

tech, **bias**, and
housing initiative

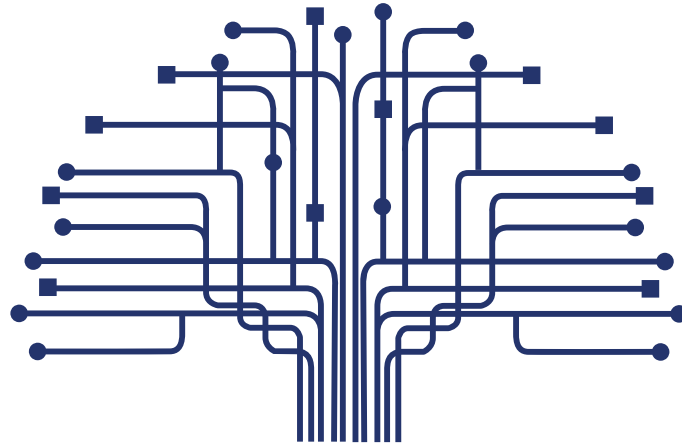
Sold to the Highest Bidder

How Tech is Cashing In on the American Dream

June 2022



To learn more about the Tech, Bias, and Housing Initiative
go to housing.techbias.org



TECHEQUITY

COLLABORATIVE

At TechEquity Collaborative, our mission is to mobilize tech workers and companies to advance structural change that addresses economic inequity at its roots.

We do this in three ways:

Education

We create educational spaces in which the tech community can deepen their understanding of structural inequities, the history behind them, and the solutions we can enact together.

Public Policy

We advocate for public policy that addresses structural inequity in our economy. We work on issues that have a nexus with tech and the economy, with a focus on housing and workforce & labor.

Corporate Practice

We research, develop, and promote equitable corporate practices that build equity and opportunity in the broader economy.

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Key Takeaways

- Private equity and venture capital-backed companies are buying up homes at a mass scale and renting them out to the very people whom they have priced out of the market. The top firms have bought and rented **an estimated 300,000 single-family homes since the Great Recession as of 2019.**¹
- Tech is enabling this emerging class of corporate landlords, allowing them to rapidly scale by automating property management, home flipping, and other key aspects of the housing market.
- Venture-backed tech companies are capitalizing off increasingly desperate renters and would-be homeowners by offering largely unregulated products that purport to put people on a path to homeownership.
- The largest corporate landlords are buying and renting out homes **concentrated in zip codes that average 40.2% Black, three times the national Black population of 13.4%.**²
- **Recommendations:** Since the harms created by tech in this sector are inextricably linked with the rise of financialization in housing, many of the solutions involve establishing guardrails on corporate ownership. We need to:
 - Increase transparency and regulations on tech-enabled housing practices
 - Make renter data publicly available
 - Create common-sense regulations on the corporate rental and real estate market
 - Decommodify large swaths of our housing stock
 - Enact reparations to Black people to redress systemic harm.
- **Conclusion:** Tech-driven housing financialization is pushing homeownership further out of reach and widening wealth inequality fast—we need to move faster to create systemic solutions to the housing crisis.

Behind the country's persistent housing crisis are corporate actors often invisible to the rest of us. For years, the public conversation about the increasingly unaffordable housing market has focused on stagnant wages, the rising cost of living, and the lack of supply. While true, all of these forces are in part fueled by the Wall Street gamble that housing could become the next great asset class for corporations and the world's ultrarich.

Buying a home is still a major source of wealth creation for everyday Americans, but that wealth increasingly goes to corporate entities and institutional investors instead of households looking for a pathway to intergenerational financial stability. Private equity and venture capital are entering the landlord profession, flipping portfolios of homes for profit, and providing "innovative" new home-buying services that escape the regulatory scrutiny that we expect for traditional homebuying products. The matter of who owns our homes affects everything from how quickly a repair is made, to the size of the racial wealth gap and the health of the global economy.

As private equity investors came to understand the value of America's housing stock as an asset class, they also realized the power of technology to optimize their returns. Algorithms and other software have been put to use to lower the cost of ownership and increase profit share—all at the expense of renters and homebuyers. Venture capital investors soon entered the fray, funding startups that champion business models that exacerbate the problem and take advantage of increasingly desperate renters and would-be homeowners.

Without deeper scrutiny and regulation, we will continue to see large investors putting homeownership further out of reach of families, using tech and "innovative" new business models to accelerate their scale, and creating disproportionate harm for the tenants whose stability they now control.

