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CORPORATE LANDLORDS AND MARKET POWER:

What does the single-family rental boom mean for our housing future?

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April 2022

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This research was undertaken at UC Berkeley, a land grant institution that sits on the territory of xučyun (Huichin), the ancestral and unceded land of the Chochenyo speaking Ohlone people, the successors of the sovereign Verona Band of Alameda County. This land was and continues to be of great importance to the Muwekma Ohlone Tribe and other familial descendants of the Verona Band. The university's use and occupation of this land has benefited the Berkeley community. It is vitally import-ant we recognize the history of the land on which we stand, and that the Muwekma Ohlone people are alive and flourishing members of the Berkeley and broader Bay Area communities today.

Disclaimer:
The views expressed herein are those of the authors and not necessarily those of the University of California, Berkeley as a whole. The authors alone are responsible for the content of this report.

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Executive Summary

Introduction

The single-family rental (SFR) industry became a new site of institutional investment in the aftermath of the 2008 foreclosure crisis. The four largest public and private SFR operators together control over 200,000 homes, with portfolios ranging from 30,000-80,000+ properties. In this report we examine SEC filings and quarterly investor calls to trace how different single-family operators and institutional narratives have evolved, the growth strategies they have developed, and their consequences for renters and the housing market more broadly.

Background

Corporate consolidation in the SFR sector is rooted in the intertwined crises of finance and mortgage foreclosure that played out over a decade ago, and the wider macroeconomic and policy shifts that ensued. Together with these political economic conditions, rapid advances in digital technologies, data, and analytics have been a crucial factor in the corporate transformation of SFR and the housing landscape more broadly.

The pandemic boom

Despite initial concerns the COVID-19 pandemic would precipitate a housing downturn, it sparked a surge of demand from investors and owner-occupiers. The SFR asset class has boomed in the pandemic, drawing interest from a wide range of investors and spawning new business models and partnerships. At least $50 billion worth of investor and capital transactions were announced in the sector between March 2020 and January 2022

Introducing the key players

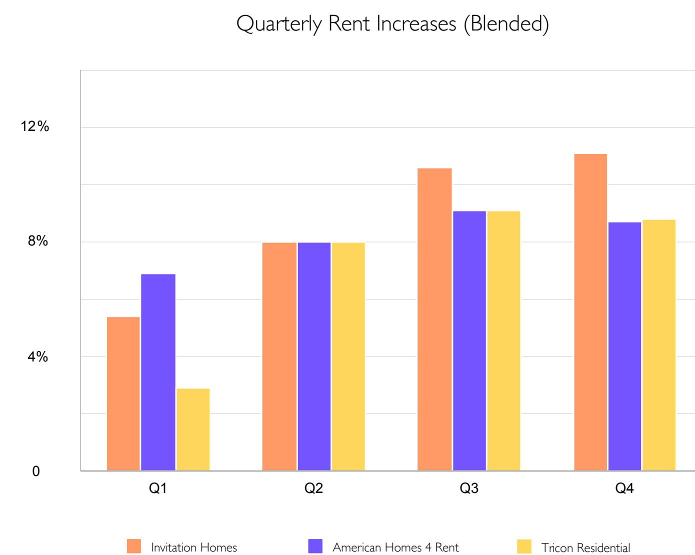
For this report, we looked at four leading single-family rental operators: Invitation Homes, American Homes 4 Rent, Tricon Residential, Front Yard Residential. These operators are carving out different market niches, including high-end rentals equipped with smart home features and workforce housing, as well as seeking to capture tenants at different life course stages. Whereas the corporate SFR industry highlights their small overall share of the market, the institutional SFR industry is not evenly distributed throughout the country. Instead, it is highly geographically segmented. Key

players have set their eyes on the Sun Belt, and to a lesser extent, the Midwest, and compete with would-be owner-occupiers for starter homes.

Growth strategies

As the pool of foreclosed properties has largely dried up, SFR companies are developing new strategies to continue increasing growth and returns for shareholders. They focus on four primary growth drivers: scaling up the size of their portfolios, increasing rents, increasing fees and ancillary revenue, and cutting costs.

In terms of **scaling up portfolios**, 2021 was a record year of acquisitions for Invitation Homes, which deployed $1.95 billion to acquire 4,802 homes, more than double 2020 acquisitions. While Invitation Homes has largely focused on traditional acquisition channels, American Homes 4 Rent is aggressively pursuing a build-for-rent (BFR) strategy through acquiring land and constructing SFR homes; the firm added 3,291 BFR homes to their portfolio in 2021 and 2,553 through other channels. Tricon American Homes has also expanded into BFR through a partnership with pension fund for Arizona state workers, with plans to build over 20 new home communities across the Sun Belt.



While each company employs different growth strategies to scale up their portfolios, one aspect they all have in common is pushing **outsized rent hikes** on tenants. This aspect of their business model directly conflicts with coordinated public relations efforts to cast the corporate SFR industry as a champion of professionalized affordable housing. All three publicly listed SFR landlords logged **major rent increases** in 2021, and the size of increases grew as the year progressed.

SFR operators also pursue profits by **creating new fees** and "ancillary services" charged in addition to monthly rent payments; such fees work to squeeze more revenues from portfolios, even when the portfolio size is not increasing. Based on a recent earnings call, Invitation Homes is on track to secure ancillary income of close to $30 million annually by the end of 2022. American Homes 4 Rent prioritizes tenant charge-back fees (a way landlords recover expenses they deem to be the tenant's responsibility, e.g. emergency plumbing services or bulky trash pickup), last year securing $178 million, or 15.8% of their core revenue from tenant charge-backs. Ancillary fees are also a growing part of Tricon's business model; the firm plans to increase ancillary fees by 30% per home over the next few years.

Corporate are actively finding ways to **cut down costs,** particularly through technology and the built environment of homes. From acquisition to tenant screening to self-showing and virtual tours, corporate landlords rely on tech to reduce friction and make operations more efficient and cost-effective. Property tax appeals are another cost savings strategy; property taxes constitute the bulk of operational expenses for corporate landlords, making property tax appeals especially salient in the context of rising home values seen over the course of the COVID-19 pandemic.

Broader consequences

Institutional SFR operators have consequences beyond the tenants directly renting from them. In response to rising asset prices, SFR operators (and homebuilders) are **doubling down on unsustainable development models** with "build for rent" projects. They are rapidly acquiring land and control over development of new rental opportunities, fueling large-scale suburban homebuilding operations in areas plagued by climate change and environmental vulnerabilities. Large corporate actors also put their **investment priorities ahead of community stability** through aggressive eviction practices, efforts to achieve cost savings at the expense of tenant safety and funding public services, and mobilizing politically against tenant interests. Finally, the corporate SFR boom is **breeding imitation and potential for predatory investment models** through the growth of business models that nominally "democratize" real estate investment, drawing participants into the rental market as either landlords or eventual homeowners (rent to own).

Conclusions

What does it mean for the rest of us when a handful of landlords have so much power? For regular people, the structural advantage enjoyed by corporate landlords amplifies the inequalities endemic to capitalist housing systems. Amid the new round of investor-led growth, corporate landlords are poised to expand their portfolios further. As they take on an outsized role in the markets where their footprint is the largest, access to billions in investment capital seeking returns in the hot housing market and troves of data from their in-house operations put corporate landlords in a position of structural power in the market.

What can we do about it?

1. Foster greater transparency of property ownership and rental practices: A combination of insight into beneficial owners and rental registries would enable researchers and policymakers to study the business practices of corporate landlords and respond with appropriate local measures. But to be clear, such transparency is a necessary, but not sufficient policy goal.

2. Implement broad-based tenant protections: The data discussed in this report and the wider context of growing rental affordability challenges point to the need for nationwide, broad-based tenant protections to limit rent increases, ancillary fees, and fines and to promote security of tenure. The property rights of landlords should not take priority over the fundamental role of housing in supporting life, safety, and welfare.

3. Consider limiting market share of corporate landlords: Together with the enormous capital and technology resources at their disposal, this concentration of ownership puts corporate landlords in a position to shape the operation of local markets in ways that further strengthen their hand. Policymakers should explore possibilities to limit the market share of corporate landlords within individual metropolitan-scale markets and disincentivize their expansion to other markets.

WHAT DOES IT MEAN FOR THE REST OF US WHEN A HANDFUL OF LANDLORDS HAVE SO MUCH POWER?

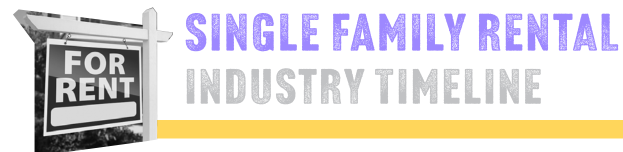
Introduction

The Corporate Consolidation of Single-Family Rental

The single-family rental industry emerged as a new site of institutional investment in the aftermath of the 2008 foreclosure crisis. As millions of Americans across the country lost their homes, investment firms descended, accumulating thousands of distressed properties across the country. Single-family homes are a longstanding and meaningful part of the US rental housing sector.[1] But there was little corporate presence in the single-family rental (SFR) market before 2008 crisis. Ownership was highly deconcentrated, and operators controlling hundreds, or thousands, of properties was unheard of.

Widespread foreclosures, home repossessions by banks, and sheriff's sales of bank-owned homes ushered in a new era of corporate landlordism. This era is marked by a massive transfer of ownership from the hands of Americans into corporate ownership by some of the world's largest private equity and alternative investment firms.[2] Technological advances that took off after 2008, such as cloud and mobile computing, enabled corporate operators to remotely purchase, maintain, and manage dispersed properties.[3] The four largest public and private SFR operators together now control over 200,000 homes, with portfolios ranging from 29,000-80,000+ properties. Beyond these dominant players, numerous other operators own upwards of 1000 SFR homes.

Figure 1: Industry Timeline



2008 - 2011
foreclosure crisis

Millions of U.S. homeowners lost their homes to foreclosure in a mortgage crisis that began in 2007, sparked by subprime loans. Home values plummeted, especially in suburban Sunbelt markets.

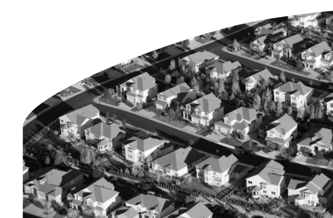
2012 - 2014
flurry of foundings

Investment firms saw an opportunity to acquire single-family homes at bargain prices and rent them out, founding companies to meet growing rental demand. These corporate landlords have transformed single-family rental.

2015 - 2019
industry consolidation

After rolling out new financial instruments backed by rent checks and going public as real estate investment trusts, the largest corporate landlords pursued a new growth strategy: acquiring and merging with smaller companies.

2020 -2021
pandemic boom



Single-family rental has proven remarkably durable during the COVID-19 pandemic, and capital is pouring into the asset class, fueling new deals, new growth strategies, and dramatic rent increases.

Image sources (from left to right):

City of Bronson, City Limits, Fortune, Nix + Gerber Studio for the New York Times, TIME

After an initial period of growth via acquisition of distressed real estate, the corporate SFR sector underwent a round of growth by consolidation as larger firms acquired smaller companies. Over the past two years, the pandemic has drawn a flood of capital into the SFR sector. At least $50 billion worth of investor and capital transactions were announced between March 2020 and January 2022.[4] The current round of investor-led growth will foster the expansion of numerous existing institutional operators and allow new ones to enter the market. This phase is also marked by new models including "build for rent", and a growing number of investment platforms catering to non-professional investors in SFR.

