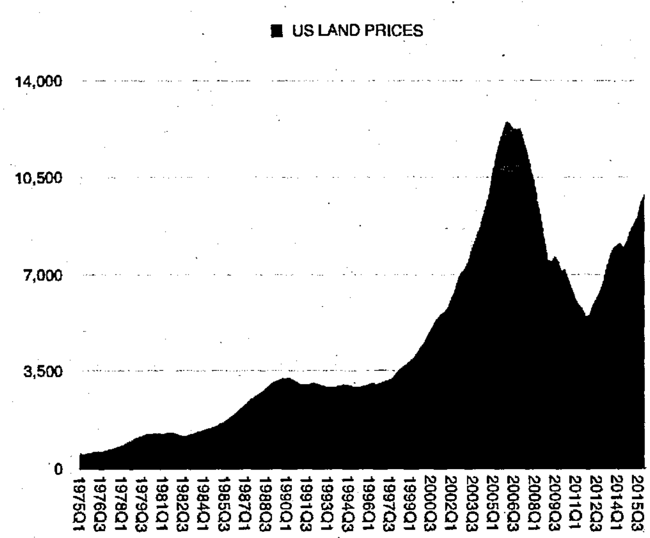
The Quest to Own the Future *by Karl Fitzgerald*

Not content with blowing up the global economy in 2008, Wall Street quickly moved to extend its' grasp on unearned incomes. Having cornered the mortgage market, new tools were developed to corporatise the rental market. The latest *weapons of mass destruction*[1] came in the form of Rental Backed Mortgage Securities. Rental streams repay security holders at a current rate of 4.1%.[2] Land titles act as additional security to satisfy the ratings agencies.

In an era of record low interest rates, investors are throwing their millions at the deceptively named Rental Backed Mortgage Securities (RBMS). They sound so similar to Residential Backed Mortgage Securities, the product many blamed for the Global Financial Crisis, that eyes glaze over at the relentless zeal of high finance.

The following land value graph tells a lively tale. Land prices began to fall in the first quarter of 2006, some 18 months before the more recognised financial issues cascaded into the spectacular collapse of Lehman Bros on September 15, 2008.

Source: Lincoln Land Institute



Whilst many blamed the banks, the land gamers were again crowned untouchable.

The Land Business

The world of land speculation continues unabated. When property investors outbid home buyers, the rate of change accelerates in communities. The higher purchasing price demands higher rents. Now with corporate landlords, the profit directive from head office for quarterly profits demands that rents escalate further. Record evictions have accompanied the financialisation of the rental market, as corporations use the opportunity to

1 http://fortune.com/2016/08/08/mass-destruction-buffett-derivatives/

2 https://seekingalpha.com/article/4170453-american-homes-4-rents-amh-ceo-david-singelyn-q1-2018-results-earnings-call-transcript?page=2#

raise rents.[3]

The domino of the never ending rental squeeze slams one household into another, as renters from differing socio-economic groups are pushed towards the typical rundown neighborhood Wall St invests in.

In this manner, property speculation increases the rate of gentrification. One class blames another - as the systemic issues are conveniently ignored.

Property investors have a natural advantage over home buyers via their access to capital. The many tax incentives offered deepen that advantage. Now with access to Rental Backed Mortgage Securities, we can expect multinational investors to grow in influence.

For those struggling in a casualised workforce, the race to attain a place on the planet is quickening. Large scale investment in Single Family Rentals (SFR - the US term for detached housing) is advancing daily. Pioneers such as Invitation Homes and CoreVest accumulated a large and growing asset base in the post-GFC wreckage, worth $15 billion.[4] Invitation Homes alone invested some $150 million per week buying up foreclosed locations between 2010 - 2014.

Some analysts are warning that such financial products may enter the Australian rental market under the guise of the Build-to-Rent imperative. But for this to occur, developers are demanding even greater tax incentives.

Los Angeles 2015

Concerns over the commodification of the rental market provided the backdrop to my US visit in 2015, as I made my way to the Council of Georgist Organisations conference in Detroit. In LA I teamed up with Favian Gonzalez from Strategic Actions for a Just Economy, who took me to meet Esperenza Gonzalez. Esperenza was a victim of a 2007 foreclosure. She not only lost her house due to poor mortgage advice, but then found herself unwittingly renting from a tentacle of Wall St - Invitation Homes.

Ms Gonzalez revealed how she was paying 30% higher rents than current market rents. I heard that the same company owned the neighboring vacant block. The ghetto birds (helicopters) whirled above as Favian told me Invitation also owned the house two doors down from her (where there was a shooting 24 hours earlier).