Corporate actors have long engaged in practices that extract wealth from Black communities and other communities of color—contracts for deed, predatory mortgages, redlining, the list goes on. That aspect of the commodification of the housing market is not new. What is new is the speed and scale that tech brings to these longstanding practices, accelerating housing injustices at a rate that is hard for communities and lawmakers to catch up.

Investors See Housing as an Asset, Not a Right

Housing has long been treated as a commodity. But the emergence and expansion of large investors entering the market and gobbling up single-family homes to convert them to an asset class that can be traded on is a relatively new and foreboding problem. That *raison d'être* for homeownership—foremost as a way to put a roof over one's head and secondarily

as a vehicle for wealth creation and financial stability for families—has been inverted in recent years. As low interest rates made borrowing money cheap, institutions with mass amounts of capital realized that buying up housing was an easy way to put that cash to work.

The emergence of institutional-backed home purchases is often called the “financialization of housing.” A UN report expands on its definition as:

“The expanding role and unprecedented dominance of financial markets and corporations in the housing sector is now generally referred to as the “financialization of housing”...[which] refers to structural changes in housing and financial markets and global investment whereby housing is treated as a commodity, a means of accumulating wealth and often **as security for financial instruments that are traded and sold on global markets.** It refers to the way capital investment in housing increasingly disconnects housing from its social function of providing a place to live in security and dignity and hence undermines the realization of housing as a human right. It refers to the way housing and financial markets are oblivious to people and communities, and the role housing plays in their well-being.”

(Emphasis added)

Corporate owners buy homes in order to store and expand global private capital. Appreciating land values, however, is a slow game. To make a quick buck, corporate owners are finding new ways to derive profit from home sales, further commodifying and financializing shelter.

Private Equity Uses Taxpayer Dollars to Enrich Themselves and Swallow Up Single-Family Housing

The roots of financialization of housing stock go back to the Great Recession. When financial institutions bundled individual mortgages into highly profitable mortgage-backed securities, private capital gained an entrée to the housing system and its then-untapped potential as an asset for corporate wealth creation.

Those bundles, however, were based on artificially and temporarily low mortgage rates. When the

rates went up, those who purchased at the top of the market found they owed more than their home was worth. Unable to afford the payment on their adjustable-rate mortgages when interest rates skyrocketed, many were forced into foreclosure. Home values plummeted as homes consistently sold for less than they had just a few years prior.³ The U.S. averaged 10,000 foreclosures a day in 2008, and 35 million evictions during the Great Recession.⁴

With so many abandoned homes and too few buyers, the Feds worried about the impact low vacancy rates would have on local communities. In February 2012, the Federal Housing Finance Agency (FHFA) announced a bulk sale pilot program called REO (Real Estate Owned)-to-Rental. This pilot allowed private equity to purchase the glut of foreclosed homes in hard-hit areas, marking a shift from individual and small investor sales to large investor owners.

The new investor owners were required to rent the properties out; suddenly, they became some of the largest landlords in the country.

FHFA intended for the REO-to-Rental pilot to rehabilitate the distressed single-family market. In its announcement, FHFA stated the program would stabilize communities by ensuring that purchasers

had the “financial capacity and operational expertise to manage properties.”²⁵ Investors claimed they would professionalize the landlord trade, bringing more rigor to a profession typically done by people with day jobs and a loose understanding of landlord-tenant law. Private capital could bring families back into vacant homes.

And so private equity firms, who played a central role in the foreclosure crisis by creating a mass market for financial securities backed by mortgage debts, stood to profit again when they scooped up foreclosed homes at bargain prices. Federal agencies subsidized the transfer of the housing stock to profit-maximizing entities on the shortsighted gamble that filling up vacant homes would ultimately be better for communities in the near term.

Corporate Landlords Scale Up and Buy Hundreds of Thousands of Homes

Private equity seized on the opportunity presented by the REO-to-Rental Pilot Initiative. Private equity firms including Blackstone, Colony Capital, Starwood Capital, and Tricon have bought and rented **an estimated 300,000 single-family homes as of 2019.**⁶ Blackstone, one of the largest single-family rental operators, **invested \$8.9 billion to expand its housing portfolio.**⁷

Rather than viewing the foreclosure crisis as a warning about the effects of allowing Wall Street to invest in housing as a financial commodity, the government laid the groundwork for an even more aggressive form of housing financialization.