Questioning SFR Industry Narratives

Today, what began as an opportunistic trade has evolved into a full-blown industry, with a sophisticated ecosystem of players acquiring, building, and renting out properties on a long-term basis. Organized into a lobby group through the National Rental Home Council (NHRC), the industry positions itself as helping to solve the affordable housing crisis by delivering an exceptional housing product that meets the needs of millennials in the early years of family formation. An industry-wide narrative has taken hold around the following idea: with new work-from-home and social distancing trends in the wake of COVID-19, the "subscription generation" wants more space - larger homes, away from dense urban areas - without the trouble and responsibilities of being a homeowner. In this narrative, corporate SFR operators are professionalizing the single market, thereby rescuing" of renters from the vast "shadow market" run by mom-and-pop landlords.

How do industry narratives hold up against the operation strategies of corporate landlords? What impact does the institutionalization of the single-family rental business have on renters? Where and how are these companies acquiring and operating properties, and what does this mean for the future of our communities?

Research Approach

We work across multiple data sources to explore these questions in this report. Our research focuses on SFR companies listed on the stock market as real estate investment trusts (REITs). Through REITs, thousands of local homes are aggregated into an asset. Investors can then buy shares in the REIT with the hope of securing dividends through the rent paid by tenants, or the sale of the properties later on. REITS also offer a favorable tax status for both the company and shareholders. Corporate SFR landlords do not exclusively operate as REITS; Progress Residential, one of the largest SFR companies, controls more than 75,000 homes and is privately held. However, REITS are an increasingly common way financial actors are involved in rental housing markets globally.[5] Because REITs are publicly traded, the they are also required to file reports with federal securities regulators. While these public filings do not provide granular insights into specific markets[6] they offer a window into how corporate landlords operate and frame themselves to markets and regulators.

Our report draws on SEC filings and quarterly investor calls to trace how different single-family operators and institutional narratives have evolved over the years, the growth strategies they have developed, and their consequences for renters and the housing market more broadly.

HOW DO INDUSTRY NARRATIVES HOLD UP AGAINST THE OPERATION STRATEGIES OF CORPORATE LANDLORDS?

WHAT IMPACT DOES THE INSTITUTIONALIZATION OF THE SINGLE-FAMILY RENTAL BUSINESS HAVE ON RENTERS?

WHERE AND HOW ARE THESE COMPANIES ACQUIRING AND OPERATING PROPERTIES, AND WHAT DOES THIS MEAN FOR THE FUTURE OF OUR COMMUNITIES?

Background

The emergence of corporate landlords in the SFR sector is inextricable from the intertwined crises of finance and mortgage foreclosures, and the wider macroeconomic and policy shifts the crisis provoked. Together with these political economic conditions, rapid advances in digital technologies, data, and analytics have been a crucial factor in the corporate transformation of SFR and the housing landscape more broadly..

Crisis as Opportunity for Institutional Investors

Before 2008, government inaction largely left homeowners to their own efforts to prevent foreclosure. Loan servicers' perverse incentives to pursue foreclosure, the failure to mandate lender participation in relief programs, and bankruptcy judges' inability to reduce mortgage principal all dampened the effectiveness of federal mortgage relief programs deployed after 2008.[7] These policy shortcomings contributed to an incredible destruction of household wealth[8] as nearly 8 million mortgage foreclosures were carried out between 2007 and 2016.[9]

The foreclosure crisis spared few parts of the US, but corporate landlords were largely drawn to Sun Belt markets in southern California, the Southwest, and the Southeast to amass their portfolios. The Sun Belt region benefited from changing industrial patterns and the growth of the military and defense industries in the last few decades of the 20th century.[10] When the foreclosure crisis hit, housing prices declined most steeply and repossessed properties accumulated in the greatest volume in suburbanized Sun Belt markets.[11] However the preceding era of growth positioned these areas, which benefit from access to job hubs and decent schools, for recovery after 2008. For investors, the substantial devaluation of relatively new family homes in metropolitan areas recently subject to sustained economic growth was a once-in-a-generation opportunity.

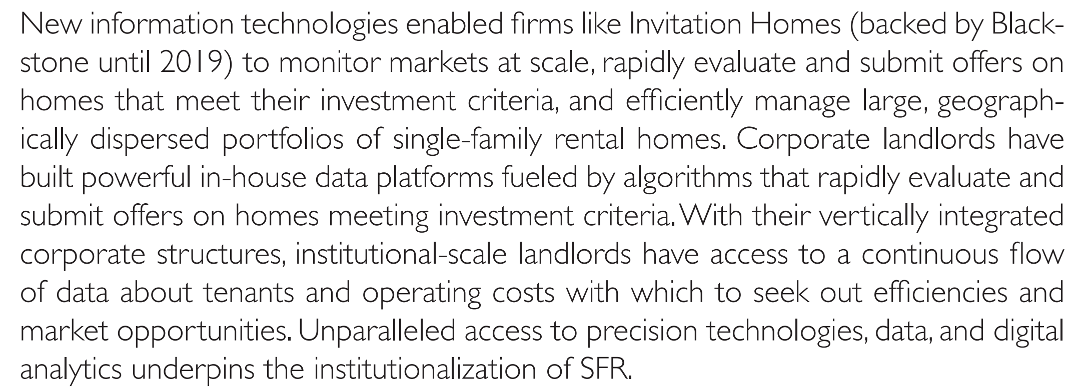
FOR INVESTORS, THE SUBSTANTIAL DEVALUATION OF RELATIVELY NEW FAMILY HOMES IN METROPOLITAN AREAS RECENTLY SUBJECT TO SUSTAINED ECONOMIC GROWTH WAS A ONCE-IN-A-GENERATION OPPORTUNITY.

Political, economic, and technological supports for corporate landlords

The macroeconomic context also strengthened the hand of corporate landlords in other ways. The combination of surging rental demand[12] and constrained mortgage credit[13] assured both customers for their product and little competition from other buyers as investors began to assemble their portfolios in the crucial years after 2008, when home prices were still below their 2007 peak. When financial markets were close to crashing, central banks (including the U.S. Federal Reserve) sought to boost market liquidity by slashing interest rates close to zero. This policy decreased the rate of return on financial assets, leading investors seeking yield toward riskier assets (such as real estate) and investment strategies (such as private equity).[14] This market turn benefited alternative investment funds, such as Blackstone, by giving them access to capital they could deploy to acquire distressed real estate.

Finally, the state has helped stimulate and instill market confidence in corporate landlords. The REO[15] Pilot Program, launched in 2012 by the Federal Housing Finance Agency, sought to gauge investor interest in converting foreclosed homes into rental properties in bulk, offering portfolios of homes in metropolitan areas including Atlanta, Chicago, Las Vegas, Phoenix, and parts of Florida. While real estate investors had long considered bulk purchases of distressed real estate, the REO Pilot Program signaled the state welcomed large players as landlords. Then in 2017, Freddie Mac backed $1 billion of debt when Invitation Homes, the rental company founded by Blackstone, made its initial public offering.[16] Coming from an institution long charged with supporting homeownership by expanding the pool of mortgage credit, the move suggested the government envisioned a larger structural shift away from the U.S. homeownership society. These moves by the state and associated institutions have lent support to an industry whose benefit to society is questionable.

Advances in technology coming to prominence since 2008 have been the linchpin in the corporate consolidation of SFR.[17] Without innovations like cloud and mobile computing, digital platform architectures and business models, and massive data sets and the algorithms that sort them, it would not have been possible for large investors to take advantage of the market dislocation caused by the 2008 crisis.



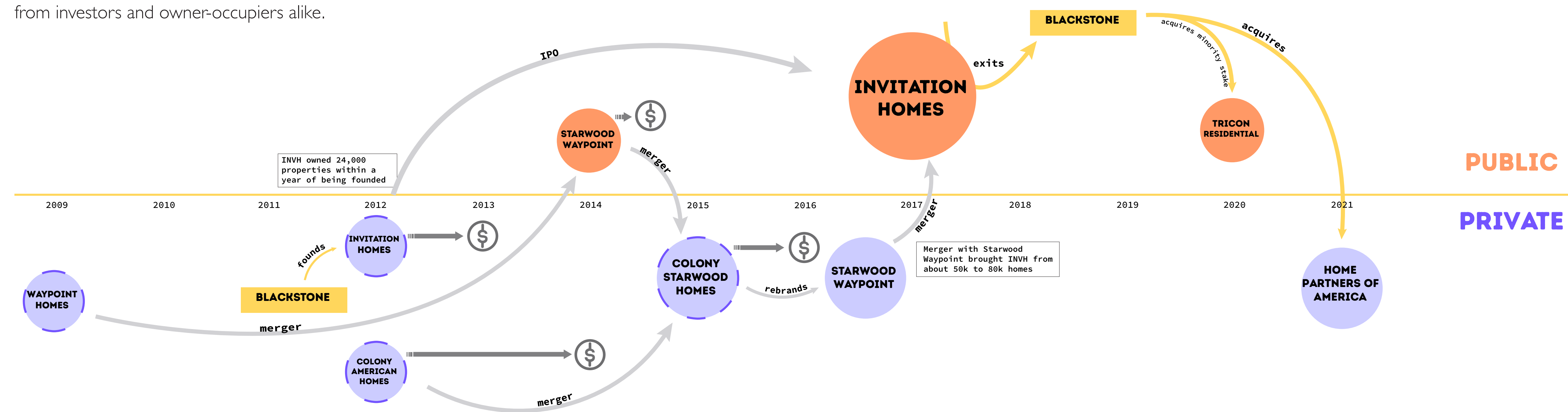
New information technologies enabled firms like Invitation Homes (backed by Blackstone until 2019) to monitor markets at scale, rapidly evaluate and submit offers on homes that meet their investment criteria, and efficiently manage large, geographically dispersed portfolios of single-family rental homes. Corporate landlords have built powerful in-house data platforms fueled by algorithms that rapidly evaluate and submit offers on homes meeting investment criteria. With their vertically integrated corporate structures, institutional-scale landlords have access to a continuous flow of data about tenants and operating costs with which to seek out efficiencies and market opportunities. Unparalleled access to precision technologies, data, and digital analytics underpins the institutionalization of SFR.

ADVANCES IN TECHNOLOGY COMING TO PROMINENCE SINCE 2008 HAVE BEEN THE LINCHPIN IN THE CORPORATE CONSOLIDATION OF SFR.

The Pandemic Boom

Today's major brands established their portfolios in a period of rapid growth from 2012-2014, leveraging both networked digital technologies and the cheap debt made possible by post-2008 quantitative easing (and then even cheaper debt afforded by the securitization of rental income) to acquire foreclosed homes in Sun Belt metropolitan areas hit hard by the crisis.[18] From 2015-2019, large players like Invitation Homes, American Homes 4 Rent, and Tricon American Homes got bigger mainly by acquiring or merging with smaller players. As the industry grew and consolidated, it was also refining its data systems, acquisition algorithms, and geographic and operational strategies. And despite initial concerns the COVID-19 pandemic would precipitate a housing downturn, it sparked a surge of demand from investors and owner-occupiers alike.

