%

- Initial portfolio for Invitation Homes formed from foreclosure auctions and acquired by Blackstone in 2012 (Blackstone divested in 2019)
- Issues single family rental bonds to finance purchases and expansions
- Operates in relatively high-end submarkets in cities where homes are homogeneous/easy to value (**Atlanta**, Phoenix, Dallas, Tampa)

Media perceptions of these consolidations are negative

The obligation to repair their own rental wasn't the only responsibility passed on to tenants. I reviewed one Colony Starwood lease from 2016; it was 34 pages long and specified that tenants were responsible for landscaping, "routine insect control," replacing air filters in their central air systems once a month, repairing broken glass (regardless of how it was broken), and repairing and maintaining sewer and sink backups. American Homes 4 Rent started levying "trip charges" if maintenance staff were sent out to homes to assist with repairs that the tenants should have performed themselves, David Singelyn, the company CEO, explained at a 2015 investor forum. Some companies began requiring that tenants buy renter's insurance to cover the property itself, rather than just their belongings, a clause lawyers in some states say is unenforceable.

Source: "When Wall Street Is Your LandLord," *The Atlantic*, February 13, 2019.

Points that are <u>NOT</u> so new in this paper

- Mergers in SFH rental market: basic research design and two of the mergers are the same as in Gurun et al. (2023 *RFS*)
    - Analysis is focused on renters' welfare and extends beyond Atlanta
    - Also show results on prices/rents from these mergers

- Results on property tax appeals: not the first to show assessment regressivity from appeals (Avenancio-León & Howard 2022 *QJE*; Berry 2021)

- Results on racial diversity: consistent with findings elsewhere on "shocks" to low-income housing and gentrification
    - Diamond & McQuade (2019 *JPE*): LIHTC helps diversify neighborhoods through sorting
    - LaPoint (2023): non-white homeowners more likely to stay in neighborhoods where investors foreclose off tax liens

Points that are new in this paper

1. Identifying parent owners of *properties* and separating out "false friends"
   - Difficult to separate out different players in the SFH market given LLC shells, legal intermediaries, out-of-town investors, vacancy, etc.
2. Documenting the **upgrading channel of gentrification** using building permit data combined with HMDA home improvement loans
   - Separate out exterior home renovations from other types of redevelopment
3. Who appeals their property tax bill and suggestive evidence of why they are successful
   - Argument is large investors have economies of scale and legal teams on retainer

My main comment:

Focus on what is new and move from a job market paper format towards separate, but more cohesive papers to highlight all the hard work!

Comment #1: welfare implications of the results

- Paper framed as a test of whether housing concentration is efficient or "dangerous"
  - Related policy question of whether there is scope for anti-trust in housing market on consumer protection grounds (or laissez-faire, as is current regime)
  - Usual caveats from IO literature about how concentration $\not\Rightarrow$ market power
- But no real punchline in the paper about who wins and loses from investor concentration
- My interpretation based on the empirical results...
  - Winners: incumbent owner-occupiers (OO), smaller landlords (LL), lenders, and renters (R) who benefit from more amenities? (Gurun et al. 2023)
  - Losers: renters (?), prospective homeowners who have fewer SFHs to choose from (?)
- To move towards normative statements, use the structural framework and map welfare weights to importance of the different players (OO, LL, R) in the population

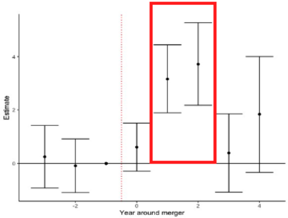
Tighter link between the economics and data

- SFH owners compete on quality s_i and rents r_i with spillovers to neighborhood quality $n = \alpha \cdot (s_i + s_{-i})$
  - Merger is an HHI shock: $\partial n / \partial HHI = (\partial n / \partial s_i) \cdot (\partial s_i / \partial HHI) = \alpha \cdot (\partial s_i / \partial HHI) > 0$
  - Heterogeneity in α? Pass through of improvements to surrounding home values likely different for OO vs. LL trying to homogenize quality of homes in their portfolio

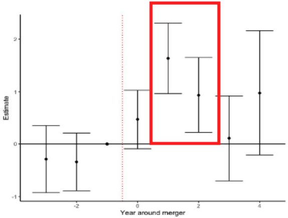
- Empirical links between first and second stages not clear
  - Do incumbents learn about neighborhood quality through acquisition activity? ("timing the market") Does the acquirer do improvements to increase scale/homogeneity?
  - How do we square permitting with complaints about NNN leases and lack of upkeep?
  - Nash best responses pin down (s_i, s_{-i}), but could some of this be peer effects?