Using Tech to Scale the Financialization of the Rental Market

Traditional real estate investors were not interested in the REO-to-Rental subsidy. The cost of managing thousands of single-family units in different states and regulatory environments didn't balance with the revenue potential, in their view. "How can you operate and create scale in that situation...I don't know how anybody can monitor thousands of houses," said **one billionaire real estate investor in 2013**.⁸

The scale of these investor owners' portfolios was too large to support one-to-one relationships between individual property managers and tenants. So they relied on a new suite of tech tools that automated management. Digital systems to screen applicants, accept payments, issue evictions, vet repair requests, and more all emerged in response to this new corporate ownership structure.

With new digital tools and thousands of data points, investor owners were now also able to use algorithms to optimize for profit. One investigation found that between 2016 and 2018, American Homes 4 Rent (one of the largest corporate landlords in the country) increased rents 11%, despite a 6% increase in the top 30 rental markets in the same period. The company owned **70% more units in 2018 than 2014, yet collected 150% more in rent**.⁹

Tech's role in the expansion of corporate homebuying isn't limited to maximizing profit through property management. With proprietary data on what's happening in the outsized portions of the markets they control, private investors can also monitor markets at scale—checked against data that only

they have (such as **real-time rental payments for 10% of the local market**).¹⁰ Armed with large datasets shored up with private information, corporate actors can submit highly competitive bids on single-family homes.

Institutional landlord acquisition models use proprietary data "in combination with target yield and other investor specifications to identify desirable properties and generate prices. Such software **allowed Single Family Rental (SFR) companies to scale-up portfolios rapidly** and deploy capital to the right submarkets and neighborhoods."¹¹

In 2013, Invitation Homes, the largest single-family rental operator in the US, bundled the rent debt of 3,207 homes and sold it for \$500 million. It was private equity's first foray into securitizing our rents, or bundling individual debt into an asset that investors could buy. The rent securitization mirrored mortgage bundling that led to the foreclosure crisis. Moody's gave the Invitation Homes bond a AAA rating.

With the securitization of rent debt, Invitation Homes created a financial asset that could be traded and sold, in addition to the existing commodification that let private equity extract scalable revenue from increasing rents and fees.

"One fact is abundantly clear," **remarked one analysis of this unprecedented sale**, "with home prices up from the levels at which properties were bought and continuing to rise, institutional investors need to add moderate leverage to deliver attractive returns to their equity investors."¹²

That was in 2013. Home costs have risen 42% since then.¹³

Agencies like Fannie Mae and Freddie Mac have entrenched private equity's control over the housing market. Initially tasked by Congress with making homeownership more accessible and affordable, the agencies have now also provided taxpayer-backed financing to private equity. In 2017, Fannie Mae gave a \$1B loan to Invitation Homes.¹⁴ The decision sparked so much backlash that Fannie Mae announced that they would end their support for large investors in the single-family rental market.¹⁵

Private equity took easy access to distressed homes through the REO-to-Rental program and used tech to create powerful market data systems that let them wield immense power not just as landlords, but as actors across the homebuying process.