Figure 2: Invitation Homes' Path to Dominance



With a global search for investment yield ongoing and investors seeking a safe haven in housing, the SFR asset class has thus boomed in the pandemic.[19] Since March 2020, more than 60 deals representing over $50 billion of investor and capital transactions have been announced.[20] The pandemic boom in SFR has attracted substantial interest from state retirement systems for teachers and public employees, drawn new players like homebuilders and commercial real estate investors, and financed build-for-rent as a new growth strategy amid rising prices for the constrained supply of existing homes.[21] Digital platforms like Roofstock, Entera, and Fundrise, which purport to simplify and democratize SFR investment for individual investors, have also drawn capital in the SFR pandemic boom. However, existing large players hold an early mover advantage and are poised to benefit most from investors' interest in SFR: on earnings calls last year, Invitation Homes, American Homes 4 Rent, and Tricon American Homes all characterized 2021 as a banner year for fundraising, with more and more capital seeking exposure to the SFR asset class.

Private equity and alternative investment firms also remain central to the SFR market. Blackstone, the investment giant that started Invitation Homes and exited SFR in 2019, has re-entered the market in a big way. In 2020 it took a $240 million minority stake in rental company Tricon American Homes and in 2021 the firm acquired rent-to-own company Home Partners of America for $6 billion. Pretium Partners, the private equity parent company of SFR operator Progress Residential (with more than 60,000 homes), has steadily expanded its market footprint from approximately 40,000 homes to over 80,000 homes.

Considering the vast amounts of capital pouring into SFR and the growing exposure of public pension funds to this asset class, it is an important moment to step back and consider what we know about the role of institutional landlords in the SFR market. Through lobbying and public relations efforts, SFR operators have tried to position themselves as positive actors helping alleviate the national housing crisis. Does this narrative hold up? What does it leave out of the frame?

PRETIUM PARTNERS

JUST IN THE PAST TWO YEARS, PRETIUM HAS[22]:

>> ADDED **14,000 UNITS** WHEN IT AND ASSET MANAGER ARES ACQUIRED REIT FRONT YARD RESIDENTIAL FOR $2.5 BILLION, TAKING THE COMPANY PRIVATE;

>> ACQUIRED **1000 PROPERTIES** FROM GTIS PARTNERS FOR $300 MILLION AND ENTERED TWO ADDITIONAL JOINT VENTURES WITH DEVELOPERS TO INVEST **$1.6 BILLION** TOTAL IN BFR COMMUNITIES;

>> ENTERED A **$700 MILLION JOINT VENTURE** WITH CANADIAN PENSION FUND PSP AND ACCEPTED **A $125 MILLION** INVESTMENT FROM TENNESSEE CONSOLIDATED RETIREMENT SYSTEM;

>> AGREED TO ACQUIRE OVER **3000 HOMES** FROM ZILLOW'S FAILED IBUYING BUSINESS.

INVITATION HOMES, AMERICAN HOMES 4 RENT, AND TRICON AMERICAN HOMES ALL CHARACTERIZED 2021 AS A BANNER YEAR FOR FUNDRAISING.

Introducing the Key Players

For this report, we looked at four leading single-family rental operators: Invitation Homes, American Homes 4 Rent, Tricon Residential, Front Yard Residential.[23]

Together these SFR operators own close to 200,000 single family homes, primarily in the Sun Belt.

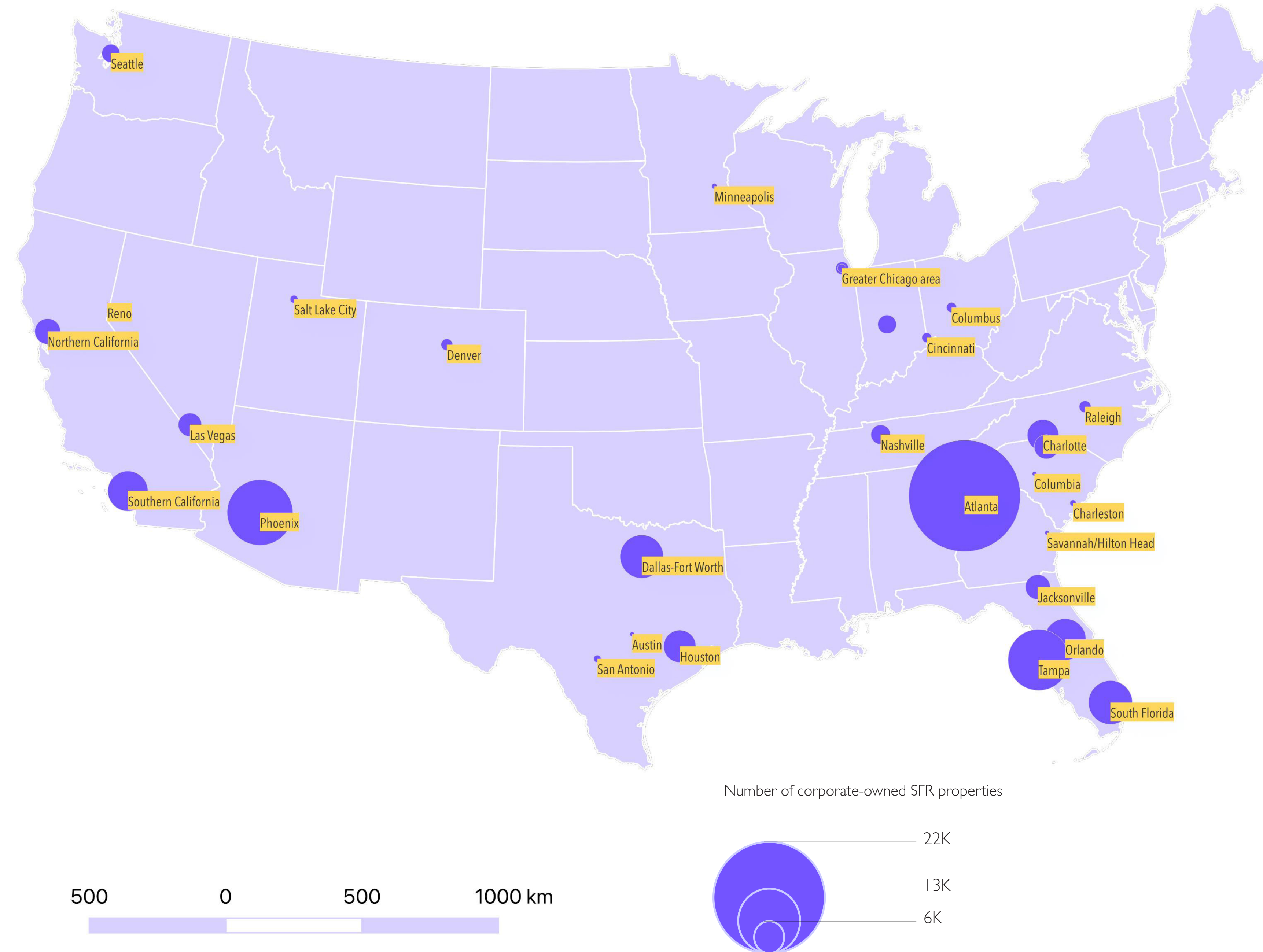


Figure 3: Map of Top Markets for Corporate Landlords

Data based on Q1 2021

Market Niches

Single-family operators are competing in an increasingly crowded space to acquire land and properties and market them to potential tenants. Given this context, companies appear to be carving out different "niches" for themselves.

Well-established REITs with large portfolios, like Invitation Homes and American Homes 4 Rent, are seeking a high-end "product."

They buy larger, newer homes with a high average median rent. The largest player is by far Invitation Homes, with a portfolio of 82,381 single-family homes as of December 2021. Average monthly rents amount to $2036, and the average square footage is 1,870 ft2. They brand themselves as offering "high-quality homes" with luxurious finishes in "sought after neighborhoods." American Homes 4 Rent, the second largest single-family operator, owned 57,024 homes as of December 2021, with an average monthly rent of $1,823 and an average square footage of 1,988 ft^2. Their homes tend to be newer - the average age of their properties is 16.8 years (homes built after 2000), and they are decked out with "modern lifestyle features" such as granite countertops, stainless-steel appliances, luxury vinyl plank flooring, open floor concepts, and work-from-home offices.

Middle players are focused on buying smaller, cheaper, older homes to house the "workforce."

The public reports of single-family operators Tricon (with 24,000 units) and Front Yard (14,000 units when it was acquired by Pretium) offer a glimpse into how these middle players try to differentiate themselves. Tricon's brand is built around serving "the middle-market." Similarly, Front Yard offered housing to "underserved, working-class families" who the company claimed may not be able to afford or "want" homeownership. Tricon's rents hover around $1,562/month on average, and the average home size is 1,655 ft^2. Front Yard served an even lower social strata - with rents averaging around $1,345, and an average property age of 36 years (homes built in the 1980s). It is worth noting that American Homes 4 Rent also brands itself as offering "workforce" housing for blue-collar America, but in practice, their rents are respectively 17% and 35% higher than those charged by Tricon and Front Yard's, and their typical resident profile consists of dual income earners with a combined household income above $100,000. The top employment category among AH4R residents is "business office professional."

Some companies brand themselves as SFR experts with a singular focus; others cater to the full "life cycle" of a tenant.

There is a range of approaches when it comes to the role of single-family rental within a company's larger operations and investment portfolio. For example, American Homes 4 Rent exclusively builds, purchases, and leases single-family homes. Meanwhile, Tricon Residential has a multifamily housing arm (or "vertical") in addition to their single-family rental platform. The value proposition of companies that operate multiple types of housing is that they can cater to tenants throughout their full "life cycle" - from renting an apartment with roommates in a crowded city as a young adult, to transitioning to a more suburban lifestyle after forming a family. Furthermore, Tricon argues expertise from the multifamily industry can be transferred to the single-family sector to maximize efficiency, which is why they hired a multifamily industry veteran to lead their single-family platform.

Geographic Strategies

A common refrain by SFR operators is that they control just a small share of the market. Indeed, the market snapshot provided by the National Rental Home Council, the trade and lobbying group for institutional SFR operators, states its members "comprise just 2 percent of the 16-million-home market" and emphasizes "most single-family investors hold fewer than 10 units".[24] This way of framing market share belies the fact that the institutional SFR industry is not evenly distributed throughout the country but is instead highly geographically segmented. Historically, single-family operators have set their eyes on the Sun Belt, and to a lesser extent, the Midwest.

Institutional landlords do not look to acquire properties uniformly across the country.

They depend on efficiencies that are possible when they achieve scale (usually a few

thousand properties in a metropolitan area), so they concentrate their acquisition efforts on specific markets. A snapshot of the holdings of SFR REITs Invitation Homes, American Homes 4 Rent, Tricon American Homes, and Front Yard Residential (the latter recently taken private) shows a distinctive Sun Belt geography (see Table of top markets and states). This geography largely tracks with the markets where the pre-2008 housing bubble was most inflated and price declines the steepest afterwards, as well as analyses of the top markets for purchases by large-scale investors in the industry's period of rapid growth from 2012-2014[25], and the economic geography of SFR securitization from 2013-2016.[26]

Institutional landlords are not searching uniformly across all single-family homes within their target markets.

In addition to being concentrated in a relatively small number of markets, institutional SFR is also concentrated in specific market segments within metropolitan areas. That is, the "buy box", or the property attributes investors specify for acquisition, does not include all single-family homes in a metropolitan area. They use a specific set of neighborhood and built environment criteria and limit acquisitions to properties they can purchase near or below median prices. According to the NRHC, "three-bedroom, two-bathroom single-family homes priced at the mid-range of the local market" (2021) typically fall within the buy box for their members.

