

Date of Hearing: April 13, 2016

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

David Chiu, Chair

AB 2282 (Calderon) – As Amended April 12, 2016

SUBJECT: Rental housing: large-scale buy-to-rent investors: data collection

SUMMARY: Requires the Department of Business Oversight (DBO) to collect data about large-scale buy-to-rent investors and prohibits a homeowner from selling their home to a buy-to-rent investors for 90 days when the home is not a short sale or a foreclosure. Specifically, **this bill:**

1) Includes the following statement of intent:

"It is the intent of the Legislature in enacting this provision to monitor the investment activities of large-scale buy-to-rent investors in the State of California that have, since October 2013, designed a mortgage-based security supported by the revenue from single-family rental properties.

The emergence of this type of security is likely to grow and scale institutionally owned single-family rental homes to a level that is, at this time, unknown. However, with home prices currently approaching record highs, yet with homeownership at historic lows, it is important to understand the size and scope of investor activity of single-family homes and the impacts it has on the real estate market in California.

It is in the best interest of the State of California to limit the amount of single-family homes that large-scale buy-to-rent investors can own in our neighborhoods and communities. Furthermore, we must protect against the potential displacement of persons residing in single-family home rentals that is harmful not only to the persons displaced by these practices but also to the entire community in which those persons reside. Large-scale buy-to-rent investors own more single-family homes than any other population in the United States, a market once dominated by local, private owners. Limiting the activity of large-scale buy-to-rent investors can have a positive impact on the housing market by providing a greater supply of homes to individual buyers, protect the real estate market from large fluctuations in home prices, create a stronger sense of community in our neighborhoods, and defend the American dream of becoming a homeowner."

- 2) Requires the DBO with any assistance that may be provided by the county recorders to design and implement a registration program for the purpose of registering and monitoring large-scale buy-to-rent investors and analyzing the impacts they are having on the state's real estate market.
- 3) Requires DBO to consider methods to require large-scale buy-to-rent investors to renew registration of their rental property on an annual basis including new and current single-family home rentals that they own or in which they have invested.
- 4) Requires DBO, on or before January 1, 2018, to submit to the Governor and the Legislature a report that includes but is not limited to the following:

- a) Information regarding how many large-scale buy-to-rent investors own property in the state for the purpose of renting the property and which regions of the state their investment activity is occurring;
 - b) The number of single-family homes each large-scale buy-to-rent investor owns;
 - c) An analysis of the potential impacts their investments are having on the local real estate market, including the price of homes, the ability of individual home buyers, specifically those who need financing, to compete against the large-scale buy-to-rent investors;
 - d) The length of time large-scale buy-to-rent investors are holding their property as a rental; and
 - e) How many homes large-scale buy-to-rent investors are selling each year.
- 5) Prohibits a large-scale buy-to-rent investor from placing a bid on a normal sale of single-family home that is not a short sale, foreclosure sale, or real estate owned property for a period of no less than 90 days after the home has been placed on the real estate market.
 - 6) Defines a "large-scale buy-to-rent investor" to mean a publically traded company devoted to holding and managing single-family home rental properties, either on behalf of clients or for itself, and which owns more than 10 single-family homes during a calendar year.
 - 7) Repeals or makes the reporting requirement in this bill inoperative four years after the bill is enacted or four years after the due date of the report.
 - 8) Requires the report created by DBO to be submitted to the Secretary of the Senate, Chief Clerk of the Assembly, and Legislative Counsel.

EXISTING LAW:

FISCAL EFFECT: Unknown

COMMENTS:

During the foreclosure crisis companies like Blackstone purchased homes in foreclosure or short sales. These companies rent these homes and securitize the rental income. According to their representative, Blackstone owns 10,000 to 12,000 rental homes in California. Blackstone is buying homes in conventional sales and their rate of home acquisition is about 300 per month nationwide. It is not clear how many of that 300 are in California.

This bill would require DBO to develop and implement a registration program to register and monitor large-scale buy-to-rent investors. Large-scale buy-to-rent investors are defined as publicly traded companies devoted to holding and managing single-family home rental properties and that own more than 10 single family homes during the calendar year. A year after registering these companies, DBO would be required to submit a report to the Governor and Legislature that describes how many large-scale buy-to-rent investors there are in the state, how many properties they own and where they are located. DBO would need to determine the impact of these companies on homebuyers, specifically those who would need a mortgage and are not paying cash for a home, to compete against the large scale buy to rent investors.

This bill would also prevent a large-scale buy-to-rent investor from bidding on a home sale that is not a short sale or a foreclosure for at least 90 days from the time the home is placed on the market.

Purpose of this bill: According to the author, "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 - midsized 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. 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."

Arguments in opposition: According to the California Apartment Association, "during our recent foreclosure crises in which millions of single family homes throughout the United States were foreclosed upon, some large scale organizations did, in fact, purchase distressed properties in California; they made extensive repairs to them and offered them for rent. If not for the investment of these companies, many of these homes would still remain vacant, boarded up, and deteriorating, exposing them to trespassers, squatters, and graffiti, endangering our neighborhoods. By putting these homes back on the market for rent, these companies have helped to alleviate our lack of available housing in California and have supported the housing recovery in the areas where they have purchased. Rental companies bought these homes because there was a limited ability for individuals and families to buy them given the tightening of credit after the crises. In a study by members of the Federal Reserve of Governors, they report that, "Despite the large amount of attention that these purchases have attracted, we find that buy-to-rent investors have been a very small share of the aggregate market, comprising 1 to 2 percent of all single-family purchases from 2012 to 2014. In contrast, purchases by other investors

accounted for 18 to 19 percent of single-family home purchases during the same period.” They further noted that “. . . this activity also increased the supply of high-quality rental housing, which may benefit a different segment of the population by providing households a way to live in single-family housing and neighborhoods, even if they cannot obtain a mortgage.”

Policy considerations:

Many factors are contributing to the affordable housing crisis facing the state. Lack of new housing stock affordable to buyers is driving up the cost of the existing stock. Many older California's who are ready to downsize and move out of their suburban homes, making them available to first time buyers and families, are remaining in their homes because of a lack of appropriate housing stock that meets their needs.

This bill would limit a homeowners' ability to sell their home within the first 90 days by eliminating a potential purchaser – a publicly traded company that owns more than 10 rental properties. Does the current situation warrant or support the legislature's action to prevent a homeowner from contracting to sell their home to a qualified buyer?

The committee may wish to consider as a first step, prior to limiting a homeowners ability to sell their home to a qualified buyer, requiring DBO to complete the study required by the bill.

Double referred: If AB 2282 passes this committee, the bill will be referred to the Committee on Banking and Finance.

REGISTERED SUPPORT / OPPOSITION:

Support

None on File

Opposition

California Apartment Association

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