- If can identify α in the IO model, then use already derived results (Figure 9) to **tell us who wins and loses with vs. w/o one of the LL agents**

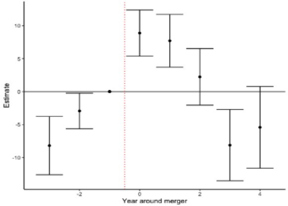
Lag in permitting for OO + small investors



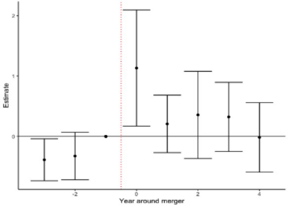
(a) Permits Issued to Owner Occupiers



(b) Permits Issued to Small Investors



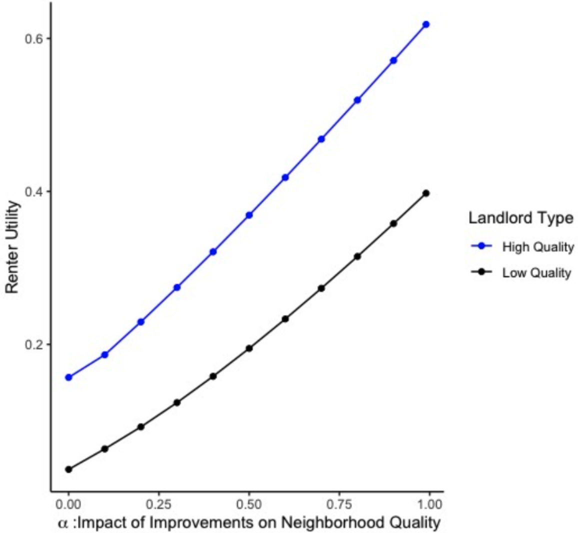
(c) Permits Issued to Large Investors



(d) Permits Issued to SFR Investors

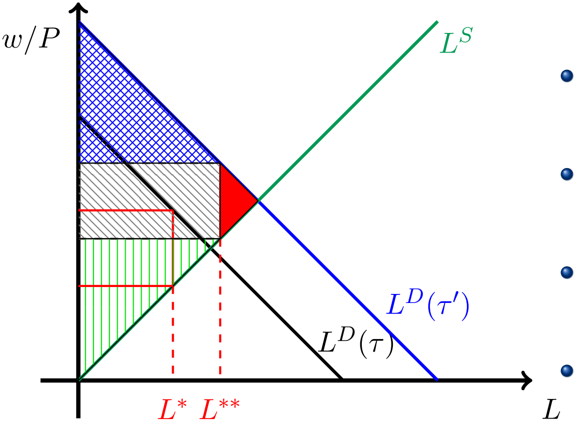
- Both peer effects and timing the market would account for this

Alternative strategy: place-based policy decomposition



- α indexes winners and losers
- If can't pin down α, use less parametric approach from urban economics
- LaPoint & Sakabe (2023): show targeted subsidies for corporate tech hub investments are welfare improving, but gains accrue to labor in untargeted cities
- Enough data to estimate welfare proxies for each of the stakeholders, except for possibly profits to shareholders
  - No profit sharing rules in the IO-style model (all landlords are the same)

Example of a place-based policy decomposition



- Here, the "policy" shock is allowing a SFH merger to take place
- Segmented rental and for-purchase markets with prices and rents as the y-axis
- Results on property tax appeals could then be more tightly linked to welfare implications
- You have the data to implement either this or the IO-style approach, so really about who is your target audience

Source: LaPoint & Sakabe (2023): "Place-Based Policies and the Geography of Corporate Investment"

Comment #2: is this a nationwide phenomenon?

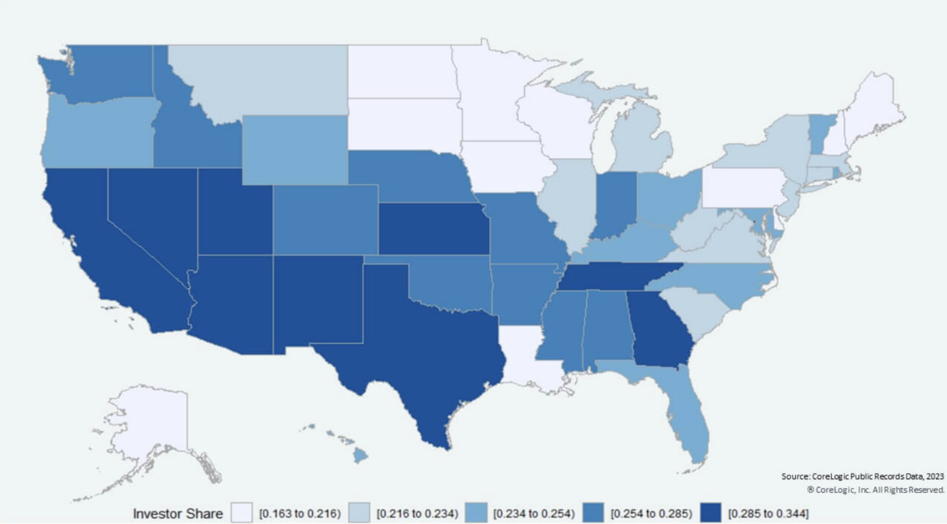
- Tension between good identification and external validity

- Identification assumption: acquirers don't target companies for their local portfolio
  - Maybe valid, but is that because Atlanta is unimportant or individual neighborhoods are?