These considerations offer important context for concerns about monopolization, competition with homebuyers, and high rents raised in media accounts of institutional landlords published in recent years.

For example, in one Nashville suburb, four institutional landlords collectively controlled three quarters of local rental houses, outcompeting would-be owner occupiers with all-cash, no-contingency offers and effectively gatekeeping access to particular neighborhoods and public schools, all while asking for rents almost a third higher than monthly ownership costs.[27] After entering the Memphis market in 2015, private equity firm Cerberus Capital Management acquired 1,800 rental homes in three years, making it the city's largest owner of single-family homes and potentially adding to the challenges Black residents face in buying homes in the Black-majority area.[28] In 2021, the investor share of home purchases is growing most in "boomtowns" like Houston, Miami, Phoenix, and Las Vegas in the slice of the market with homes "priced below $300,000 and in good school districts", highlighting how "permanent capital competing with a young couple trying to buy a house" would "make housing permanently more expensive".[29]

An informed understanding of target markets and buy boxes corroborates these media accounts and pokes some holes in the SFR industry narrative of 2% market share.

It also sheds some light on rent increases by corporate landlords during the pandemic (discussed in the next section of this report). Amid the generally heightened demand for space and amenities seen during the COVID-19 pandemic, the flood of capital into SFR is enabling institutional investors to outcompete would-be homebuyers, channeling them back to the rental market and generating spillover demand for SFR homes. Adding to their capital advantage, corporate landlords also have the advantage of exclusive access and speed, due to how they are able to buy the property before it even hits the market (e.g., the iBuyer to corporate landlord channel)[30] or just after it hits the market (thanks to their in-house acquisition algorithms).[31]

Table 1: Top States and Markets

Data based on Q1 2021

Top 5 metropolian areas for major SFR operators	Number of homes
Atlanta	23,000
Phoenix	13,000
Tampa	13,000
South Florida	9,000
Dalls-Fort Worth	8,900
Top 5 states for major SFR operators	**Number of homes**
Florida	37,000
Georgia	27,000
Texas	20,000
North Carolina	15,000
Arizona	13,000

Each company's geographic approach can be summarized as follows:

Invitation Homes

Invitation Homes has the most refined, streamlined geographic strategy. They first started buying single-family homes in 2012 and amassed 11,000 properties within their first year. Over the years, they have "culled" their portfolio while continuing to build scale selectively, focusing on sixteen strategic markets. While they have expanded into the Southeast and Texas in recent years, 71.2% of their total revenue still comes from the West and Florida. On a 2020 investor call, CEO Dallas Tanner stated plans "to buy as much product as we can in Phoenix, Denver, Dallas" while continuing to build their footprint in Charlotte and Atlanta. The company has been getting rid of properties in some parts of the Midwest and South Florida where Homeowner Association (HOAs) are presenting challenges and exited the Nashville market entirely.

Overall, Invitation Homes maintains a restrained, disciplined approach to acquisitions. Their portfolio has stayed at around 80,000 homes since 2017. Their geographic strategy is focused on "infill development," adding density in areas where they already have a footprint. They select markets based on proximity to good schools, transit, and job centers in areas with high population and employment growth. Their infill strategy means they are buying land and properties in dense areas with limited space for expansion; these supply constraints allow them to continuously increase rents.

American Homes 4 Rent

American Homes 4 Rent has cast a wider net to maximize local land buying opportunities. In 2017, their geographic portfolio breakdown featured a category called "Other," which included 21,000 properties in 32 markets across 19 states, in addition to their core markets. Recently they have fine-tuned their strategy to zero in on select markets through the Sunbelt and the Midwest. The majority (61%) of their properties are in Arizona, Florida, Georgia, North Carolina, Tennessee, and Texas, but they also have a sizable footprint in the Midwest, over 9,000 properties across Indiana, Illinois, and Ohio comprise about 16% of their portfolio. Their largest market as of December 2021 was Atlanta, with 5,000+ homes (almost 10% of their portfolio). In recent investor calls, they revealed fifteen preferred markets where they will develop build-for-rent communities. However, they aim to have no more than 10% of their assets in a single market, claiming this "diversification strategy" makes the company more resilient to local change and allows them to strategically acquire land for their build-for-rent operations: "From a land perspective, our diversified footprint and our flexibility and project size positions us to sharp shoot land opportunities quickly" (Jack Corrigan, investor call, Q1 - 2021).

Front Yard

Front Yard's strategy in its early days (2012-2014) consisted of buying non-performing and sub-performing loan portfolios, then converting to REOs. These loan portfolios, which bundled a set of pre-foreclosure properties together, were incredibly geographically dispersed: Front Yard owned properties across all 50 states, plus Puerto Rico. In 2015, they stopped acquiring mortgage loans and started packaging and reselling them, using the proceeds to purchase single-family rentals. They also converted select REOs in their existing portfolio into single-family rentals. Over time, they narrowed down their geographic focus to a handful of states, with their largest market being Georgia, followed by Texas, Tennessee, and Florida. By 2019, these four states represented 70% of their portfolio. Even before being taken private by Pretium recently, Front Yard did not offer insights into which metropolitan markets they are active in, offering only state- information at the state-level.

Tricon Residential

Tricon Residential, a Canadian real estate investment firm, assembled a US-based portfolio of single-family homes in the aftermath of the Great Recession, shifting their assets to the US due to Canada's slower economic recovery In Canada, they assessed opportunities were concentrated in Toronto's luxury multifamily apartment market, while in the US, they viewed single-family homes and manufactured homes as "essential affordable housing" that could withstand downturns. They eventually withdrew from the manufactured housing market entirely and doubled down on single-family rentals. Tricon American Homes (their SFR vertical) has a similar geographic focus to other single-family operators - they focus on the US Sun Belt, where employment and job growth is strong, and tend to prioritize markets where they already are active with their multifamily wing (Tricon Housing Partners). Tricon aims to grow its SFR portfolio to 50,000 homes by the end of 2024.

Growth Strategies

During the early days of the single-family rental industry (2012–2014), the primary acquisition channels for corporate landlords were auctions (where foreclosed homes were sold off to the highest bidder), buying properties one-by-one through the Multiple Listing Service (MLS), or acquiring bundles of homes by purchasing sub-performing loan portfolios (ex: Front Yard).

Today, the pool of foreclosed properties has largely dried up, and SFR companies are developing new strategies to continue increasing growth and returns for shareholders. We can essentially tease out four primary profit drivers for SFR operators:

- **Scale:** Increasing the portfolio size;
- **Rental revenue:** Driving up rents and optimizing pricing;
- **Fees:** Increasing fees and ancillary revenue ("juicing" the portfolio by tacking on additional fees and revenue streams beyond rents);
- **Cutting costs:** Cutting down on land acquisition and development costs, maintenance, property taxes, and other costs incurred by the business.

Below, we summarize how each company approaches these various drivers to maximize returns for their shareholders, and how they leverage technology as part of their strategy.

Scale: Traditional and new growth strategies to scale up portfolios

Given the limited supply of distressed properties remaining on the market and heightened competition to acquire a tight supply of single-family homes, some companies are venturing into new approaches for building scale quickly; others have maintained more traditional acquisition channels.

Invitation Homes

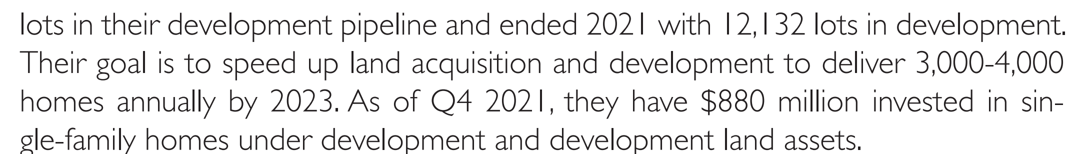
Invitation Homes, given its massive footprint, seems to be under less pressure to grow immediately. Since their merger with Starwood Waypoint in 2017 (which grew their portfolio to 80K homes), the company has maintained its tried-and tested acquisition channels, growing their portfolio incrementally and instead focusing on increasing revenue by hiking up fees. They continue to acquire homes one-by-one through their proprietary tech platform (AcquisitionIQ) and wait for opportunities to scale either by merging and absorbing other smaller portfolios or by securing bulk purchase agreements with developers. In a Q3 2020 earnings call, CEO Dallas Tanner noted about 70-80% of their acquisitions come through traditional channels, nearly 20% come from deals and relationships with builders, and 5% come from the iBuyer/for sale by owner space.

Despite the hyper competitive environment and "so much capital coming into the space", Tanner claimed the firm is confident in its ability to buy between "$200 million and $300 million a quarter." Indeed, Invitation Homes deployed $1.95 billion to acquire 4,802 homes in 2021 (more than double the 2250 acquisitions completed in 2020 and the 2150 completed in 2019). Q3 2021 was the company's strongest acquisition quarter in years, adding 1,684 homes to their portfolio.

Beyond traditional acquisition channels, the firm is also undertaking new partnerships to scale up even further. In March 2022, Invitation Homes and real estate private equity firm Rockpoint Group announced a new joint venture to deploy approximately $750 million on "higher price-point [SFR] homes in premium locations".[32] The venture is the second endeavor for the two firms, which formed an agreement in 2020 to deploy nearly a billion dollars on SFR acquisition. And amid concerns Invitation Homes may face some incoming competition from build-for-rent operators, Invitation Homes announced a partnership with the nation's third-largest homebuilder, Pulte Homes in July 2021. The firm expects to purchase approximately 7,500 new homes over the next five years that Pulte will design and build for that purpose. Through partnerships with builders like Pulte, Invitation Homes can add scale to their portfolio without taking on the risks associated with becoming a developer themselves.

American Homes 4 Rent

American Homes 4 Rent, in contrast, has pursued an aggressive build-for-rent strategy. While BFR is slow and costly upfront, they expect their strategy to pay off down the line as they accumulate more and more land and accelerate the process of acquiring, building, leasing, and turning over properties. As of 2020, they had 10,000



lots in their development pipeline and ended 2021 with 12,132 lots in development. Their goal is to speed up land acquisition and development to deliver 3,000-4,000 homes annually by 2023. As of Q4 2021, they have $880 million invested in single-family homes under development and development land assets.

SEC filings are helpful in tracing the beginnings and evolution of AH4R build-for-rent strategy. AH4R first started dipping their toes in build-for-rent in 2017 - it was briefly mentioned in their 2017 annual report as a "supplement" to their main growth channels: broker sales, bulk portfolio sales, and foreclosure auctions. The language in their SEC filings started shifting in 2018, as BFR took center stage in their growth strategy. In 2017, only 19 new homes were built through their in-house construction program, while in 2018, they state: "We are expanding our development activities, including the acquisition of land and construction of homes. We are constructing single-family homes as well as rental communities. We have been building homes since 2017 and during 2018, built a total of 180 homes. We have limited experience building homes and in constructing and renting rental communities." By 2019, they had added a specific subsection under "Business and Growth Strategies" dedicated to BFR, no longer mentioning it in passing as part of a set of growth strategies. They stop talking about building homes and start speaking of developing entire "rental communities." In 2019, they added 1,099 build-for-rent homes to their portfolio; in 2020 the number of new BFR homes was 2,103. In 2021, AH4R added 3,291 BFR homes to their portfolio; they also acquired 2,553 homes through their National Builder Program and traditional acquisition channels.

