The Great Wall Street Housing Grab - Internewscast

by internewscast

Chad Ellingwood wasn't really in the market for a home in the summer of 2006. But when his best friend came across an intriguing listing in Woodland Hills — a bedroom community in Los Angeles County's San Fernando Valley — the two men decided to visit on a whim.

Entering the property beneath the canopy of a grand deodar, Ellingwood, a big man with a gentle presence, felt as if he had been transported to a ranch house in Northern California, much like one he often visited as a child, all old growth and overgrown greenery — olive trees, citrus trees, sycamores and redwoods. He and his friend meandered past a pond to an inviting teal house built in 1958, "a whimsical masterpiece," Ellingwood told me. Inside there was a "captain's quarters" — a room designed to look like the hull of a boat with a built-in water bed and drawers — and numerous stained-glass windows that the couple who owned it had made themselves. The *pièce de résistance* depicted a faerie woman with flowing hair whose fingers turned into peacock feathers. Behind the house were a couple of small buildings, one of which was office-size — a meditation "Zen den," Ellingwood thought. The other was an A-frame, Swiss-chalet-style granny unit above the garage, where the owner displayed a toy train collection.

"The house was not in amazing shape," Ellingwood said. "It needed some help. But I loved it. I wanted it immediately."

One of Ellingwood's goals had always been to buy a house by the time he turned 30 — a birthday that unceremoniously came and went six months earlier. When Ellingwood began speaking to lenders, he realized he could easily get a loan, even two; this was the height of the bubble, when mortgage brokers were keen to generate mortgages, even risky ones, because the debt was being bundled together, securitized and spun into a dizzying array of bonds for a hefty profit. The house was $840,000. He put down $15,000 and sank the rest of his savings into a $250,000 bedroom addition and kitchen remodel, reasoning that this would increase the home's value.

Suddenly adulthood was upon him. He married on New Year's Eve, and his wife gave birth to their first child, a son, in April. When his 88-year-old grandfather, an emeritus professor of electrical engineering at the University of Houston, had a bad fall, Ellingwood urged him to move into the house for sale just across his backyard. The grandfather bought the house with his daughter, Ellingwood's mother, and the first thing they did was tear down the fence between the two properties, creating one big family compound. In 2009, Ellingwood's older sister bought a house around the corner.

But shortly after the birth of Ellingwood's second son, in June 2010, his marriage fell apart. He and his wife each sued for sole custody. To pay his lawyer, he planned to refinance his house, and his grandfather advanced him his inheritance. By 2012, Ellingwood had paid his lawyer more than $80,000, and in the chaos of fighting for his children, he stopped making his mortgage payments. He consulted with several professionals, who urged him to file for bankruptcy protection so that he could get an automatic stay preventing the sale of his house.

In May 2012, Ellingwood was driving his two boys to the beach, desperate to make the most of his limited time with them, when he got a call. He pulled over and, with cars whizzing by and his boys babbling excitedly in the back seat, learned that he had lost his house. He had dispatched a friend to stop the auction with a check for $27,000 — the amount he was behind on his mortgage — but there was nothing to be done. Because Ellingwood began to file for bankruptcy and then didn't go through with it, a lien was put on his house, his "vortex of love" as he called it, that precluded him from settling his debt. The house sold within a couple of minutes for $486,000, which was $325,000 less than what he owed on it.

In the months after, though, Ellingwood was graced with what seemed like a bit of luck. The company that bought his home offered to sell it back to him for $100,000 more than it paid to acquire it. He told the company, Strategic Acquisitions, that he just needed a little time to get together a down payment. In the meantime, the company asked him to sign a two-page rental agreement with a two-page addendum.

It was clear from the beginning that there was something a little unusual about his new landlords. Instead of mailing his rent checks to a management company, men would swing by to pick them up. Within a few months, Ellingwood noticed that one of the checks he had written for $2,000 wasn't accounted for on his rental ledger, though it had been cashed. He called and emailed and texted to resolve the problem, and finally emailed to say that he wouldn't pay more rent until the company could explain where his $2,000 went. For more than three months, he withheld rent, waiting for a response. Instead, the company posted an eviction notice to his door.

Ellingwood hired a lawyer and reported to the Santa Monica courthouse on his court date with all of his cashed checks in chronological order. When the judge called his case, the lawyer for Strategic Acquisitions asked to have a moment to review the paperwork. After marking each of Ellingwood's checks off the accounting ledger, the lawyer concluded that the company had, in fact, erred. Strategic Acquisitions had grown so big so fast that it could barely keep its properties straight.

But it would only get bigger. Strategic Acquisitions was but one of several companies in Los Angeles County, and one of dozens in the United States, that hit on the same idea after the financial crisis: load up on foreclosed properties at a discount of 30 to 50 percent and rent them out. Rather than protecting communities and making it easy for homeowners to restructure bad mortgages or repair their credit after succumbing to predatory loans, the government facilitated the transfer of wealth from people to private-equity firms. By 2016, 95 percent of the distressed mortgages on Fannie Mae and Freddie Mac's books were auctioned off to Wall Street investors without any meaningful stipulations, and private-equity firms had acquired more than 200,000 homes in desirable cities and middle-class suburban neighborhoods, creating a tantalizing new asset class: the single-family-rental home. The companies would make money on rising home values while tenants covered the mortgages. When Ellingwood reached out to Strategic Acquisitions in the winter of 2013 to buy his house, it was no longer interested in selling. Ellingwood asked again a year later; the company didn't reply.