It soon became evident that Invitation Homes was strategising to buy the property in the middle. The potential was there to package the sites together for a multi-density rezoning. Perhaps their lobbyists would deliver a new train station or library to add to the locational value. Take a second to consider the sizeable windfalls that would result if this was done across dozens of properties in a number of locations. The business plan was to quite obviously float the company for a huge payout.

Invitation Homes parent company is Blackstone Capital. CEO Stephen Schwarzmann earnt $700 million last year. He was the chairman of the President's Strategic and Policy Forum (until it was disbanded following Trump's coded support for the Charlottesville, Virginia alt-Right attack). The second largest investor in SFRs is CoreVest (formerly Colony Capital). CEO Thomas Barrack was the largest campaign contributor to Trump and chaired his inauguration committee.

With this political setting, we are set to see the further commodification of land.

As Leilani Farha, United Nations special rapporteur on the right to housing wrote:

> *"the financialization of housing... whereby housing is treated as a commodity, a means of accumulating wealth and often as security for financial instruments that are traded and sold on global markets.... disconnects housing from its social function of providing a place to live in security and dignity and hence undermines the realization of housing as a human right."*

3 https://evictionlab.org/

4 https://www.reuters.com/investigates/special-report/usa-housing-invitation/

Invitation for whom?

Blackstone invested $8.3bn in the purchase of 50,000 homes between 2012 - 16. The cover story was that each home was renovated to the tune of $22,000.

> *"By late 2016, Invitation Homes had borrowed over $7.6 billion through both mortgage loans and credit facilities, leaving Blackstone with just a $2 billion equity investment remaining in Invitation Homes. On February 1, 2017, Invitation Homes conducted an initial public offering (IPO) on the New York Stock Exchange, through which Invitation Homes raised approximately $1.54 billion through the sale of approximately 25.49% of the company's equity. Considering that as of the date of the IPO Blackstone's net investment in Invitation Homes stands at $2 billion, and Blackstone's remaining 75.49% share of Invitation Homes is valued at approximately $4.33 billion, Blackstone has earned a profit of approximately $2.3 billion through its venture into the single family home rental business."*[5]

That's rent-seeking with a twist of corporate playmaking at it's best.

Going digital

The digital tools to facilitate Wall Street's tentacles into the rental market grow by the day. Smaller investors are being lured in as part of the game.

"Now even renters are frequent buyers of the properties, according to Rich Ford, chief development officer and co-founder of Roofstock, an online marketplace for buying and selling SFRs. More than 50% of investors who use the service are renters. What's more, 62% of Roofstock's investors live more than 1,000 miles away from their investment properties."[6]

Millennials locked out of housing in global cities such as Los Angeles and New York are hedging their bets in places such as Memphis and Charlotte, North Carolina.

Counties with the highest potential annual gross rental yields for 2018 were Baltimore City, Maryland (28.6 percent); Bibb County, Georgia in the Macon metro area (21.8 percent); and Wayne County, Michigan in the Detroit metro area (21.7 percent).[7]

As the law of rent dictates, the resultant higher rents in these locations undermines the ability of the self-employed to pay themselves a living wage. From that the largest (meaningful) employment driver - small-business - suffers, sending more of our graduates into mundane cubicles as the doors to the opiate crises creak open.

Whilst the left-behind ride their TV remotes looking for meaning, the maestros of real estate commodification have all the controls at their fingers.

Strike it Rich

SFR specialists never have to set foot in a property they own. Property buyers are directed to purchase according to demand hot spots, coded as 'strike zones'.[8] On a recent earnings call, Invitation Homes CEO Frederick Tuomi stated

> *"In our markets, 2018 household formation is forecasted to grow at a rate 90% greater than the U.S. average. And single-family home completions are forecast to be almost 30% below the historical average since 1985."*

Tuomi finished with 'many believe it's possible that tax reform and rising interest rates will have a further positive impact on single-family rentals..'[9] Invitation's 2017 IPO prospectus boasts of a demand-matrix that analyses 64 metrics before

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5 https://www.biggerpockets.com/blogs/9138/54589-invitation-homes-blackstone-s-acquisition-of-50-000-homes

6 https://www.forbes.com/sites/joegose/2018/06/15/renters-are-buying-rental-homes-alongside-mom-and-popsinstitutional-funds/#1f09200f3b77

7 https://www.attomdata.com/news/market-trends/single-family-rental/best-counties-buying-single-family-rentals-2018/

8 http://ourfinancialsecurity.org/wp-content/uploads/2018/01/Wall-Street-and-SFR-business.pdf

9 https://seekingalpha.com/article/4174414-invitation-homes-invh-ceo-frederick-tuomi-q1-2018-results-earnings-call-transcript

hitting the strike-zone button. These include population growth forecasts, employment, neighborhood desirability and proximity to employment centres, schools, transportation corridors and community amenities.