AH4R's approach to BFR is thus two-pronged. In their "National Builder Program" they purchase finished BFR products through third party developers. And in the "AMH Development Program", they buy raw land and develop homes and rental communities in-house, starting from scratch. When the firm began implementing BFR as a growth channel, they primarily purchased homes through third-party developers and experimented with building a few homes themselves through the AMH Development Program. Over the years, the AMH Development Program has become their core growth channel. Today, they operate five main types of rental communities:

- Dispersed homes, acquired through traditional MLS strategy (less prevalent now)
- Bulk buys from home builders where they've had a say in the final dign to optimize maintenance
- Discount buys from home builders where they buy a finished product
- Purpose-built BFR communities, developed by AMH in "infill location" (size can be around 20 lots)
- Purpose-built, large BFR communities, developed by AMH (size around 80-100 lots)

As a time- and resource-intensive strategy, BFR is a "long game" as a growth strategy. While renovating a home acquired through traditional channels costs on average $15-30K and about 40-60 days to complete the renovation, it costs $200-400K to buy a plot of land and build a home (source: Q1 2021). Once land development requirements have been met, it takes another 4 to 6 months to build a physical home on top of a lot. Despite these substantial up-front costs, AH4R views BFR as a smart investment, with greater margins driven by reduced maintenance requests over time, "stickier tenants" that lead to less turnover, and efficient management practices. On average, maintenance in their BFR communities costs a fraction (25%) of the typical price, since every aspect of the home has been optimized to reduce costs (source: earnings call, Q3, 2020).

AH4R's BFR platform has been funded through several joint ventures, as well as sales of homes from their portfolio. For instance, in 2020, they sold 1,047 properties from their portfolio and reinvested that capital into BFR; in 2021 this number fell to 481 properties sold. Since 2017, they've secured two notable joint ventures. First, in 2018, they entered a five-year joint venture with a leading institutional investor to fund BFR development in the Southeast, which was then amended and upsized to $312.5 million in July 2019. Then, during the first quarter of 2020, they entered a $253.1 million strategic joint venture with institutional investors advised by J.P. Morgan Asset Management (the "J.P. Morgan JV"). This JV, which was subsequently upsized to $625.0 million during the second quarter of 2020, is focused on constructing and operating newly built rental homes.

Tricon Residential

While not as advanced as AH4R, Tricon Residential has recently begun venturing into build-for-rent as well. For now, BFR/B2R is one of three core growth strategies for Tricon - but it has not yet fully trumped their other channels.

Initially (2015), Tricon presented itself as an asset manager focused on maximizing value for shareholders. Single-family homes were one of the many assets they were investing in, and they primarily grew their SFR portfolio by acquiring distressed real estate. The typical homes they acquired were priced between $100-$150K, and they would invest about $15-25K per home in renovations. As competition in the SFR space increased, they started talking about these early foreclosure acquisitions as a "once in a lifetime opportunity" that would be tough for new entrants to replicate. Narrative-wise, they retroactively position themselves as pioneers in the SFR space with an undeniable competitive advantage over newer players.

In 2016, they started concentrating more closely on SFR (as opposed to manufactured homes, multifamily housing, and other asset classes). They streamlined back-office operations by consolidating call centers and accounting into a single location, placing greater emphasis on customer service and retention to reduce residential turnover, and bringing maintenance in-house, effectively becoming a vertically integrated single-family rental operator. They announced an imminent merger with Silver Bay, a peer investor with over 9,000 properties. The Silver Bay merger, which went into effect in May 2017, allowed them to become the fourth largest publicly owned SFR operator in the US. They refer to this event as being "transformative" for their company.

Apart from this consequential merger with Silver Bay, the firm continued to rely for a time on traditional channels to acquire single-family properties incrementally. Their 2017 annual report describes employing a "disciplined home-by-home acquisition" approach to grow their portfolio (similar to Invitation Homes), acquiring between 1,600 and 2,000 homes each year. They also stated that they would consider bulk portfolio purchases as opportunities arose. At the time, they seemed interested in a potential exit strategy that would entail selling off their SFR portfolio to a third-party investor: "TAH is in the process of growing an institutional-quality portfolio, allowing the Company to potentially exit this investment vertical via a public offering of TAH or a partial sale to an institutional investor within the next five to seven years." This language around selling their assets and exiting the SFR market disappeared from their annual reports after 2017.

In 2018, Tricon American Homes (their single-family arm) announced a $2 billion joint venture with two leading institution investors to acquire 10,000 - 12,000 homes over the next three to four years. At the time, they had already amassed a portfolio with approximately 17,500 homes across the Sun Belt. This joint venture signaled a significant uptick in their pace of acquisition (from 1,600-2,000 a year to 3,000-4,000 per year).

By 2020, they rebranded themselves as "a rental housing company focused on serving the middle-market demographic," and developed three distinct growth channels to acquire SFR. First, they maintained their traditional acquisition strategy, which consists in "organically" acquiring older SFR properties (on average, 20 years old) through their software TriAd. Secondly, they began to buy new homes from builders, leveraging relationships they have cultivated with local partners to acquire finished products. Thirdly, starting in 2020, they began their own build-to rent platform through a $450 million joint venture with the Arizona State Retirement Systems (ASRS), with the goal of developing and acquiring purpose-built SFR communities. Tricon is providing $50 million, and ASRS is investing the remaining $400 million. Tricon now owns seven build-to-rent communities totaling 619 homes and they expect to add 15-20 communities over the next two years. The joint venture is also building or is under contract to build over 3,000 units in 23 new home communities across the Sun Belt. Tricon's BFR strategy will benefit from the firm's expertise and relationships in three ways. First, they partially own Johnson Companies, a Tricon subsidiary focused on land development, which will support their efforts to acquire and develop land. Second, they have existing relationships with third-party builders, which they will leverage to develop homes. Thirdly, they already have a single-family rental property management platform, which will allow them to manage and maintain their BFR communities.

Front Yard

Once they stopped buying sub-performing and nonperforming loan pools, Front Yard grew primarily through auctions, MLS, and a series of notable bulk portfolio acquisitions and mergers. Their first bulk SFR portfolio purchase occurred in 2015, when they purchased 1,314 SFR homes from a "third party seller" in Atlanta. That same year, they also acquired 98 properties through MLS and other listing sources.

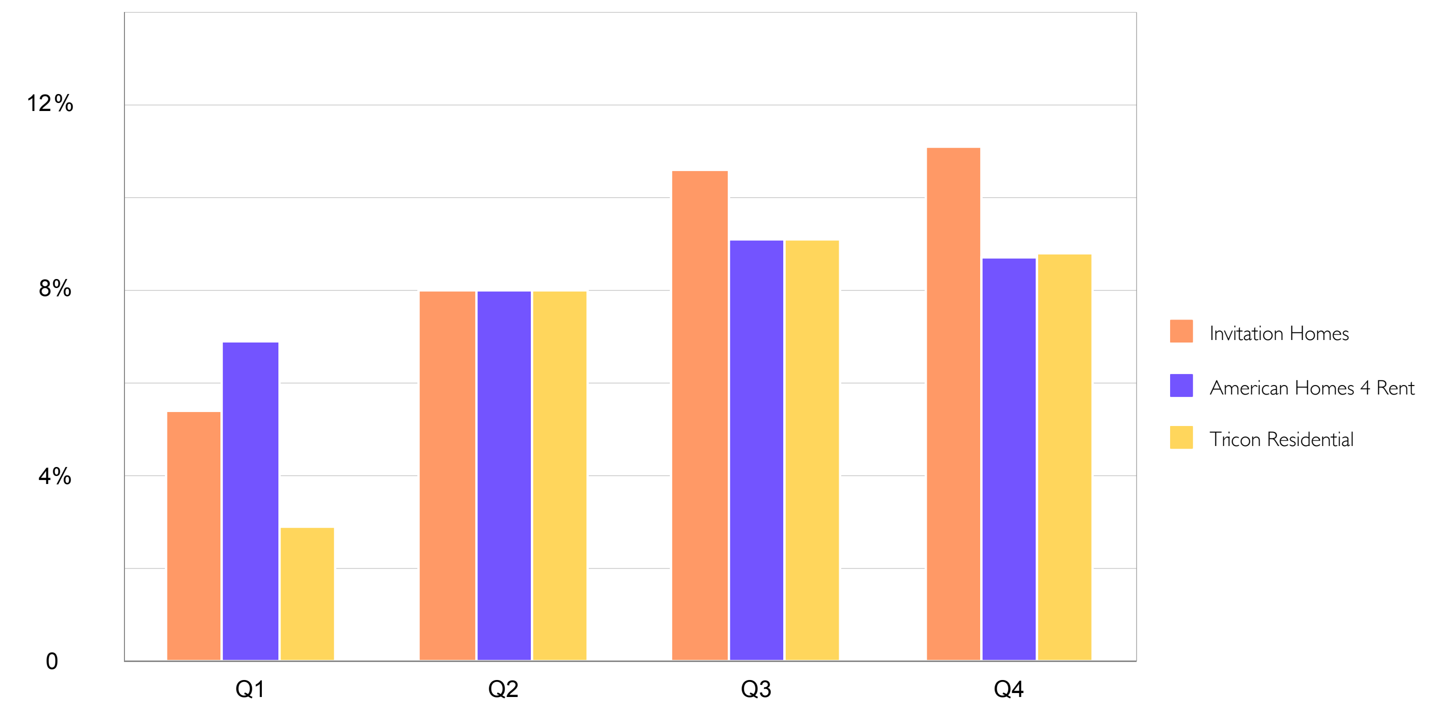
Throughout 2016-2017, they made several subsequent bulk portfolio purchases, first from a "third-party seller" in 2016 (590 SFR properties in 5 states) in March 2016, then from two "investment funds" sponsored by Amherst (4,262 SFR properties) in September 2016, then from "entities sponsored by Amherst Holdings LLC" (3,465 properties) in March 2017. In 2017 alone, they increased their total SFR portfolio by 39%, which was financed through the sale of non-performing and sub-performing loans. Bulk purchases were facilitated by Management's "expertise and extensive contacts," which enabled them to "source SFR assets through access to auctions and sellers of SFR assets" (source: SEC filings, 10K, 2016 and 2017).

In 2018, they changed their name from "Altisource Residential Corporation" to Front Yard Residential, and merged with HavenBrook Partners LLC, acquiring 3,326 SFR properties. As part of this merger, they acquired HavenBrook's property management company and started managing their rentals in-house. In 2020, after a failed merger with Amherst Residential, they were acquired by Pretium in the fall of 2020 and went back to being private. As mentioned earlier in this report, with Front Yard Residential and Progress Residential, as well as new BFR ventures, Pretium now controls the largest number of SFR homes owned by a private entity.