Over the next seven years, Strategic Acquisitions would turn over management to Colony Capital, and Colony's real estate holdings would merge with a series of companies, culminating in the Blackstone subsidiary Invitation Homes, making Invitation Homes the largest single-family-rental company in America, with 82,500 homes at its height — and 79,505 homes after Blackstone sold its shares at the end of last year. Ellingwood, however, could hardly distinguish among the various L.L.C.s he paid rent to: Strategic Property Management, Colony American Homes, Starwood Waypoint, Invitation Homes. The offices changed cities, downsized staff, hiked rents and imposed increasingly punitive fees. Ellingwood was required to submit his rent in different ways — online, certified mail, cashier's check, in person — with slightly different rules, by the 1st, by the 3rd. The leases grew in length from four pages to 18 to 43 as the companies doubled down on strictures and transferred more responsibilities — mold remediation, landscaping, carbon-monoxide detectors — onto the renter.

Ellingwood didn't know it at the time, but his story was to be the story of millions of renters around the country, the beginning of a downward spiral into the financial industry's newest scheme to harvest money from housing.

[How Homeownership Became the Engine of American Inequality.]

Wall Street's latest real estate grab has ballooned to roughly $60 billion, representing hundreds of thousands of properties. In some communities, it has fundamentally altered housing ecosystems in ways we're only now beginning to understand, fueling a housing recovery without a homeowner recovery. "That's the big downside," says Daniel Immergluck, a professor of urban studies at Georgia State University. "During one of the greatest recoveries of land value in the history of the country, from 2010 and 2011 at the bottom of the crisis to now, we've seen huge gains in property values, especially in suburbs, and instead of that accruing to many moderate-income and middle-income homeowners, many of whom were pushed out of the homeownership market during the crisis, that land value has accrued to these big companies and their shareholders."

Chad Ellingwood in his home in the Woodland Hills neighborhood of Los Angeles. After his home was acquired by a private-equity firm, he was soon paying more in rent than he had paid for his first and second mortgage combined.Credit…Damon Casarez for The New York Times

Before 2010, institutional landlords didn't exist in the single-family-rental market; now there are 25 to 30 of them, according to Amherst Capital, a real estate investment firm. From 2007 to 2011, 4.7 million households lost homes to foreclosure, and a million more to short sale. Private-equity firms developed new ways to secure credit, enabling them to leverage their equity and acquire an astonishing number of homes. The housing crisis peaked in California first; inventory there promised to be some of the most lucrative. But the Sun Belt and Sand Belt were full of opportunities, too. Homes could be scooped up by the dozen in Phoenix, Atlanta, Las Vegas, Sacramento, Miami, Charlotte, Los Angeles, Denver — places with an abundance of cheap housing stock and high employment and rental demand. "Strike zones," as Fred Tuomi, the chief executive of Colony Starwood Homes, would later describe them.

Jade Rahmani, one of the first analysts to write about this trend, started going to single-family-rental industry networking events in Phoenix and Miami in 2011 and 2012. "They were these euphoric conferences with all of these individual investors," he told me — solo entrepreneurs who could afford a house but not an apartment complex, or perhaps a small group of doctors or dentists — "representing small pools of capital that they had put together, loans from regional banks, and they were buying homes as early as 2010, 2011." But in later years, he said, the balance began to shift: Individual and smaller investor groups still made up, say, 80 percent of the attendees, but the other 20 percent were very visible institutional investors, usually subsidiaries of large private-equity firms. Jonathan D. Gray, the head of real estate at Blackstone, one of the world's largest private-equity firms and the one with the strongest real estate holdings, thought he could "professionalize" the fragmented single-family-rental market and partnered with a British property-investment firm, Regis Group P.L.C., as well as a local Phoenix company, Treehouse Group. Blackstone "would show up with teams of people and would look for portfolio acquisitions," recalled Rahmani, who works for the firm Keefe, Bruyette & Woods, known as K.B.W. (K.B.W. sold some shares of Invitation Homes during its public offering.)

Throughout the country, the firms created special real estate investment trusts, or REITs, to pool funds to buy bundles of foreclosed properties. A REIT enables investors to buy shares of real estate in much the same way that they buy shares of corporate stocks. REITs typically target office buildings, warehouses, multifamily apartment buildings and other centralized properties that are easy to manage. But after the crash, the unprecedented supply of cheap housing in good neighborhoods made corporate single-family home management feasible for the first time. The REITs were funded with money from all over the world. An investment company in Qatar, the Korea Exchange Bank on behalf of the country's national pension, shell companies in California, the Cayman Islands and the British Virgin Islands — all contributed to Colony American Homes. Columbia University and G.I. Partners (on behalf of the California Public Employee's Retirement System) invested $25 million and $250 million in the REIT Waypoint Homes. By the middle of 2013, private-equity companies had raised or spent nearly $20 billion on single-family real estate, and more than 100,000 homes were in the hands of institutional investors. Blackstone's Invitation Homes REIT accounted for half of that spending. Today, the number of homes is roughly 260,000, according to Amherst Capital.

"There's no way of looking at the ownership of properties and understanding who owns them ultimately," says Christopher Thornberg, a founding partner of the research firm Beacon Economics. While Invitation Homes and American Homes 4 Rent became publicly traded REITs, as far we know "the big money is still in private equity," he says. (Progress Residential and Main Street Renewal are two such companies.) "They are completely subterranean. They've got multiple layers of corporations within corporations within holding companies."