The development of online tools that enable such data analysis is centred on what many are calling the property data gold rush. The *Real Scout* warns their mortgage-broker clients "The important thing to remember is that – like the gold rush – this is a land-grab. Every one of your clients that aren't conducting their home search on a broker controlled platform – is a client that is leaking their buyer data to a 3rd party."[10]

Once head office have launched the strike button, a swarm of property professionals from renovators to property stylists descend on the dwelling to lift its appearance. Reports are beamed back to HQ for vetting. The location is then placed online and the agent takes over. Once let, all further interactions are channelled via app-controlled messages to the property manager. Conversations that once led to negotiations with a landlord are set to become a thing of the past.

Concentrations

As the digitatisation of real estate leaps ahead, the ease of the online over the physical is accelerating with groups like *OpenDoor* and Home Me. OpenDoor handily replaces the middleman by using computer algorithms to buy and sell homes. Simply send them your address and receive a quote in 48 hours. No need for agent interactions, the marathon of cleaning up your house nor tidying before open inspections. Simply sell to Wall Street and your cash will be delivered, quickly.

10 http://blog.realscout.com/real-estate-buyer-data-gold-rush

Open Door recently raised $325m to bring its equity capital raisings up to $645 million with $1.5 billion in debt financing.

"The company is currently buying homes at a rate of $2.5 billion a year across 10 metros and gearing up to offer mortgages and title services to buyers."[11]

Competitors are quickly entering the market.

> *"Offerpad has raised more than $410 million in equity and debt financing and expects to buy and sell more than $1.5 billion of single-family homes over the next year. Zillow Group Inc., the online-listings giant, has announced its own plans to buy and sell homes in a bid to capture what CEO Spencer Rascoff has described as a potential "$1 billion profit opportunity annually."*[12]

Each day large entrants join the Single Family Rental market. The Teacher Retirement System of Texas and Singapore's GIC Pte have just announced a joint venture with Toronto-based Tricon Capital Group Inc. to enable some $2 billion worth of purchasing power.[13]

Students of the land market will be piecing together how the increasing value of land will be capitalised into greater leveraging

11 https://www.bloomberg.com/news/articles/2018-06-17/bitcoin-could-break-the-internet-central-banks-overseer-says

12 ibid

13 https://www.bloomberg.com/news/articles/2018-06-29/texas-teachers-gic-join-wall-street-hunt-for-u-s-rental-homes

opportunities. American Homes 4 Rent sold $500 million of unsecured debt in January at an interest rate of 4.1%. Invitation Homes last month raised $1.3 billion through the corporate bond market, the largest deal yet for the industry.[14]

As Wall Street buys up once affordable sites, the marginal cost of land increases, enforcing higher rentals on ever wider communities. The self employed (ie farmer) is challenged to increase their prices to cover the opportunity cost of higher land rents. Higher rents for families means less for proactive health measures, such as eating organic foods.

Affordability

Australian Treasurer Scott Morrison returned from his 2016 UK trip brimming with enthusiasm for the Build-to-Rent sector. Encouraging large institutional investors into the 'affordable housing' market quickly became the new imperative. Soon a raft of real estate experts were in the press sculpting market trajectories based around the narrative that 'millennials had changed the demand for housing'.

Similar to the post-GFC crash where the PR agents of high finance moved quickly to blame poor people for borrowing more than they could afford, now it was time to blame millennials for the high cost of housing. Princess Ventura, director of Urbis stated 'Home ownership isn't likely to be the norm in the future'.[15]

Some in the property lobby are using this as a trojan to demand for greater tax incentives.

The property lobby often support a broader land tax in place of stamp duties as a means to spread the overall burden of land tax revenues. However, they see in the Build-to-Rent phenomena as the perfect opportunity to remove the progressive land tax schedule and down-size the highest land tax rate.

~~Mr High-rise Harry Triguboff, one of Australia's~~ wealthiest (and already heavily invested in the serviced rental market) called the lobbying out: "They want... a tax break". "But the interesting thing is, it's not the people with the money talking. It's the schnorrers that have no money to build."[16]

Back in America, the data was rosy for SFR investors. ATTOM Data found that:

- The average annual gross rental yield was 8.9 percent, down from 9.2 percent (2017).
- Rents were rising faster than wages in 84 percent of markets.
- The biggest increase in market share are investors owning six to 10 single family rentals, followed by those owning between 11 and 100 rentals.[17]

"The American dream no longer includes homeownership," said Jordan Kavana, CEO of Transcendent Investment Management. "You will earn your equity in other ways, not your home."[18]

LendingTree chief economist Tendayi Kapfidze put it this way:

"It also seems logical to surmise that buyers getting a property for anything other than their primary residence might have stronger financial resources than the average buyer of an owner-occupied residence."