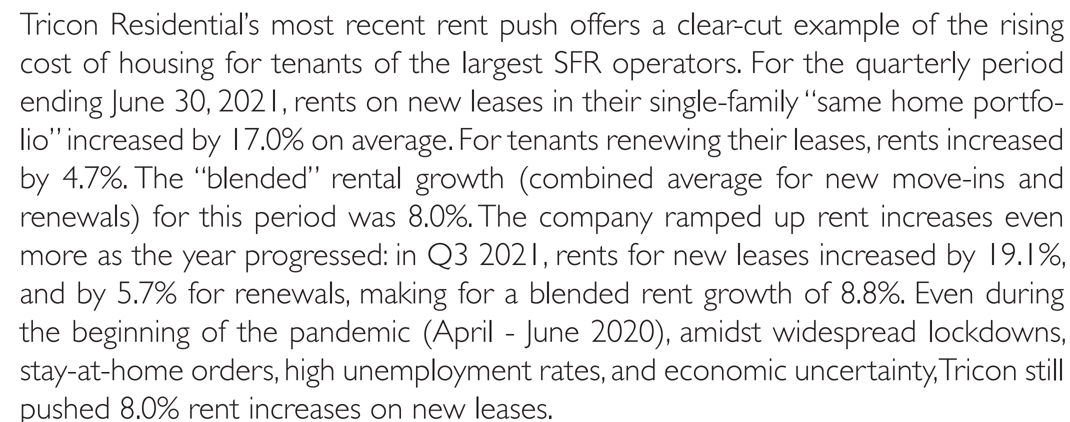
Increasing rental revenue: outsized rent hikes across portfolios

While each company employs different growth strategies to scale up their portfolios, one aspect they all have in common is pushing outsized rent hikes on their tenants. This aspect of their business model directly conflicts with coordinated public relations efforts to cast the corporate SFR industry as a professionalized champion of affordable housing. **All three SFR landlords that remain publicly listed as REITs, logged major rent increases in 2021, and the size of increases grew as the year progressed.**

Figure 4: Quarterly Rent Increases (Blended), 2021



> "WE'RE REALLY EXCITED AND OPTIMISTIC ABOUT OUR ABILITY TO PUSH RENTS NEXT YEAR."
>
> - BRIAN SMITH, CEO, AMERICAN HOMES 4 RENT



Tricon Residential's most recent rent push offers a clear-cut example of the rising cost of housing for tenants of the largest SFR operators. For the quarterly period ending June 30, 2021, rents on new leases in their single-family "same home portfolio" increased by 17.0% on average. For tenants renewing their leases, rents increased by 4.7%. The "blended" rental growth (combined average for new move-ins and renewals) for this period was 8.0%. The company ramped up rent increases even more as the year progressed: in Q3 2021, rents for new leases increased by 19.1%, and by 5.7% for renewals, making for a blended rent growth of 8.8%. Even during the beginning of the pandemic (April - June 2020), amidst widespread lockdowns, stay-at-home orders, high unemployment rates, and economic uncertainty, Tricon still pushed 8.0% rent increases on new leases.

American Homes 4 Rent is also capitalizing on high demand to increase rents. The largest rent hikes in AH4R's portfolio took place in Phoenix, Arizona where the average blended rental rate growth peaked at 13.6% in Q4 2021, followed by Las Vegas, with an increase of 11.3%. On earnings calls in early 2021, investors worried that what they referred to as "eye-poppingly" large rent hikes could be considered insensitive against the backdrop of the pandemic, asking AH4R executives how they expected tenants to keep up with such marked increases. In response, CEO Dave Singelyn argued that given the strong migration flows from unaffordable cities in California to markets like Phoenix, Las Vegas, and Seattle, new tenants were not shocked by massive rent increases. Further, these prices were justified given the highly desirable nature of their professionally managed homes. Across their portfolio of more than 57,000 properties, in 2021 American Homes 4 Rent raised rents by an average of 12.9% on new leases, and by 5.7% on lease renewals (8% blended). By the Q3 2021 earnings call, Chief Operating Officer Brian Smith stated "we're really excited and optimistic about our ability to push rents next year", indicating both continuing and new tenants could expect to pay more in 2022.

While AH4R gives the impression that rental prices are being driven organically by record-level demand, in fact, AH4R artificially and intentionally constrains supply to keep prices high. For example, AH4R executives explained that they avoid flooding a single market with new homes at any given time (which would effectively lower prices) by phasing deliveries of BFR homes and spreading them across their fifteen BFR markets.

Invitation Homes is also raising rents across their portfolio, though increases are especially high in their western markets. In a Q3 2021 investor call, they shared rent hikes of 30% in Phoenix and 29% in Las Vegas; rents went up by 20% in Atlanta, 21% in Tampa, and 19% in Jacksonville. Across their portfolio of 82,000 properties, in 2021 Invitation Homes was able to drive up rents by 14.4% on new leases, and by 6.7% on lease renewals (8.8% blended). As the pandemic abated before the omicron surge in late 2021 and early 2022, the firm began to drive rents up more aggressively, giving tenants less wiggle room to negotiate on lease renewals. They explained the need to find the "sweet spot" - namely, how much they can increase rents until it becomes more cost effective for tenants to go out and buy their own place.

These rent hikes are unsettling, and reflect that for corporate landlords, profit-driven bottom lines take precedence over community well-being. Across the board, SFR operators employ the language of community care, marketing themselves as supportive home providers committed to helping tenants stay-in-place. On earnings calls with investors about how they handled the impact of the pandemic on tenants, landlords stated they put in place "genuine care measures" (Invitation Homes), renewed their "commitment to residents" (American Homes 4 Rent), and facilitated "open dialogue" with residents about their concerns (Front Yard Residential). This language of care often directly contradicts the profit motives embedded in their business model and masks the real beneficiaries of the SFR industry: investors seeking a return on investment and anxious to see profit margins increase.

This discrepancy is particularly visible in investor concerns around rising levels of tenant debt and how to deal with "delinquent" tenants. For example, in their May 2020 earnings call, American Homes 4 Rent insisted only 4% of their tenants claimed hardship during the first few of COVID-19, and that "only" 200 of these hardship claims led to lease terminations. While 200 is a small portion of their total portfolio, it is still a significant number given eviction moratoriums were in place at the time. Furthermore, this figure may not reflect tactics landlords could easily employ to pressure tenants to leave without a formal lease termination, such as refusing to renew a tenant's lease. When investors questioned them about the rising levels of "bad debt", AH4R reassured them that they planned to "churn" through residents who were causing high levels of debt - in other words, tenants who fell behind on

rent during the pandemic.

Similarly, while Invitation Homes paused late fees and evictions during the first two months of COVID, they shared they expect to see more residential "turnover" in 2021 – possibly alluding to evictions and other unwilling departures of tenants. Their bad debt levels more than doubled during the pandemic, from 0.5 to 1.7% of total gross income, indicating a non-negligible number of tenants must have fallen behind on rent. Their foreshadowing around increased "turnover" is particularly alarming given the firm's emphasis on automation and tech-based solutions to resolve COVID-19 uncertainties. For instance, INVH describes putting in place automated rent payments and software to track delinquencies and assess late fees on a daily basis. Such automated systems represent a highly efficient and scalable process to expedite evictions. The Private Equity Stakeholder Project, found that Invitation Homes filed over 1300 evictions last year, the third highest among the private equity and corporate landlords, they have been tracking over the course of the pandemic. [33]

In sum, corporate landlords were quick to resume extractive practices as soon as the market picked back up, weeding out "delinquent" tenants unable to keep up with ever-increasing rents. While most companies advertised offering deferred payment plans and waiving late fees for tenants who had lost income during the first few months COVID-19, these measures were short-lived.

Ancillary fees as a new revenue stream

In addition to increasing rents, SFR operators are pursuing profits by creating new fees and "ancillary services" charged in addition to monthly rent payments. Invitation Homes and American Homes 4 Rent are forthcoming about the use of extraneous fees to increase total revenue.

Starting in 2020, increasing ancillary revenue became a major component of Invitation Homes' revenue strategy. Myriad fees work to squeeze more revenue from their portfolio, even when the firm is not substantially increasing its portfolio size. Such fees include tenant utility reimbursements, late fees, move out fees, pet fees, pest control services, landscaping services, smart home appliances, and other "miscellaneous" fees. Some services even rely on tenants providing free labor - for instance, HVAC filters are delivered every 90 days and residents are expected to install them themselves. These fees are at different stages of development and implementation. For instance, some services are still being piloted and rolled out, while others, like smart home devices, are now automatically included in a tenant's rent at an extra cost. Once a new service has been successfully piloted locally, Invitation Homes' model is to automate and standardize fees across the entire portfolio. Based on a recent earnings call, they are on track to secure ancillary income of close to $30 million annually by the end of 2022.

Invitation Homes is not the only SFR operator relying on ancillary revenue to increase margins. Tenant charge-back fees feature prominently in AH4R's metrics. Tenant chargebacks are a way landlords recover expenses they deem to be the tenant's responsibility, e.g. emergency plumbing services or bulky trash pickup. The ratio of tenant chargebacks in relation to AH4R's overall core revenue has increased significantly over the years, from 12.5% in 2017 to 15.8% in 2021. Last year, $178 million of their core revenue came from tenant chargebacks. Furthermore, in a recent investor call, CEO Bryan Smith shared that they are exploring ancillary revenue in the form of smart home features and connectivity for their larger communities. Finally, they are exploring new revenue streams such as building homes for sale or offering their property management services to home builders, in addition to building and operating rental properties.
Ancillary fees are also a growing part of Tricon's business model. The firm has a "dedicated ancillary revenue team" that continuously offers new services to residents. In the firm's Q4 2021 earnings call, Tricon noted that revenue from ancillary fees increased by 42% from 2020 as collection of late fees that had been suspended due to the pandemic resumed, and due to the rollout of smart home and renter insurance programs. Tricon's Chief Operating Officer Kevin Baldridge, stated "We see a path to increasing this number by over 30% per home compared to current levels as we continue to roll out fees and other ancillary services over the next few years."

Cutting costs

Finally, in addition to increasing revenue by buying new homes, driving up rents, and tacking on new fees, SFR operators are actively finding ways to cut down costs

through a variety of strategies, particularly through technology and the built environment of their homes.

Across the board, SFR operators are using tech to reduce friction and make operations more efficient and cost-effective. For example, Tricon has developed a suite of apps to manage all aspects of their SFR operation, from property acquisition to resident engagement. They use data science to optimize rent pricing, review and track maintenance requests through their platform TriForce, and developed Triad, an underwriting software that automates buying single-family properties. Every year, they are able to screen a million homes and can underwrite a property in under five minutes. Similarly, Invitation Homes utilizes tech to maximize efficiency at every step of the SFR cycle - from underwriting over a million homes in the last decade through their AcquisitionIQ software, to combing through applicant profiles via tenant screening software to retain "high quality tenants." Technology aimed at reducing in-person encounters, such as self-showings and virtual tours, has become particularly useful to continue showing and leasing apartments during COVID-19, while reducing the need for on-the-ground paid staff to conduct tours.

Cost savings can also be achieved through the built environment of single-family homes. For instance, AH4R has embedded cost effectiveness into the very design of their homes - specifically, their BFR strategy relies on cutting operating costs through exerting greater control over the finished product. For instance, we've seen that they can maintain their BFR communities at a fraction (25%) of the normal cost, since every aspect of the home has been optimized to reduce maintenance expenses. By controlling the final look and feel of their homes through their in-house development platform, they are also able to fine tune and optimize pricing at a granular level. Finally, given rising home values and the pace at which they are building new homes, property taxes are a growing cost for their company. In response, they established a special team dedicated to filing property tax appeals, which files 25,000 property tax appeals on an annual basis. In the company's Q3 2021 earnings call, Chief Financial Officer Christopher Lau acknowledged the strong home price appreciation seen in the pandemic real estate boom is "obviously also a factor for property taxes" moving forward, and that the firm would, "as always, leverage our robust appeals machine to make sure, we aren't leaving any dollars on the table". Likewise, Tricon pursues property tax appeals to keep operating expenses down, successfully limiting tax growth to 4.6% in 2021.