Colony Capital, the Los Angeles-based private-equity firm run by the Trump megadonor Thomas J. Barrack Jr., didn't have as much money as Invitation Homes. As a result, it was choosier, says Peter Baer, the founder and chief executive of Strategic Acquisitions, the company Colony contracted to acquire homes. From early 2012 to 2014, Strategic bought nearly 3,000 homes for Colony. Ellingwood's home was one of the first. Baer told me he was instructed to buy "conventional product" in the price range of $300,000 to $600,000, typically three- or four-bedroom homes in good school districts that would be easy to rent — i.e., the types of homes desirable to first-time home buyers. Invitation Homes sought similar opportunities. (Some REITs developed software to evaluate public records for such factors, as well as for other metrics like proximity to employment hubs and transportation corridors.) Throughout 2012 and 2013, representatives of private-equity firms flew to auctions all over the Sun Belt buying in bulk and squeezing out individual investors. By October 2012, as Stephen Schwarzman, the chief executive of Blackstone, said, the company was spending $100 million on homes a week.

Strategic would buy the property, obtain possession (often by offering occupants "cash for keys" — a few thousand dollars to move out as soon as possible), rehabilitate the property to Colony standards and then manage it for a year or two until Colony was ready to take over. The deals were so good, in fact, that the gush of inventory lasted only a couple of years; the market recovered, in part because of these investors. "Between Invitation Homes and Colony, that created a bottom for the market in Los Angeles that it hadn't seen for the prior two years," Baer said. Researchers at the Federal Reserve agree.

But even at the time, some saw things differently. "Neighborhoods that were formerly ownership neighborhoods that were one of the few ways that working-class families and communities of color could build wealth and gain stability are being slowly, or not so slowly, turned into renter communities, and not renter communities owned by mom-and-pop landlords but by some of the biggest private-equity firms in the world," says Peter Kuhns, the former Los Angeles director of the activist group Alliance of Californians for Community Empowerment. Around Los Angeles, the companies scooped up properties in the majority-minority areas of South Los Angeles, the San Gabriel Valley, the San Fernando Valley and Riverside.

Landlords can be rapacious creatures, but this new breed of private-equity landlord has proved itself to be particularly so, many experts say. That's partly because of the imperative for growth: Private-equity firms chase double-digit returns within 10 years. To get that, they need credit: The more borrowed, the higher the returns.

When credit was tight after the financial crisis, the acquiring firms, led by Blackstone, figured out a way to generate more of it by creating a new financial instrument: a single-family-rental securitization, which was a mix of residential mortgage-backed securities, collateralized by home values, and commercial real estate-backed securities, collateralized by expected rental income. In 2013, a year after Ellingwood's home was acquired, Blackstone's Invitation Homes securitized the first bundle of single-family rentals — 3,200 of them for 75 percent of their estimated value: $479 million. Those who bought these bonds received 3 to 5 percent in monthly interest until their principal was returned (generally in five years). Blackstone put some of that $479 million toward repaying the short-term credit lines it took out to buy the houses. Because the value of the portfolio of homes had increased since their acquisition, Blackstone could extract much of the difference as cash and buy more homes. Blackstone issued a second bond package of nearly $1 billion six months later. Other REITs like Colony American Homes quickly began doing the same, rolling homes like Ellingwood's into a $486 million securitization.

With the securitized homes, the rental income now needed to cover not only the mortgage but also the interest payments distributed to bondholders — creating an incentive to keep occupancy and rents as high as possible. In fact, Invitation Homes' securitized bond model assumed a 94 percent paying-occupancy rate, putting pressure on the company to evict nonpaying tenants right away.

The growth imperative became even more urgent as the REITs began to go public. Since a rebound in the real estate market made acquiring new properties more expensive, companies looked for growth from their tenants: i.e., by raising rents, cutting down operating costs and maximizing efficiencies. In a 2016 fourth-quarter earnings call, Tuomi, the chief executive of Colony Starwood (formerly Colony American), declared that "not getting every charge that you are legitimately due under leases" — termination fees, damage fees and the like — is "revenue leakage." In 2016, Colony made $14 million on fees and an additional $12 million on tenant clawbacks, like retaining security deposits, says Aaron Glantz, author of "Homewreckers," a book on the single-family-rental industry.

"What is really dangerous to tenants and communities is the full integration of housing within financial markets," says Maya Abood, who wrote her graduate thesis at the Massachusetts Institute of Technology on the single-family-rental industry. "Because of the way our financial markets are structured, stockholders expect ever-increasing returns. All of this creates so much pressure on the companies that even if they wanted to do the right thing, which there's no evidence that they do, all of the entanglements lead to an incentive of not investing in maintenance, transferring all the costs onto tenants, constantly raising rents. Even little, tiny nickel-and-diming, if it's done across your entire portfolio, like little fees here and there — you can model those, you can predict those. And then that can be a huge revenue source."

As Tuomi put it in 2016, "Ancillary revenue is the first kind of low-hanging fruit."