LendingTree examined 50 cities to find the property investor's average income was higher, $163,000, compared with $117,000 for owner occupied.[19]

Conclusion

A recent Renegade Economists show *Drip Feeding Formula Revealed* was enlightening.[20] Peter Smith (the younger) reported how Savills UK had calculated that for every ten homes sold, only one new home was built - over a 25 year period.[21] Such a powerful ratio suggests that supply is being manipulated to stimulate scarcity.

14 https://www.wsj.com/articles/house-money-wall-street-is-raising-more-cash-than-ever-for-its-rental-home-gambit-1531128600?mod=hp_lead_pos6

15 https://www.domain.com.au/news/experts-predict-buildtorent-revolution-coming-to-australia-20171205-gzxxw9/

16 https://www.afr.com/real-estate/harry-triguboff-pours-cold-water-on-buildtorent-tax-break-push-20180604-h10yoy

17 Op Cit, ATTOM

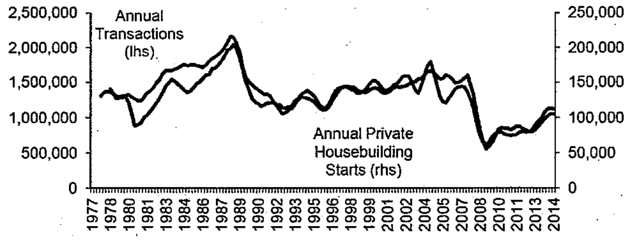
18 https://therealdeal.com/2018/07/09/wall-street-has-more-money-than-ever-to-buy-single-family-rentals/

19 https://newsok.com/article/5597914/no-boom-or-bust-but-a-buoy-as-investors-hold-up-oklahoma-city-house-prices

20 http://www.earthsharing.org.au/2018/04/drip-feeding-formula-revealed/

21 https://www.savills.co.uk/research_articles/229130/187750-0

Fig 1 – Transactions & Private Housebuilding Starts, England



Source: HMRC, DCLG

Note the ratios of the right and left axes.

As the concentration of ownership grows amongst corporate landlords, trends such as these will extenuate the pressures on renters. Already there are reports in the US such as:

> *"Single-family housing starts were at a 936,000 annual rate in May, half their 2006 peak level."*[22]

When thinking about the housing market, the current expectation that developers will keep building in order to reduce housing prices defies economic logic.[23] The incessant blame-game of housing supply shortages must be called out as a form of trickle-down economics. Many will be aware the housing shortage mantra is a dog-whistle for 'rezone my land'.

Further concentrations in the land market, whether it be via Build-to-Rent or Rental Backed Mortgage Securities, will have limited outcomes for affordability. As the US example reflects, for-profit builders are poor vehicles for ethical housing provision. As the digitisation of data continues, the ability to massage supply to enhance unearned incomes will escalate.

Meanwhile, many parents are asking 'where are my grandkids'? With affordability pressures mounting, family formation rates are dropping. Is this outcome worth the unearned incomes rent-seekers so desire?

If tax incentives were to be allocated for the Build-to-Rent model, they should be targeted towards the Community Housing sector.

Prosper will be soon releasing a report highlighting how if a piecemeal solution is required, then land rental programmes such as the Canberra Land Rent Initiative or Community Land Trusts are the preferred vehicle. The alternative of encouraging greater land concentration amongst the 1% must be deterred at all costs.

We have only reached this point because successive governments have failed to adopt Land Value Tax as a measure to equalise the advantages those who own prime locations enjoy. The result of decades of inaction cannot be turned around as a reason to deepen the divide.

"It is as though an immense wedge were being forced, not underneath society, but through society. Those who are above the point of separation are elevated, but those who are below are crushed down." Henry George, Progress & Poverty.

The push to corporatise the rental market infers a quest to own the future. For generations we have warned of the dangers of privatisating rental streams. Today it seems to be intensifying before our very eyes.

Australian supporters should write to their MPs (and to those who have headed up various affordability inquiries in recent years) to alert them to the dangers of corporatisating our land and housing base. We must reject the possible securitisation of rental payments via Rental Backed Mortgage Securities.

The Gilded Age awaits any such development.

Readers must strengthen their resolve with the knowledge that it may well be easier to change the tax system than to pay off a 40-year mortgage ..... or endure a lifetime renting.

Adriano Cantarello, Unsplash

22 http://www.nreionline.com/single-family-rentals/us-housing-will-get-even-less-affordable-gary-shilling

23 https://theconversation.com/affordable-housing-policy-failure-still-being-fuelled-by-flawed-analysis-92993