- **Tell us more generally about margins of investors' entry** $\longrightarrow$ text mine 10-Ks
  - Activity clustered in the South/Southwest – is it based on forecasts of future local economic fundamentals, ease of home valuations, SFH inventory, or lax property tax regimes?
  - Why is this not about buying up distressed properties in 2010?
  - Why are mergers timed in 2015-17? $\longrightarrow$ time filter in Capital IQ? (Appendix D)

- Need to do this anyways to scale up the analysis to a nationwide context
  - Easier path: list largest nationwide investors using CoreLogic Tax/Deeds and pick most prominent metros where they are active

Institutional investors' SFH purchases clustered in South



Source: CoreLogic (2023): https://www.corelogic.com/intelligence/us-home-investor-share-remained-high-early-summer-2023/

Popular accounts of lawyers specializing in CRE appeals

San Francisco Prices Are Sinking, and Property Owners Want a Tax Cut

Appeals of assessments have surged, hurting revenue in a city already struggling with a pandemic recovery.

Owners of San Francisco's office towers, shopping centers, hotels and homes are flooding the county with appeals to slash their property assessments – and tax payments – as real estate prices sink in the beleaguered city.

Some of the world's biggest landlords, including Brookfield Corp. and Blackstone Inc., have filed for assessment cuts. The volume of such appeals have doubled in the three years since the pandemic. Assessments for this fiscal year went out in early July, and new appeals are expected to surge before a Sept. 15 deadline to request reductions.

"It's like drinking from a fire hose," said Mark Ong, founder of Independent Tax Representatives, whose firm filed appeals on about $11 billion of San Francisco property for the last tax year. "I've done this 37 years and I've never had a year like this one."

Comment #3: role of property assessment appeals

- Basis and motivations for a valuation appeal might change depending on institutional acquisitions of SFHs
  - If value of the firm's portfolio based on **income-producing potential or NAV** (e.g. like a REIT), then tradeoff associated with appealing to reduce the tax bill
  - Hedonic-based (AVM) appraisals typically used for SFHs are fuzzier

- Ideally, back out what the tax bill would be under **cap rate** vs. AVM approach
  - Does valuation gap disappear for institutional investors if use one basis vs. the other?
  - If buying houses not previously rented out, then this isn't necessarily rent-seeking

- Timing of assessments in Georgia counties relevant to the "correct" lag order for valuation difference specification $\longrightarrow$ account for mechanical drift

- Do the legal entities specialize in real estate or affiliated with the investors by frequency of transactions? $\longrightarrow$ relevant to the economies of scale argument

Small issues related to measurement

- Building permits: applications vs. **exercised** permits? (might explain pre-trends)
- Use **CoreLogic Tax & Deeds** to fill in the owner/transfers and assessment characteristics for more of the counties + nationwide coverage
- Which version of ZORI/ZHVI? $\longrightarrow$ just SFH or including multi-family?
- Aggregate vs. micro analysis: **more property-level results** on the home improvement channel to separate out the second-order (peer effects) from direct effects of mergers
    - Borrow from the "foreclosure wave" literature (e.g. Campbell, Giglio, Pathak 2011 *AER*)
- Extend results on racial composition using Bayesian approach of Imai & Khanna (2016)
- Using never-treated neighborhoods as control group but other possibilities (de Chaisemartin & D'Haultfœuille 2020) or (Borusyak, Jaravel, & Spiess 2023)

Final thoughts & notes for future work

- Really interesting set of results and herculean data collection efforts!
- Not immediately clear how each of the pieces fits together $\longrightarrow$ need to emphasize what is new here, which means focusing on...
  - Tracking SFH ownership chains and documenting investors' margins of entry
  - Role of legal intermediaries in facilitating economies of scale
- **My recommendation: split the paper into two separate papers**
  1. First paper about winners/losers from concentration in SFH market with tighter links between theory and data (short-run effects)
  2. Second paper focusing on interactions between investors' property tax appeals, legal industry, and public finance (long-run effects)
- Two papers will reinforce each other and highlight all the hard data work you did!

THANKS!