Ellingwood was soon paying more in rent than he had paid for his first and second mortgage combined. When he owned the house, the most he paid was $3,300 a month. Strategic and later Colony American increased his rent from $3,500 to $3,800 in just a few years. (Strategic did not respond to questions about Ellingwood's tenancy or that property.) In August 2017, Waypoint increased it again to $4,150 (a 9.2 percent year-over-year increase — nearly five percentage points higher than the already-burdensome city average). And that didn't include fees. When Colony took over from Strategic, it introduced an online payment portal. All tenants were required to use it — and using it cost a $121 "convenience fee." "It was anything but convenient," Ellingwood told me. After submitting the payment, which went to the national office, the tenants, he told me, were obligated to call the local office to report it. Once, a landscaping charge appeared on his bill, even though no one was landscaping his property. Three months later, a worker showed up at his house for the first time and asked him to sign a work invoice. Ellingwood refused. (He was able to get the fee removed.) But the fees, many of which were outlined in his lease, kept coming: lawyer fees, utilities conveyance fees, pipe-snaking fees. In 2015, Colony emailed about a lease renewal, asking him for a new security deposit and inquiring whether his appliances had been included in his original lease, as if to suggest he should be paying a fee for them. "I bought these appliances," Ellingwood told me. He emailed back: "I have receipts."

There were also late fees, with which Ellingwood became all too familiar. In 2013, the economy was still weak, and his income was irregular. The bills, however, didn't stop: $600 a month just for water, power and gas. Then there was child support. He took on odd jobs as a fence builder and an insurance-claims inspector. Sometimes his mother, Dana, who was laid off from an insurance company in 2008, would buy a big cut of meat and ask Ellingwood and his girlfriend, a caterer, to cook it for her, so they could all share it and Ellingwood wouldn't feel like an object of charity.

One of the first times he was late, a notice of eviction was posted to his door. He paid the rent — and the $50 late fee. But three days later, there was another pay-or-quit notice — this time because he hadn't paid a $35 delivery fee for the late-fee notice. The second eviction notice, in turn, incurred a second $35 delivery fee. Over the years, he amassed a stack of late fees, more than 40 of them. "It's embarrassing," Ellingwood told me, handing over the stack. Three-quarters of the time, he was late because he didn't have the money in the bank. One-fourth of the fees were incurred because he was frustrated; he wanted to put pressure on a company that he felt invested nothing in the upkeep of its properties.

After taking Ellingwood to court in Santa Monica in 2013, his landlords filed for eviction two more times over late payments. Struggling with the almost 10 percent rent increase, Ellingwood was late but caught up a couple of weeks before his court date. He paid not only the rent, but $200 in late fees, $70 in notice fees and a $710 legal fee. A tenant is charged the moment Waypoint or, later, Invitation Homes emails its lawyers to initiate an eviction, whether the company's lawyers do work or not. (Kristi DesJarlais, a spokeswoman for Invitation Homes, says that the company follows "local laws and practices on all legal proceedings.") According to Ellingwood, Waypoint thanked him and told him he didn't need to appear in court. Waypoint, however, never canceled the hearing. Its lawyers showed up, and when the judge marked Ellingwood absent, Waypoint was granted a summary judgment for eviction. Waypoint sat on that judgment until the next time Ellingwood was late: Then the company didn't bother to post a three-day eviction notice; Ellingwood said it sent the sheriff. Fortunately, Ellingwood had learned from his high-conflict divorce to document everything, and after the sheriff reviewed his emails with Waypoint, he told Ellingwood to get a lawyer.

For seven and a half years, meanwhile, Ellingwood watched as his home began to crumble. He kept up what he could: He tended his garden, and he made small fixes like snaking the pipes or repairing a short. But he couldn't tackle the bigger things. The exterior paint peeled and chipped, and the wood underneath began to rot. After a leak in the bathroom, mold grew on the tiles. Invitation Homes would agree only to crudely patch up the walls where the leak was — with Ellingwood's own supply of drywall. He had to decide whether to live with the mold or spend the money to fix it himself. He invested a few thousand dollars in a new bathroom floor. Other leaks, however, sprang up. It turned out that the home's water pipes were rusted. It took nearly five years for the company to fix an eight-foot section. The shower in a second bathroom continued to leak into the darkroom, ruining the vintage photos shellacked into the walls and ceilings. The company slapped grout over the cracks. The shower still leaks. "Good thing it's not your main shower," a representative told him. (DesJarlais declined to comment on Ellingwood's situation but said that some tenant complaints "date back to previous companies that no longer exist, and in no way should it be suggested that their practices are applicable to the current operations of Invitation Homes.")

The company certainly didn't seem to care about the floodplain at the back of Ellingwood's property. During El Niño, the backyard became a small sea that lapped at his house. The wooden stairs to his granny unit began to split from the side rails. He propped them up with two-by-fours. After two years of Ellingwood's duly noting the damage and the risks it presented, Invitation Homes asked him to fill out an online work order. Four different workers came to give quotes. "They were looking for the cheapest repair," Ellingwood said.

Finally, the company picked a man who just wedged new planks on either side of the steps so that they would reach the side rail and bolted everything together. Ellingwood took me out back and poked the base of the steps. The wood crumbled like a soggy graham cracker.

Ellingwood and his girlfriend, Amber Linder — who lived with Ellingwood and helped with his rent — had no idea they weren't the only miserable Invitation Homes renters until 2017. During a trip to Pittsburgh, Ellingwood saw a television news program with a report about the poor conditions of the company's rental properties. Through a Google search, he found a private Facebook group of disaffected tenants, now called Tenants of Invitation Waypoint Homes. "That's when I realized this was not just one small company — it was a national corporation," Ellingwood told me.

Ellingwood was afraid to join the group, certain that it had been infiltrated by company spies. But by March 2018, he was frustrated enough to ask for membership and discovered that there were more than 1,200 people with complaints just like his. Reading through the comments brought relief. He was especially inspired by the group's organizer, Dana Chisholm. "She knew her stuff," Ellingwood told me.