TODAY, THE POOL OF FORECLOSED PROPERTIES HAS LARGELY DRIED UP, AND SFR COMPANIES ARE DEVELOPING NEW STRATEGIES TO CONTINUE INCREASING GROWTH AND RETURNS FOR SHAREHOLDERS.

CORPORATE LANDLORDS WERE QUICK TO RESUME EXTRACTIVE PRACTICES AS SOON AS THE MARKET PICKED BACK UP, WEEDING OUT "DELINQUENT" TENANTS UNABLE TO KEEP UP WITH EVER-INCREASING RENTS.

Broader Consequences

In addition to the implications of institutional SFR for tenants of corporate landlords, it is helpful to think about broader potential consequences of this approach to the rental market. In this section, we discuss how institutional SFR operators are doubling down on unsustainable development models, undermining long-term community security and stability, and breeding imitation and potential for predatory models.

Doubling down on unsustainable development models: SFR operators (and homebuilders - see feature box on homebuilders below) are rapidly acquiring land and control over development of new rental opportunities. These landlords are responding to rising asset prices by buying more "upchain," leveraging industry relationships to gain access to raw land and capital. From land entitlement to building standardized homes to optimize pricing, they use their market power to control the housing supply chain every step of the way. Investments and innovation in technology related to homebuilding and leasing is allowing institutional landlords to rapidly accumulate land, develop homes, and operate properties.

HOMEBUILDERS

HOMEBUILDERS TURN TO THE RENTAL MARKET: LARGE BUILDERS ARE BOTH COMPETING AND COLLABORATING WITH SFR LANDLORDS FOR LAND AND HOUSES:

>> EARLY MOVER: LGI HOMES BEGAN PLANNING THEIR "WHOLESALE" BUSINESS IN 2017; TODAY BULK SALES TO LANDLORDS ACCOUNT FOR AN INCREASING SHARE OF SALES, RISING FROM 7.6% IN 2019 TO 9.1% IN 2020 TO 14.5% IN 2021.

>> BUILDER-TO-LANDLORD: IN LATE 2020, **LENNAR** LAUNCHED UPWARD AMERICA, A DEDICATED SFR PLATFORM, IN A $1.25 BILLION JOINT VENTURE WITH CENTERBRIDGE PARTNERS.

>> LEASE-UP, THEN SELL: DR HORTON, THE LARGEST BUILDER BY VOLUME, IS THE ONLY BUILDER TO CARRY OUT BULK SALES OF RENTAL COMMUNITIES THEY HAVE BUILT AND THEN LEASED OUT PRIOR TO SALE.

American Homes 4 Rent has been particularly aggressive with its BFR strategy: as of 2020, they had 10,000 lots in their development pipeline and 12,132 by the end of 2021. According to a recent earnings call, their goal is to speed up land acquisition and development to deliver 3,000-4,000 homes annually by 2023. As of Q4 2021, they have close to a billion dollars invested in single-family homes under development and development land assets.

Institutional landlords' ability to channel billions of dollars to fuel large-scale suburban homebuilding operations could permanently alter the material landscape across the Sun Belt. We could be witnessing an era marked by "Levittowns 2.0", where standardized, mass-produced homes are increasingly automated, connected, and remotely controlled by institutional investor-landlords.

Ultimately, this consolidation of land, technology, and power in the hands of private corporations could have significant implications for environmental and development regulations, particularly in areas where SFR operators and homebuilders control large tracts of land. It is particularly alarming to note that some of the "hottest" markets attracting SFR investors - such as Phoenix and Las Vegas - are also plagued by climate change and environmental vulnerabilities, including scorching temperatures and droughts. Phoenix is the hottest American city in the summer, while Las Vegas relies on a manmade water reservoir that was recently at its lowest point since the 1930s. These trends point to the importance of approaching housing and climate policy together, so as to chart an alternative path forward.

Undermining long-term community security and stability: Evidence suggests that large corporate actors operate in ways that put their investment priorities ahead of community stability. Our concerns in this area are threefold:

- **Eviction behavior:** Recent work focusing on Atlanta, the top market for institutional SFR operators, show large corporate landlords, especially those backed by institutional investors, are far more likely to pursue eviction than smaller landlords.[34] One such corporate landlord filed for eviction against a third of its tenants; two others filed against a quarter of their tenants.[35] Further work in Atlanta found that larger SFR owners more often engaged in serial eviction filings, or repeated filings against

the same tenant, used not necessarily to remove the tenant but as a rent collection strategy.[36] In Memphis, First Key Homes, owned by Cerberus Capital Management, also engaged in serial filings, making their filings the highest in the area.[37] Such aggressive eviction filings are intimidating for tenants, potentially discouraging them from reporting problems to their landlords and fostering housing insecurity by adding late fees, attorney fees, and other costs to rent arrears.[38] Last year Pretium Partners (parent company to Progress Residential, Front Yard Residential, and Havenbrook Homes) and Invitation Homes were the first and third top evictors among private equity and corporate landlords, filing 2202 and 1372 evictions respectively.[39]

• **Community disinvestment:** Corporate landlords advance rhetoric of reinvesting in and stabilizing distressed communities, and purport to include well-performing public schools as a core acquisition criterion. However, given rising home values and projected growth of BFR, property taxes are a growing cost for corporate landlords. Large SFR companies employ specialists in negotiating tax appeals to petition for property tax valuation reductions, helping to maximize revenues by minimizing contributions to the local tax base. As discussed above, American Homes 4 Rent files 25,000 property tax appeals annually. And in late 2021, a whistleblower lawsuit against Invitation Homes alleged the company carried out renovations of thousands of Southern California rental homes without paying for building permits in an effort to get the properties ion the market faster and avoid property tax increases.[40] Such efforts to achieve cost savings at the expense of tenants safety and funding public services undercut corporate landlords' claims of strengthening communities.

• **Working against tenant interests:** Corporate landlords use their financial clout to organize against efforts to expand tenant protections. When Blackstone was still behind Invitation Homes, the firm contributed nearly $7 million (accounting for 1 of every 7 dollars of support) to back a 2018 campaign opposing a California ballot proposition to extend rent control to single-family homes[41]; ultimately the proposition was unsuccessful. This behavior demonstrates how corporate entities carrying out the institutionalization of SFR wield political power that has implications for the public beyond the tenants actually living in their properties.

Finally, the corporate SFR boom is **breeding imitation and potential for predatory investment models:** Amid wider social anxieties about the weight corporate landlords have in the housing market, we are seeing the growth of companies that draw participants into the rental market as either investors or eventual homeowners. While nominally "democratizing" real estate investment, such business models accelerate the process of commodification that creates a discursive opening for them in the first place, ultimately contributing to the very conditions they purport to ameliorate.

Once the largest SFR operators established an early mover advantage, a range of investment platforms emerged that appeal to retail real estate investors. Platforms like Roofstock, Entera, Fundrise, Yield Street, and Arrived Homes offer a range of "click and invest" SFR opportunities that purport to harness data science, artificial intelligence, and proprietary data to easily yield passive income from SFR homes, often for very low minimum investments (as little as $100 in some cases). Such schemes capitalize on the buzz institutional actors have created around SFR—and wider social anxieties about their market power—but may be of questionable benefit to retail investors. For example, a recent deal closed by Arrived Homes involved 187 investors investing $138,000 in a $300,000 rental home to receive a share of the $2195 monthly rent.

Also troubling is the resurgence of rent-to-own schemes by institutional investors. The years after the 2008 crisis saw a new wave of contract for deed sales[42] which target buyers with poor credit or incomes insufficient to qualify for traditional mortgages, and more limited access to mainstream financial institutions. Before the Fair Housing Act, contract for deed was common as a means for Black people to buy homes in segregated real estate markets. The model was notorious for abusive terms and practices that often lead to repossession, including high interest rates, wide latitude to evict buyers, and sale of properties unfit for habitation. In the wake of the 2008 crisis, nationally coordinated private equity firms acquired distressed real estate

in Black metropolitan areas and Black neighborhoods from public institutions, launching their own contract for deed schemes. These investors have engaged in the same kinds of practices local actors used in the mid-20th century: selling derelict homes at high interest rates, contracts offering little protection to buyers, and substantial markups from acquisition costs without making improvements to the property.[43] Contract for deed is known for draining the savings of buyers and leading them into indebtedness before they forfeit the contract and leave the property, leading to a churn of tenants and further disrepair.[44]

As more would-be homeowners are shut out of the hot housing market, we are seeing the rollout of more rent-to-own business models backed by Silicon Valley and Wall Street.[45] Along with Blackstone's $6 billion acquisition of rent-to-own company Home Partners of America last year, rent-to-own startup Pathway Homes (backed by Invitation Homes, venture capital firm Fifth Wall, and Regis Group, which operates a similar business in the UK) is launching with plans to deploy $750 million on acquiring properties to lease with an option to buy.[46] Other companies operating in this space include Landis Technologies (which has received investment from celebrities like Will Smith and Jay-Z) and Divvy Homes, which recently raised over $700 million in debt financing. The increasingly tight housing supply and rapid home price appreciation seen during the pandemic enhance the appeal of rent-to-own schemes, but most tenants do not go on to purchase the homes they lease, and evictions are not uncommon. [47] In short, **the uptick in rent-to-own companies may be a sign of further consolidation of corporate control over our housing.**

LARGE CORPORATE ACTORS OPERATE IN WAYS THAT PUT THEIR INVESTMENT PRIORITIES AHEAD OF COMMUNITY STABILITY.

CORPORATE LANDLORDS USE THEIR FINANCIAL CLOUT TO ORGANIZE AGAINST EFFORTS TO EXPAND TENANT PROTECTIONS.

Conclusion and Recommendations

A growing power imbalance

Far from sparking a housing collapse like the one that enabled corporate landlords to begin amassing properties, the COVID-19 pandemic ushered in a housing boom. The pandemic has demonstrated how corporate landlords hold an advantage not only in the context of a market dislocation like 2008, but also under strong market conditions. Today, corporate landlords Invitation Homes, Progress Residential (owned by Pretium), and American Homes 4 Rent each control portfolios in excess of 50,000 homes (Tricon's portfolio is 27,000 homes), most of them acquired as distressed real estate in the years after the 2008 crisis. Homes owned by corporate landlords are geographically concentrated in Sun Belt markets like Atlanta, Phoenix, Tampa and Dallas. Through lobbying and PR efforts, SFR operators have sought to position themselves as positive actors helping alleviate the national housing crisis. As this report has summarized, their strategies and track record indicates otherwise:

SFR operators claim to provide quality, affordable housing, yet pushed outsized rent hikes on tenants. Their revenue model hinges on continuously driving up rents and inventing new ways to charge tenants through tenant chargebacks, pet fees, landscaping, smart home appliances, HVAC filter replacements, and other "junk fees". They are actively and explicitly against rent control and other regulations that could hamper their ability to raise rents each year and have ample resources to fight pro-renter legislation.

