

Date of Hearing: April 17, 2017

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Matthew Dababneh, Chair

AB 354 (Calderon) – As Amended March 28, 2017

**SUBJECT:** Institutional investors: housing

**SUMMARY:** Requires institutional investors, as defined, to register with the Department of Business Oversight (DBO) by providing a statement containing specified information.

Specifically, **this bill:**

- 1) Defines “institutional investor” as a company or corporation that owns more than 20 residential properties with a total value of more than \$10 million in the state.
- 2) Allows DBO to charge a reasonable fee to administer the registration program.
- 3) Requires institutional investors to provide information including, but not limited to, the total number of residential properties owned, the total number of properties occupied by renters and the total number of properties purchased annually.

**EXISTING LAW:** States legislative findings and declarations that the preservation and enhancement of opportunities for homeownership are beneficial to the well-being and prosperity of the people of the state (Health and Safety Code Section 50001).

**FISCAL EFFECT:** Unknown

**COMMENTS:**

- 1) *Need for the bill:* According to the author’s office:

Over the last few years, institutional investors, such as Blackstone, have bought up billions of dollars-worth of single-family homes. Instead of renovating and reselling them or just waiting for the real estate market to recover, they have converted these properties into permanent rental homes. Of the five largest metropolitan areas in the U.S. where concentration of this type of investment is highest, three of them reside in California: Los Angeles, Riverside, and Sacramento.

At the time, the vast majority of these purchases were foreclosures or short sales; however, purchases of homes coming from natural sales have recently increased. The CEO of Colony American Homes, which is one of the largest single-family landlords in the country, said it himself, “the first phase was distressed homes, the second phase is acquiring homes in a more regular way.” In October 2013, an institutional investor created the first triple-A-rated, mortgage-backed security supported by revenue from single-family rental properties. The emergence of a new form of mortgage-backed securities tied to single-family rentals is certain to have an impact on the housing market, communities, and tenants. A mortgage-backed security is created by pooling assets together and then selling interests in that pool to investors, who

then receive regular payments from the asset pool. This process provides access to a much larger pool of investors than would otherwise be feasible, increasing liquidity and generally providing a less expensive source of funding than traditional borrowing from banks or private investors.

While institutional investors only represent a fraction of those in the housing market – mid-sized companies and small mom-and-pop investors who own less than 10 properties have historically been far more prevalent in most markets – securitization is likely to shift this balance. That being said, one institutional investor, Blackstone, has already become the largest single-family home owner in the country. In fact, some analysts predict the funding of single-family rental acquisitions through securitization will likely become a dominant model quickly, and thus, continuing to shrink the already short supply of homes.

Currently, there is nothing preventing institutional investors from continuing to buy as many single family homes as possible, typically 3 bedrooms and 2 baths. Leaving this area of law vacant has already limited the ability of low and moderate households the ability to buy a home that are now starting to get back on their feet. Families already have a difficult time trying to save up enough money for a down payment, having to compete against an institutional investor who has the financial backing of big banks and pension funds, just isn't fair from both a monetary standpoint and technological. For example, Oakland-based Starwood Waypoint said it has cut the time it takes to calculate a first bid on a house to eight minutes. The CEO stated, "We encourage our guys to make an offer before they see the house. I don't want to wait for anyone else. Our competitors are also fast."

The foreclosure crisis created massive inventories of foreclosure properties across the nation. Many of these foreclosed homes continue to find their way onto the housing market. Mortgage backed securities (MBS), the bundling of mortgages into a single financial instrument, contributed significantly to the housing bubble collapse that swept across the country. With MBS's currently out of favor, institutional investors are seeking other ways of investing in the housing market. The solution came in the form of investing in large portfolios of foreclosed homes and securitizing the rental income. The structure of various single-family rental securitizations (SFRS) is very similar to bonds issued from a single loan that are backed by portfolios of SFRS. The bonds typically have terms of two to three years with options for one-year extensions capped at five years total.

- 2) **Impacts:** What is the impact of large scale rental investment strategies on the housing market? According to Department of Finance data, California has over nine million single family homes. The estimated portfolio of homes turned to rentals owned by Invitation Homes, a subsidiary of Blackstone, is around 10,000-12,000 in California. The impact of rental securitizations on home prices is unclear. Projected occupancy rates and subsequent rental income has not lived up to expectations. Despite this, significant capital continues to flow into these investment opportunities.

Two issues not addressed in this bill, but that have major impacts on pricing are flipping and foreign cash buyers.

- a) **Flipping:** Flipping, the act of buying real estate at a below market price and selling at a higher price, has become increasingly popular among investors. RealtyTrac, a real estate foreclosure marketplace, finds the total number of investors who completed at least one flip in 2015 was at the highest level since 2007, and the number of flips per investor was at the lowest level since 2008. Homes flipped in 2015 were on average purchased at a 26% discount below estimated market value and re-sold by the flipper at a 5% premium above estimated market value. Since the housing crash, investors have consistently made up a significant portion of home buyers, but they largely purchased homes to convert to rental property
  - b) **Foreign Investors:** Another contributor to expensive housing in certain California markets has been the large influx of foreign cash buyers. According to data from the National Association of Realtors, during 2014/15 the average price foreign clients paid for a house was \$500,000, compared to the overall U.S. average house price of \$256,000. Approximately \$54.5 billion of sales was attributed to non-resident foreigners, with resident foreigners accounting for \$49.4 billion of sales. The bulk of purchases by international clients were all-cash, accounting for approximately 55% of reported foreign transactions.
- 3) **Amendments:** The author's office has informed the committee that it intends to make amendments in the Assembly Housing and Community Development Committee clarifying the definition of "institutional investor," including increasing the number of properties owned to 100.

#### **REGISTERED SUPPORT / OPPOSITION:**

##### **Support**

None on file

##### **Opposition**

California Apartment Association  
National Rental Home Council

**Analysis Prepared by:** William Herms / B. & F. / (916) 319-3081