On yet another sunny Los Angeles day in late April, I drove inland to meet Chisholm at a Panda Express on the side of Interstate 5. She is an anti-abortion, Trump-loving conservative Christian who prays every day for the demise of Invitation Homes. She wore a purple shirt, a flowing purple skirt and a silver cross toe ring. "Send" and "Me" — representing Isaiah 6:8 — were tattooed on her heels. "I am the biggest Trump supporter you are ever going to meet," she told me. "But this is one area he's furiously failing at. It's not like he doesn't know." Stephen Schwarzman, Blackstone's chief executive, was once the chairman of the president's economic advisory council and remains a close adviser. The chief executive of Colony Capital, Thomas Barrack, was not only among the largest donors to President Trump's campaign but also served as chairman of his inaugural committee. Steven Mnuchin, now the Treasury secretary, bought the toxic debt of the failed California bank IndyMac with several other investors and, as chief executive and chairman, renamed the bank OneWest and then foreclosed on more than 35,000 Californians, reaping government subsidies on nearly every one.

In June 2016, Chisholm told me, she rented a tan-colored ranch house in La Mirada from Waypoint Homes. The house had some problems — the dishwasher was broken, and the faucet in the kitchen barely worked. But her leasing agent promised to have those things repaired, so she signed: $3,000 a month plus a $100 pool-service charge. After moving in, she realized the pool was losing an inch and a half of water a day — it was leaking into the ground — so she deducted the pool fee from her next month's rent. She also asked to have the smart lock that came with her home disabled and deducted the monthly $19.95 charge. In mid-July, she got a call from her leasing agent asking her why he was being asked to show her house again. "That was his way of giving me a heads-up," Chisholm told me.

She looked at her bank account and realized that her rent check hadn't been cashed. Waypoint told her that it hadn't been received. In August, she got an automated email from Zillow that inexplicably advertised her home. An Invitation Homes employee emailed to tell her that she would be sent into automatic eviction but that she shouldn't worry, they wouldn't act on it. By then the refrigerator had broken, rats ate the bananas on her kitchen counter and two-inch cockroaches climbed the wall into in her granddaughter's crib. (Waypoint authorized only two exterminations per year.) Chisholm's August rent check hadn't been cashed, either.

She was told it hadn’t been received. She begged the office manager to visit her house and observe the problems firsthand.

According to Chisholm, the manager sat with her for hours and broke down in tears. “You don’t know the environment that I’m working in,” Chisholm says the office manager told her. “Your property manager is lying to you. She has all your checks. They’re stacked up on her desk.” She explained why: By claiming not to receive the checks or by refusing to cash them on the grounds that “they weren’t for the full amount owed” (Chisholm was withholding the pool fee until the problem was fixed), the company could still evict her for nonpayment. The manager promised to send the checks to Chisholm via certified mail so that she would have proof of payment. And she did. (The manager did not reply to requests for comment.) While Invitation Homes declined to comment on the experiences of any individual tenants, it said in a statement, “We aren’t always perfect, but we do work every day to provide the best possible experience for our residents.”

In February 2017, Chisholm started her first Facebook group. The only person she knew to invite was a fellow tenant of Waypoint Homes, who found her on Yelp. (He wrote to her, bewildered that she had written a positive review of the company; she had done so the month she moved in because a maintenance worker said his bonus depended on it.) But the group grew, gaining hundreds of members in the first few months. Suddenly she was fielding messages and phone calls from tenants around the country — particularly in Chicago; Phoenix; Atlanta; Florida; Los Angeles; Riverside, Calif.; and Las Vegas, the places where private equity had invested most heavily.

She started to notice patterns. False advertising was one of them. Helena Abonde, a Swedish woman, began to post frequently to the group. In May 2017, she had to leave North Carolina in a hurry after living with her cousin didn’t work out. She decided to return to her old job in Los Angeles and began looking online for housing. She spotted a listing on Zillow — a property in Van Nuys owned by Invitation Homes — with central air-conditioning and a fenced-in yard, perfect for her two beloved dogs. She called the listed number and was cautioned that houses were flying off the market and that if she didn’t sign a lease and send the first two months’ rent and a security deposit — a total of $6,000 — she would miss out on it. Abonde packed up her car, and as she was driving across the country with her dogs, the leasing agent, Alisa Cota, sent her a 42-page lease. At a rest stop in Albuquerque, Abonde signed it and emailed it back.

When she arrived at the house, no one was there to meet her; instead, Cota sent her the code to the smart lock. Her dogs were panting in the May heat of the San Fernando Valley, and the house was boiling inside. Abonde couldn’t find the air-conditioning controls and called Cota, who looked up the house and told her that the home didn’t have air-conditioning and that she had signed a lease agreeing to the house as-is. If she broke it, she would have to pay two months’ rent after giving notice — $4,800. (Cota apologized to Abonde after quitting her job at Invitation Homes.)

Another common practice was charging burdensome fees. For each utility bill received by Invitation Homes — many single-family-rental companies, or S.F.R.s, put utilities in the company’s name and then charge the utility back to the tenant — the company levies a $9.95 “conveyance” fee. The company also piled on landscaping fees, $100 monthly pool fees, a $50 monthly pet fee (“pet rents” were up 300 percent, Invitation Homes announced in 2017, accounting for additional gains of $1.5 million) and automatic enrollment in smart-lock services for $18 to $20 a month. The first month of the smart-lock service was free, so that by the time the charge appeared on the rent bill, it was too late to opt out, per the nearly 40-page lease.