While institutional investors only control 2% of the SFR market, they are building scale in a handful of geographic markets, and target a specific type of home, price, and square footage. The greater the market share under their control, the fewer options tenants and homeowners will have outside of corporate landlords' spheres of influence, and the more corporate landlords will control market pricing, influence local policymaking, and evade taxes and regulations. In the markets that constitute the feeding grounds for corporate landlords, they could permanently lock middle income families out of homeownership.

While housing advocates have to fight tooth and nail to incrementally remove land from the speculative housing market through measures like rent control and community land trusts, SFR operators (and homebuilders) are acquiring land and control over development at an alarming pace. Increasingly, they are responding to competition by buying more "upchain," leveraging industry relationships to gain access to raw land and newly-built homes to cut down on acquisition costs and create efficiencies. From land entitlement to building standardized homes to optimize pricing, they control the supply chain at every step of the way, and design it to deliver returns to investors.

What does it mean for the rest of us when a handful of landlords have so much power? For regular people, the structural advantage enjoyed by corporate landlords amplifies the inequalities endemic to capitalist housing systems. The relationship between landlord and tenant is always defined by an imbalance of power rooted in the landlord's ownership of the property a tenant rents from them. When your landlord is an opaque corporation backed by wealthy global investors and armed with the cash and technology to acquire thousands of homes a month, this power imbalance enables predatory business strategies that are difficult for tenants to challenge. And for people hoping to buy homes in the places where corporate landlords are amassing the most properties, a mortgage, a modest down payment and the emotional considerations involved in choosing a family home simply can't compete with all-cash offers made within hours of the property being listed. Corporate landlords' "equity-mining"[48] of communities removes opportunities to build intergenerational wealth for would-be homeowners. While existing homeowners may benefit from rising home values, they may also see public services suffer as corporate landlords seek to minimize property tax bills and more community instability due to their aggressive eviction practices.

Amid the new round of investor-led growth, corporate landlords are poised to expand their portfolios further. As they take on an outsized role in the markets where their footprint is the largest, access to billions in investment capital seeking returns in the hot housing market and troves of data from their in-house operations put corporate landlords in a position of structural power in the market. As a series of recent hearings, listening sessions, and inquiries by the Senate Committee on Banking, Housing, and Urban Affairs[49] has documented, corporate landlords enjoy this power to the detriment of both tenants who face dramatic rent increases and aggressive eviction filings, and the potential homebuyers they outbid, siphoning wealth from average Americans.

What can we do about it?

Corporate landlords enjoy outsized power and influence in our housing markets, and it is vital to intervene in support of tenants, homebuyers, and communities. To address these concerns, legislators should adopt the following recommendations:

1. Foster greater transparency of property ownership and rental practices: The landlords we studied in this report typically own properties through corporate vehicles such as limited liability corporations (LLCs) with obscure names, effectively shielding them from public scrutiny and responsibility, and from independent research. This 'corporate veil' could be pierced with state legislation requiring landlords who own properties in the name of LLCs, limited liability partnerships, trusts, and similar vehicles to report the names of the beneficial owners to government officials.[50] The 2021 federal Corporate Transparency Act could operate in the same way at the national scale, however an extensive list of entities is excluded from the legislation, including publicly traded companies such as those examined in this report. Wider deployment of local or state rent registries would also foster more transparency of rental practices. Localities with rent registries require landlords to get a license to operate rental properties, allowing public officials to collect data about the number of rental units and current rent rates, and to enforce local laws and housing codes. A combination of insight into beneficial owners and rental registries would enable researchers and policymakers to study the business practices of corporate landlords and respond with appropriate local measures. But to be clear, such transparency is a necessary, but not sufficient policy goal.

2. Implement broad-based tenant protections: Corporate interests are drawn to rental housing, and single-family rental in particular, because of the profit to be made not only from rent increases, but also from ancillary fees and fines. Rental housing is profitable in part because landlords are subject to very limited regulations on rent increases. Only five states (California, Maryland, New Jersey, New York, Oregon) and the District of Columbia currently have some version of rent control legislation on their books; this number is far exceeded by the number of states with laws pre-empting rent control legislation. Even in states with rent control, single-family homes are typically not included in tenant protections. Record-breaking house price increases in the pandemic and a record share of purchases by investors in 2021[51] mean landlords are facing rising asset prices; they will seek to recoup these higher costs with the kinds of aggressive rent increases and excessive fees documented in this report. While we have focused on corporate landlords, tenants in all housing types are facing steep rent increases as pandemic-era protections expire. These rent hikes are facilitated by rising demand (driven in part by would-be homeowners confined to renting due to supply constraints) that has tightened rental markets.[52] The data discussed in this report and the wider context of growing rental affordability challenges point to the need for nationwide, broad-based tenant protections to limit rent increases, ancillary fees, and fines and to promote security of tenure. The nation appears to be transitioning away from mass homeownership and toward a rental market increasingly marked by business entities as property owners. These changes should compel the state to intervene to shift the power imbalance between landlords and tenants: the property rights of landlords should not take priority over the fundamental role of housing in supporting life, safety, and welfare.

3. Consider limiting market share of corporate landlords: In addition to broad-based tenant protections, policymakers should explore possibilities to limit the market share of corporate landlords within individual metropolitan-scale markets. As discussed in this report, a cluster of metropolitan areas (mostly in the Sun Belt) have served as the feeding grounds for corporate landlords, such that a handful of key players have very large footprints in these markets. Together with the enormous capital and technology resources at their disposal, this concentration of ownership puts corporate landlords in a position to shape the operation of local markets in ways that further strengthen their hand. The individual and collective market power of corporate landlords may work to effect additional consolidation of ownership (and wealth) by shutting out would-be homeowners and small-scale landlords. Policymakers should consider imposing limits on the share of single-family homes that may be owned by individual landlords within an individual metropolitan area. Such policies could be complemented by measures that disincentive expansion to other markets, such as limitations on total assets under management and making the REIT tax structure less favorable to residential landlords.[53] To foster a healthier mix of ownership and tenure within metropolitan-scale real estate markets, legislators and attorneys general should look closely at ways to break up the market power of corporate landlords.

ENDNOTES

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Background

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Introducing the Key Players

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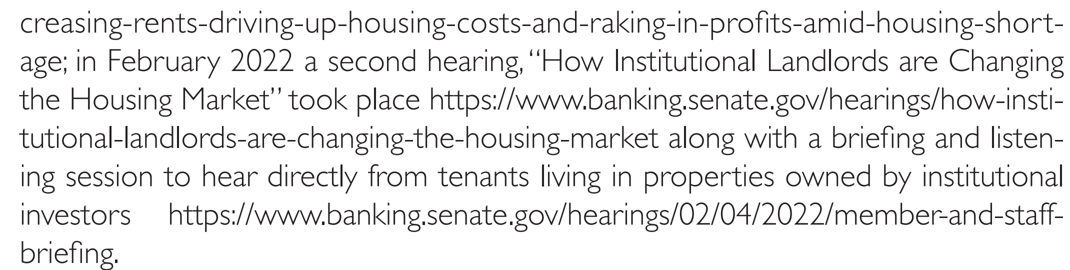
[47] In June 2021, Sherrod Brown, Chair of the Senate Committee on Banking, Housing, and Urban Affairs sent a letter to Pretium Partners asking for more information about the companies eviction practices https://www.warren.senate.gov/newsroom/press-releases/warren-calls-out-private-equity-backed-firms-for-increasing-rents-driving-up-housing-costs-and-raking-in-profits-amid-housing-shortage; in October 2021 the Committee held a hearing on "How Private Equity Landlords are Changing the Housing Market" https://www.banking.senate.gov/hearings/how-private-equity-landlords-are-changing-the-housing-market; in January 2022, Senator Elizabeth Warren sent letters to Progress Residential (owned by Pretium Partners), Invitation Homes, and American Homes 4 Rent requesting more information about their business practices relating to acqusitions and rent increases https://www.warren.senate.gov/newsroom/press-releases/warren-calls-out-private-equity-backed-firms-for-in-



creasing-rents-driving-up-housing-costs-and-raking-in-profits-amid-housing-shortage; in February 2022 a second hearing, "How Institutional Landlords are Changing the Housing Market" took place https://www.banking.senate.gov/hearings/how-institutional-landlords-are-changing-the-housing-market along with a briefing and listening session to hear directly from tenants living in properties owned by institutional investors https://www.banking.senate.gov/hearings/02/04/2022/member-and-staff-briefing.

[48] Such legislation was proposed in California in 2021, but the bill never made it out of committee. See: https://sjud.senate.ca.gov/sites/sjud.senate.ca.gov/files/20212022_0_ab889_06-21-2021_gipson_judiciary_spc_122491.pdf

[49] Duca, J. and Murphy, A. (2021). Why House prices Surged as the COVID-19 Pandemic Took Hold. Dallas Fed Economics. Federal Reserve Bank of Dallas. https://www.dallasfed.org/research/economics/2021/1228.aspx; Schaul, K. and O'Connell, J. (2022). Investors bought a record share of homes in 2021: See where. The Washington Post. https://www.washingtonpost.com/business/interactive/2022/housing-market-investors/

[50] Nova, A. (2021). When your rent goes up 40%. As pandemic fades, many tenants see big hikes. CNBC. https://www.cnbc.com/2021/11/01/rents-are-bouncing-back-what-to-do-if-you-expect-a-big-increase-.html; Joint Center for Housing Studies (2022). America's Rental Housing 2022. Joint Center for Housing Studies. https://www.jchs.harvard.edu/americas-rental-housing-2022

[51] See: Lopez, S. and Myklebust, S. (2020). Make them Pay. ACRE Campaigns. https://acrecampaigns.org/wp-content/uploads/2020/05/Make-Them-Pay-May-2020.pdf

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Appendix

Company Name	Type	Scale	Geographic Distribution							
	Public vs. Private	SFR Portfolio Size (in # of homes)	Number of active geographic markets	Geographic focus	Average monthly rent (same store)	Average rent increases (new leases)	Average rent increases (renewals)	Average rent increases (blended)	Average square footage	Average property age (in years)
Invitation Homes	Public	82,381 (Q4, 2021)	16 (Q4, 2021)	Florida + Western USA (71.2% of revenues)	$1,969 (Q4 2021)	17.3%	9%	11.1%	1,870 ft2 (Q4, 2021)	-
American Homes 4 Rent	Public	57,024 (Q4, 2021)	36 (Q4, 2021)	Sunbelt (61%), Midwest (15.7%)	$1,823 (Q4, 2021)	12.2%	6.7%	8.7%	1,988 ft2 (Q4, 2021)	16.8 (Q4, 2021)
Tricon Residential	Public	29,149 (Q4, 2021)	21 (Q4, 2021)	Sunbelt, with a focus on the Southeast (44.3%), followed by Texas (17.75%), Western markets (16.7%), and Florida (16.4%)	$1,562 (Q4 2021)	19.1%	5.7%	8.8%	1,655 ft2 (Q4 2021)	25 (Q4, 2021)
Front Yard (1)	Public, until Q2 2020, taken private after October 2020 acquisition by Pretium	14,494 (Q3 2020)	-	Southeast, Florida and Texas (67.86% of properties are in FL, GA, TX, TN)	$1,345 (Q3 2020)	-	-	-		36 (Q3 2020)

(1) Front Yard data is based on Q1, Q3 2020 10Q filings (2020Q3 was the last quarterly filing because they were acquired by Pretium)

Source: Data based on latest SEC filing available (a dash indicates no data available)