Spiders, Sewerage and a Flurry of Fees *by Michelle Conlin (Reuters)*

The Other Side to Renting from Wall Street

Invitation Homes pitches itself as a singular landlord providing unprecedented ease and comfort for renters of its tens of thousands of single-family homes. But in interviews with scores of the company's tenants in neighborhoods across the United States, the picture that emerges isn't as much one of exceptional service as it is one of leaky pipes, vermin, toxic mold, nonfunctioning appliances and months-long waits for repairs.

Tenants also complain about excessive rent increases and fees that can add up to hundreds of dollars a year. In a proposed class-action lawsuit filed in May in the U.S. District Court for Northern California, renters accuse the company of "fee-stacking." They allege that Invitation Homes charges tenants $95 if their rent is one minute late – even if the late payment is due to the company's own nonfunctioning online payment portal – and then files an eviction notice to add more fees, penalties and legal costs if the tenant wants to stay in the home.

Invitation Homes filed a motion on July 20 to dismiss the case, saying the suit did not substantiate that the company's fees were "unfair" and that the plaintiff lacked standing to assert the claims on behalf of tenants nationwide.

Industry critics say that to keep payments to bond investors rolling, companies like Invitation Homes must minimize maintenance costs and maximize rents and fees.

"We see securitization of rental income as highly problematic," said Kevin Stein, deputy director of the California Reinvestment Coalition, a nonprofit that advocates for affordable housing. Among other things, he said, it "pits Wall Street investors against Invitation tenants."

At Reuters' request, the company provided the names of five satisfied renters. Two responded, saying they were pleased with the company. One of them, Melissa Grant of Atlanta, said Invitation Homes was an "awesome company" for, among other things, making homes "available to families like me who are in the military and need to move around a lot." The other three tenants did not respond to repeated phone messages.

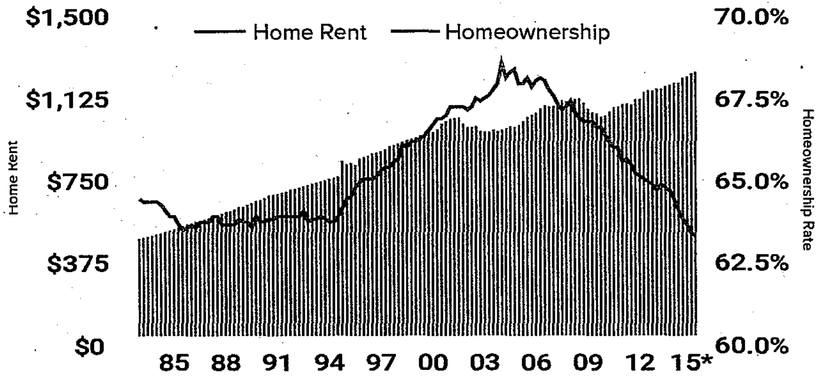
Some tenants told Reuters they renewed not because they loved their rentals, but because they felt they had to: The company owns so much of the available housing in their neighborhoods that they had no alternatives if they wanted to keep their kids in the same school, or remain close to jobs or relatives. And moving itself is a big expense.

"You can't just jump up and move with children," Brister said.

While Invitation Homes' portfolio represents less than one percent of single-family rental homes nationwide, the figure can be much higher in markets where the company's inventory is concentrated. In some neighborhoods in California, for example, Invitation Homes owns as much as 25 percent of single-family rentals, according to an analysis of Census and property data by Maya Abood, a former researcher with the Massachusetts Institute of Technology's Urban Planning Program who co-authored a recent study titled "*Wall Street Landlords Turn American Dream into American Nightmare*."

Invitation Homes has been raising rents by as much as an average of 10 percent a year in places like Oakland, California – nearly double the norm in that market – according to the Alliance of Californians for Community Empowerment (ACCE), an advocacy group.

Rents and Homeownership Diverging



The company's stock price has risen about 11 percent since last year's initial public offering. Wall Street analysts have almost uniformly rated the stock a "buy."

Analysts' optimism reflects, in part, that while scores of federal, state and local rules protect homebuyers when taking out a mortgage and renters in multi-unit apartment buildings, few protections exist for tenants of single-family homes, housing lawyers and affordable-housing advocates said.

"Allowing hedge funds and private equity firms to speculate on housing with little-to-no public oversight or regulation puts families at greater risk of unfair rent increases and evictions, and threatens the right to housing itself," Abood said.

A December 2016 Federal Reserve Bank of Atlanta analysis found that Wall Street landlords are far more likely to file eviction notices than mom-and-pop landlords. It said Colony Starwood – as Starwood Waypoint was known until shortly before the merger with Invitation Homes – filed eviction notices on more than 30 percent of tenants, while Invitation Homes filed notices on nearly 15 percent. The strongest predictor of whether a tenant would get an eviction notice was if the tenant was African-American, the Atlanta Fed said.

At issue are the home valuations Invitation Homes relied on for its bonds. The higher the valuation, the higher the expected rent, and thus the more investors are willing to pay for the bonds.

To get a mortgage, homebuyers typically must have a licensed inspector conduct an appraisal of the house. To price its bonds, however, Invitation Homes relied on so-called broker price opinions, or BPOs. These less-expensive alternatives were provided mostly by outside firms using independent contractors who were not licensed appraisers.

Many of these contractors relied only on exterior views of the houses – no interior inspections – according to regulatory filings. The filings also indicate that the contractors were told to assume that the interiors had been remodeled to the standards advertised on the Invitation Homes website. Congress outlawed BPOs after the foreclosure crisis, but the ban doesn't apply to institutional investors buying homes in bulk.

A look inside the bond that Fannie Mae backed shows how Invitation Homes' model is working. From each of the 7,204 houses bundled into the bond, the Fannie Mae prospectus shows, the company earned in 2016 an average monthly rent of $1,538 and $985 in annual "other income," defined as fees for, among other things, "pets or cleaning."

At the same time, the company spent an average of $1,142 a year on repairs, maintenance and turnover costs, based on the bond data. That's less than the $3,100 a year Americans tend to spend on maintenance, repairs and improvements on houses of the same age as Invitation Homes' portfolio, according to an analysis of the U.S. Census Bureau's American Housing Survey by BTIG equity analyst Ryan Gilbert.

Five former employees said Invitation Homes routinely didn't spend enough on repairs or hire enough contractors to get the job done. One former maintenance contractor said that he oversaw 2,000 homes scattered across one metropolis and that he couldn't possibly keep up.