And then there were the fees people were charged when they moved out. In Lancaster, Calif., Invitation Homes billed Amy Feng for new doorstops, blinds, toilet-paper holders and shower heads. She was also billed to replace carpet that was 10 years old. In Phoenix, Serena and Latisha Rich lived with a broken sink and leaking pipes despite multiple requests for repair; eventually, they decided to move out. They said no one from Invitation Homes ever arrived for a walk-through, so they took time-stamped photos to prove they left the home clean. Weeks later, Colony Starwood billed them for more than $5,000 in damages for bedroom doors split in half and broken furniture and fixtures. The Riches took Colony Starwood to court themselves and won.

Of all of Invitation Homes’s practices, those that most alarmed Chisholm involved habitability issues — poor maintenance and lack of inspections. In Georgia, as reported in The Atlantic last year and documented in a Facebook video, Rene Valentin and his wife and their two young children rented a home with defective piping. Their home flooded six times. Once, the water ran six inches high. They say Invitation Homes would pay neither for the removal of the mildewed carpeting nor for the family to stay in a hotel. (When contacted, the Valentins could not comment for this article because they were in negotiations with Invitation Homes.)

As moderator of the group, Chisholm began taking it upon herself to intervene on behalf of tenants. She would email blast Stephen Schwarzman, the chief executive of Blackstone; Charles Young, the chief operating officer of Invitation Homes; Mark Solls, the chief counsel of Invitation Homes; and various Blackstone officials who were members of the Invitation Homes board. Often, the local office would suddenly respond to the issue within hours. (DesJarlais, the spokeswoman for Invitation Homes, says that if this happened, it was a coincidence.)

So when William Scepkowski, a Marine veteran, sent Chisholm pictures of his young daughter’s pink, rashy back, a result of her prolonged exposure to toxic mold, Chisholm began emailing. According to Chisholm, Scepkowski couldn’t get anywhere with the local office. He moved his family to a hotel and at 9 p.m. on a Friday cold-called Schwarzman at his office in New York and left a message. The next day, Chisholm says, he got a call from Rob Harper, an Invitation Homes board member and Blackstone employee, who asked Scepkowski how Blackstone could right the situation. Chisholm says Scepkowski eventually settled for enough money to put a down payment on a house of his own. (As part of the settlement, Scepkowski signed a nondisclosure agreement, so he couldn’t comment for this article. Harper declined multiple requests for comment.)

Not long after, in late August 2018, Chisholm told me she got a call from a number she didn’t recognize. “Hi, Dana. This is Mark Solls” — the chief counsel of Invitation Homes. Dana waited, then laughed. “Charles and I want to fly out to meet you Friday,” she says he said, referring to Charles Young, the chief operating officer. Solls asked that she not tell her Facebook groups, and she agreed — not, she says, because they were asking her to but because she didn’t want to alarm or excite them. Chisholm spent the intervening days in fear. “These big, global megalandlords, they’re flying out within days just to meet with me,” she told me. “It was overwhelming. I was scared, scared, scared, scared.” She got a manicure to soothe her nerves and asked her church group to pray for her. On Friday morning, she met Solls and Young where they were staying, at the new Marriott M Club in Irvine, paying $23 for parking.

“What do you want from us, Dana?” Young said, according to Chisholm. “And I said, ‘Um, I want you to admit that you don’t have a 99.8 percent satisfaction rate!.” — something the company claimed.

“I won’t say those words,” Young said slowly, according to Chisholm. “I will say we have room for improvement.”

According to Chisholm, Solls and Young told her that they wanted Chisholm to change the narrative about their company. She told them that changing the narrative meant changing what they were doing. At one point, Chisholm said, “If you want to change the narrative, resolve my issue right now.” In April 2017, she had settled the eviction suit that they filed against her. She paid $11,000 and got her $5,000 security deposit back. For the entire year, on a house that was leased for $3,000 a month, she paid only $9,000. But she insisted that it didn’t make up for the pain and suffering she was confronting every day. “I said something preposterous,” she told me of the meeting with Solls and Young. She asked to be given her house and millions of dollars for a tenants’ fund. “Mark said: ‘We can’t offer you the house. You know that.’ ‘I don’t know that, Mark,.” she said. “We can’t give you that house,” Young said, according to Chisholm, “but we can give you enough money to buy a house.” “Mark shot him a look like I thought it was going to kill him right there!” Chisholm told me. When they left, Young and Solls promised to call Chisholm on Monday to build trust.

Over the weekend, Chisholm thought more about how Invitation Homes could redeem itself, and for hours she worked on a proposal to create a victims’ fund that wronged tenants could access in the event that, say, they needed a hotel room because their house flooded for the sixth time. (Chisholm has at times solicited money from group members to support tenant actions against the company.) She thought $25 million was fair — the same amount Schwarzman had announced he was donating to his high school. And she wanted her nonprofit to have full control of that money and how it was spent. When Solls and Young called as promised, she mentioned her proposal to them and then followed up with an email.

The next day, Solls called while Chisholm was driving. Her proposal would cost way too much, he said. Instead, he offered her a consulting job contingent on her changing the story about Invitation Homes on her Facebook groups: $10,000 a month, with a $50,000 bonus and another $50,000 in six months “if she behaved — well, those are my words not his,” Chisholm told me. “It was an insult. I would have loved to consult with them if they were willing to change.” Solls and Young declined to comment on their conversations with Chisholm. But DesJarlais, the Invitation Homes spokeswoman, wrote in an email: “We were hoping to engage in a constructive dialogue with Ms. Chisholm about whether she could offer helpful guidance. In the end, we could not make it work. But we respectfully disagree with how she characterized those conversations.” Since late 2018, Chisholm has been consulting for other institutional investors instead.