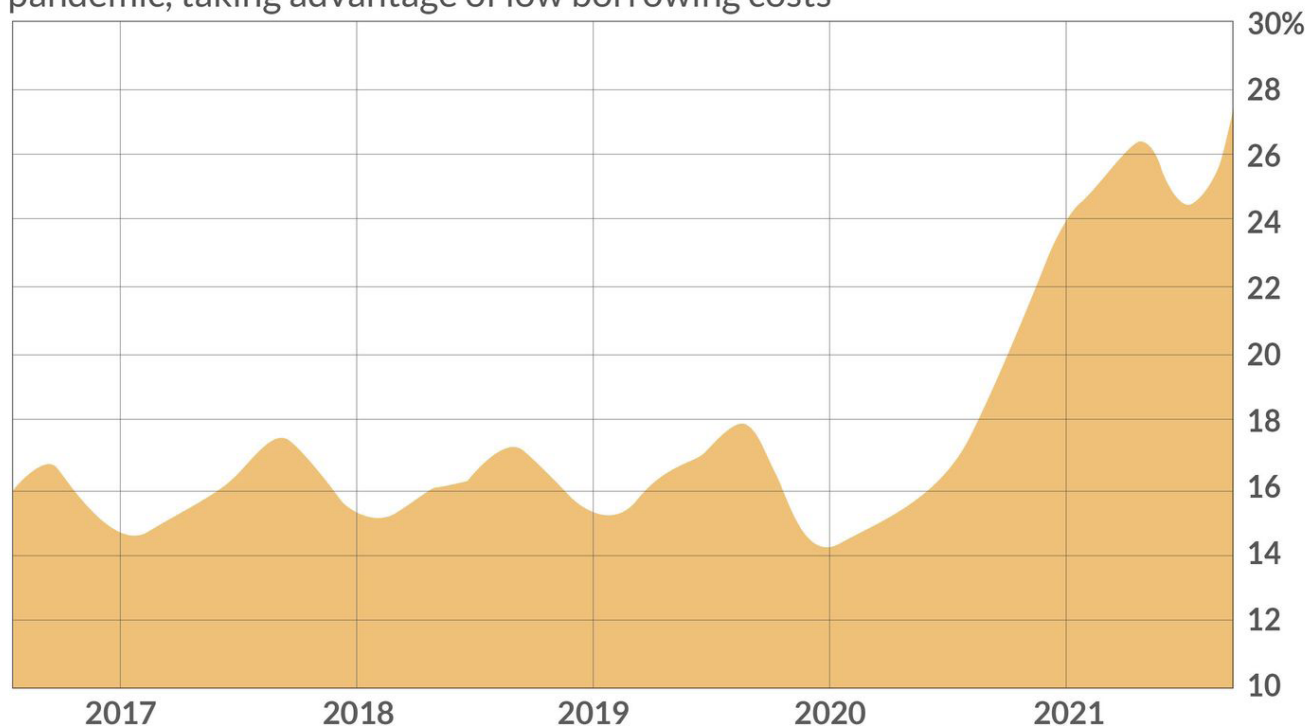
The Larger Investor Community Enters the Fray

By 2019, private equity had proven the skeptics wrong: it was in fact possible to manage a large portfolio of rental properties if you had the right tools. “Technology has disrupted the real estate industry, and the single-family rental sector may be a case in which resulting efficiencies have a big impact,” said **the same investor who doubted the ability to manage thousands of units a few years prior.**¹⁶ No longer financially distressed, the country’s housing stock began to entice those interested in applying tech-driven efficiencies to other aspects of the home sale process.

A study of large investors found that **30% were interested in expanding to rentals**, driven by anticipated rental growth.¹⁷ This highlights the paradox of the expanded role of corporate actors in housing. Private equity acquires would-be starter homes and turns them into rentals, leaving supply even more restricted for prospective homebuyers. Without options, some of those homebuyers remain renters. The competition that private capital creates locks people out of homeownership, growing the renter class and further incentivizing more investors to enter the market.

Investors are snapping up single-family homes

Investors have been aggressively buying up single-family homes amid the pandemic, taking advantage of low borrowing costs



Note: Data are 3-month trailing averages

Sources: JCHS tabulations of CoreLogic data

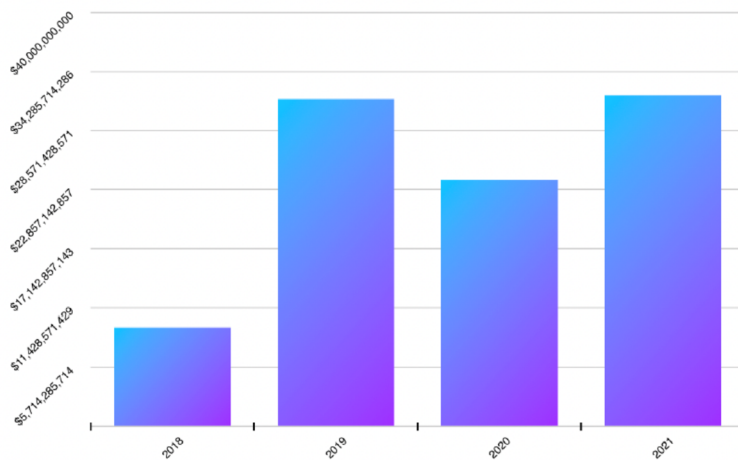
Source: *The State Of The Nation's Housing 2022* by Joint Center for Housing Studies

Venture Capital Fuels Homebuying “Innovation”

Much of this was made possible by unprecedented levels of venture capital going into tech-driven housing startups, often referred to as the PropTech sector. Because of monetary policy and tax cuts that provided piles of available cash for investors, venture capital has exploded in recent years. In 2021, venture-backed companies in the real estate and PropTech space raised \$21 billion and, according to Crunchbase, **125 PropTech companies were acquired in the past year**—the highest amount of acquisition in the last five years.¹⁸ Many of the companies in this space are developing “innovative” business models for homebuying (and other aspects of the housing system).