The worst thing about Invitation Homes, in Chisholm’s opinion, is the way they create fear in their tenants. “You either pay these fees and settle with us or we’ll make you homeless, or we’ll ruin your credit with an eviction,” she said of Invitation Homes’ practices. “That is the threat renters live under!”

Invitation Homes and Blackstone insist that they have had no impact on the housing market — other than to set what they describe as a “higher standard for quality across the board.” Company associates repeatedly emphasized that Invitation Homes owns less than 1 percent of the nation’s single-family-rental housing and that it has invested an average of $25,000 into each home it owns. The company says its self-reported statistics speak for themselves: a 96 percent occupancy rate and a 70 percent renewal rate. And in general, Invitation Homes says, renters stay in its houses an average of three years.

But there are other factors to consider. One is the demographics of the single-family renter. According to Invitation Homes, its average tenant is 39 years old, and tenants’ average household income is about $100,000 a year (which, in expensive rental markets like California, is solidly middle-class). About 60 percent of tenants have one or more child at home, half have a college education or higher and 56 percent have a pet (“They pay a special extra fee for that,” DesJarlais told me). According to the credit-rating agency D.B.R.S. Morningstar, the tenants of Colony, which Invitation Homes absorbed in 2017, were “typically former homeowners who often have families and ties to the neighborhood, including a preference for the local school district.”

And so, having bought the bulk of foreclosed homes in certain desirable neighborhoods — many of which didn’t have rental inventory before the crisis — these companies now have what Suzanne Lanyi Charles, a professor of urban planning at Cornell, characterizes as oligopolistic power over some local housing markets. Institutional investors own 11.3 percent of single-family-rental homes in Charlotte, 9.6 percent in Tampa and 8.4 percent in Atlanta. (And as new landlords, they often control a majority of open listings, “which is what renters care about,” Daniel Immergluck pointed out to me.)

Edward Coulson, director of the Center for Real Estate at the University of California, Irvine, found that if single-family-rental ownership in a neighborhood went up by 10 percent, property values went down by 4 to 7 percent. Nevertheless, across its 17 markets, Invitation Homes’ rents increased an average of 4.1 percent from 2018 to 2019. In no market did the company’s rents decrease (though in Nashville, the company, which owned more than 700 homes there, couldn’t reach the scale it wanted once the market recovered and so shed all of them). Despite concerns — 698 complaints and an alert on its Better Business Bureau profile — demand has remained strong. “There’s a lack of affordable housing in the market on the for-sale side,” Rahmani told me. “Home builders are facing challenges to build entry-level homes. Millennials are choosing to rent longer. There are issues with finding a down payment. There are elevated levels of student debt. Changes in the work force, in terms of how long their job will last and needing to be mobile. So sinking a lot of capital into a house might be something millennials choose to delay.”

Besides former homeowners intent on maintaining an address in a certain school district, typical tenants, according to a former employee, are those who need to find a home quickly. In certain areas, Invitation Homes also seems to rent to a higher-than-average number of minorities. In a small survey of 100 tenants in Los Angeles County, Maya Abood found that 35 percent identified as black or African-American, 39 percent identified as Latino, 23 percent identified as white and 4 percent identified as Asian. According to Abood, neighborhoods in Los Angeles where at least 15 percent of homes are owned by the largest single-family-rental companies have an average black population of 30 percent. Neighborhoods where no homes are owned by large single-family-rental companies have an average black population of only 6 percent. Evictions are often higher in majority-minority neighborhoods. According to Elora Raymond’s research at the Atlanta Federal Reserve, nearly a third of all Colony American tenants in Georgia’s Fulton County received an eviction notice in 2015. One of the strongest predictors was the concentration of African-Americans in their neighborhood.

Moreover, Invitation Homes’ profits are directly tied to focusing on places with population growth and critical housing shortages. California — which is experiencing a well-known housing crisis — accounts for 16 percent of Invitation Homes’ portfolio and is one reason it has stronger returns than American Homes 4 Rent, according to analysts at K.B.W.

Apparently untroubled by these developments, Fannie Mae guaranteed a $1 billion 10-year fixed-rate loan to Invitation Homes in 2017, which was securitized by Wells Fargo. The loan is collateralized by 7,204 Invitation Homes rentals. It was the first single-family-rental loan guaranteed by a government-sponsored entity, and Freddie Mac followed suit. “Why is the taxpayer backing up loans so that they can get reduced interest rates?” said Eileen Appelbaum, co-director for the Center for Economic and Policy Research. “Why do we shift the risk to the U.S. taxpayer and create a huge windfall?” When I remarked that Fannie Mae said it wasn’t going to back any more loans, she laughed. “They won’t have to do it again! This is now an established industry.” If something goes wrong, Invitation Homes is on the hook for 5 percent of losses; the government is on the hook for the remaining 95 percent. So far, more than 10 S.F.R. companies have securitized rental debt, generating 70 securitizations totaling some $35.6 billion.

At the same time, Invitation Homes continues to streamline, centralizing its operations in Dallas and outsourcing much of its customer service to call centers in Romania. According to K.B.W., in-house maintenance crews cover more than 50 percent of repairs; they are salaried, which means less incentive to increase the scope of projects. Eighty percent of prospective tenants view homes via self-show, punching a code into the smart lock at a designated time. Last year, Invitation Homes’ stock was up nearly 50 percent.

In 2017, Blackstone earned more than $1.5 billion on the I.P.O. of Invitation Homes. And since then, now that median housing-sale prices have fully rebounded — up 46 percent since 2011 — Blackstone has realized even greater gains by exiting the business entirely, shedding its remaining 41 percent ownership in a series of billion-dollar second offerings from last March to November. A majority of its shares were bought by mutual funds like Vanguard and J.P. Morgan. According to The Wall Street Journal, the exit earned Blackstone $7 billion, more than twice what it invested. Blackstone, meanwhile, is moving on — to e-commerce warehouses, mobile homes, student housing and affordable housing around the world.

Abood told me that “the easiest thing for people to understand is the most sensationalized: ‘Invitation Homes is a horrible landlord, and people are mad,.” she said. “Yeah, that’s a story. But the harder story to make people care about is the way that all of our lives are starting to be intertwined into these financial markets that most of us have no investment in. The financiers are making so much money that depends on our everyday debt and expenses. Our mortgages, our rents, our car loans, our student loans. And all of that is dependent on low- and moderate-income people.”

Whenever Ellingwood passed by his front door, he was filled with anxiety, afraid of what he might find posted there. It was mid-April, and he was waiting for a late paycheck and was again past-due on his rent. He couldn’t put off paying any longer, so he called his best friend, Mitch Glaser, with whom he was building an organic-fertilizer company, and asked for a loan of $900.

Glaser, whose home had nearly been foreclosed on in 2012, didn’t hesitate. “He could be in my position, and I could be in his,” Glaser told me. Ellingwood hopped in his truck and drove an hour to West Los Angeles to pick up the money. Then he drove to the Invitation Homes office in Pasadena, stopping at a Wells Fargo to get a cashier’s check — the only type of payment the company would accept. Nearly two hours after leaving his house, Ellingwood walked into the small Invitation Homes office. No one was at the front desk, so he rang a bell.

Finally a woman appeared, and Ellingwood handed her his check. It matched the ledger she saw on her screen. Still, she said, “Let me make sure it hasn’t gone up,” and then started messaging her colleague, Ellingwood’s property manager, on her phone. “This is what the ledger shows,” she mumbled as she typed the words. “Please confirm.” Emblazoned across the wall, in big plastic letters, was the motto: “Together with you we make a house a home.”

DesJarlais, the Invitation Homes spokeswoman, later repeated this motto to me. “This isn’t just an in-and-out kind of thing,” she said. “We love our residents.” The company, she told me, is looking to grow in its current markets. “We call that infill — so we’re going to fill in in those concentrated suburban areas that we’re already in … where we already have geographic heft.” The company, she said, is buying more of what their customers want: 1,700- to 2,400-square-foot homes. A former worker told me that in certain markets, the company is selling off the larger homes that are more challenging to rent. When I asked DesJarlais whether “infill” purchases affect regional housing affordability, she replied, “The word ‘affordable’ is kind of a subjective term.” Later, she emailed to say, “Our minimal percentage of all purchases in our markets can’t possibly impact affordability — the numbers just don’t hold up.”

At the end of June, Invitation Homes emailed Ellingwood his lease-renewal offer, extending an “early-bird special” with a monthly rent of $4,351 for the first 12 months and $4,569 for the second 12 months if he signed his lease within 10 days. The new 39-page lease made him responsible for things that were typically the purview of landlords: He was financially liable if the home became infested with bedbugs; the company was generally not liable if he sustained property damage, injury or death from exposure to mold. It also said that if Invitation Homes had to take him to court again, he agreed to leave once and for all.

Ellingwood asked the company to show some compassion and not raise his rent. But he had no law to lean on. In the fall of 2018, when California voted on Proposition 10, a bill that would enable local jurisdictions to determine whether rent control or rent stabilization should extend to single-family rentals, the No on Prop. 10 campaign raised $65 million, much of it from publicly traded REITs — more than two and a half times the amount raised by the proposition’s supporters. Blackstone contributed $5.6 million to the No campaign, and Invitation Homes contributed nearly $1.3 million. The measure was roundly defeated. But this fall, California legislators passed A.B. 1482, a measure that limits rent increases to 5 percent plus inflation for the next 10 years. For the first time in the state’s history, this rental cap applies to single-family rentals owned by corporations or institutional investors.

When Ellingwood didn’t hear back regarding his rent request, he followed up, and after two weeks, the renewal coordinator for Southern California West cut his rent increase in half. Ellingwood didn’t agonize over whether to agree; he signed almost immediately. The only nightmare greater than renting his home from Invitation Homes was *not* renting his home from Invitation Homes. Even if he had the money to front a move, which he didn’t, his credit wasn’t good enough to clear a rental application in a housing market as competitive as Los Angeles’s. Moreover, deep down, he believed he had been wronged — first when his house went to auction and then again when Strategic reneged on its promise to sell it back to him. If only he could find the right lawyer, or prove a nuisance long enough, he would be able to get the house back.

“They’ll want to sell it,” Ellingwood told me at his kitchen table late one night. “Or I’ll fight them to the point where they want to sell it back to me.” Nevertheless, knowing that he would not be forgiven if sent to eviction again, I asked Ellingwood if he was worried. “Of course,” he said. “I’m living on the razor’s edge.”

He paused. “But it doesn’t make sense for them to lose me. In fact, that should make me their favorite customer. They live off of their fees.”

Source: NY times