With its resources, venture capital is bringing a business style that sits in existential tension with many of the companies’ stated goals: addressing the affordability crisis and creating more housing. Venture capital demands speed and scale, creating an environment where these new companies are further distorting the housing market. As the balance of power in the housing market shifts away from individual buyers and owners, venture capital is funding business models that take direct advantage of this dynamic.

2021 PROPTech VC FUNDING



Venture capital has more than doubled its investment in the PropTech space since 2018.

Source: 2021 Real Estate Technology Venture Capital Report, CRETI

2021 Residential Real Estate Technology Landscape



Find or List Your Home

Home Listings & Marketplaces

Zillow, REDFIN, realtor.com, trulia, Opendoor, abode, Homes.com, movoto, Pacaso, homesnap, PROPERLY, HomeLight, ZeroDown, entera

Rental Marketplaces

apartmentlist, Apartments.com, zumper, BUNGALOW, LoftSmart, upsidehome, June, PadSplit, Landed, rentable, NOMAD

Tech-Enabled Brokerages

COMPASS, flyhomes, side, triplemint, REDFIN, homie, reali, ENKASA, Aalto, TREORA, REX, Houwzer, AVENUE 8, RADIUS, clever, torii, PLACE, PROPERLY, real

Agent Tools

Boomerang, OPCITY, verse, SKYSLOPE, ohome, PLACESTER, glide, BRIMITY, Matterport, Instashowing, MoxiWorks, CINC, HomeLight, RealSavvy, RealScout, SISU

iBuyers

Opendoor, Orchard, Offerpad, EasyKnock, knock, PROPERLY, Sundae, HomeLight, zavvie, Zillow, RedfinNow, offerdeposit

Finance Your Home

Digital Lenders

Better, LoanSnap, TOMO, SoFi, BEELINE, Opendoor, lower, Pine, neat, loanDepot, ROKET Mortgage

Digital Brokers & Lender Lead Gen

Simplist, morty, sindeo, nesto, door, breezeful, Bundle, lendtree, nerdwallet, smartasset, Trustpilot, Bankrate, credit karma, HomeSpring, ROKET

Downpayment Assistance / Equity

Landed, Noah, EasyKnock, UpEquity, HAUS, Hurry Home, ZeroDown, HOME

Alternative Financing

ribbon, flyhomes, Orchard, Landis, knock, acceptinc, Divvy, homeward, Loftium, up&up, HAUS, Cobuy

Close on the Home

Property Data & Appraisal

HouseCanary, ClearCapital, BLACK KNIGHT, AITOM, CoreLogic, cherre, ESTATED, Reggora, Aloft, Inspectify, CROW

Title & Escrow

SPRUCE, Qualla, blend, doma, fabrica, snapdocs, Notarize, endpoint, EXPETITLE, modus, JetClosing, NotaryCam, BLUEPRINT

Home & Rental Insurance

hippo, kin, Lemonade, Young Alfred, Matic, BRANCH, Covered, blend, Rhino, Jetty, LeaseLock, CAPE, zesly.ai, Betterview, Flyreel, ARTURO

Transaction Management

TRANSACTLY, DocuSign, PROPY, glide, LONE WOLF, dot, SKYSLOPE, Shaker

Manage the Home

Home Renovation

BLOCK, MADE, curbio, ENKASA, ERGEON, freemod, YARDZEN, Fano, SWEETEN, Realm, FORM, roofr

Home Maintenance

dobby, Porch, Humming Homes, Thumbtack, househappy, houzz, PRO

Rental Management

MYND, belong, Darwin, Poplar, Baseline, NestEgg, zibo, ovaill, Cozy, Rentify, home365, Flip, Rentberry, Nophin, Doorsteed, FLOCK

Home Equity & Refinancing

unison, FIGURE, EasyKnock, fraction, hometap, POINT, unlock, Splitero, Aven, HomePace, digi, Noah

Mortgage Origination Workflow

Loan Application & Processing

blend, ROOSTIFY, Maxwell, STAIRCASE, CLOUDVIRGA, DocMagic, Fidelity, Orolus, SIMPLENEXUS, Velocify, RealKey, BeSmarter, TotalExpert, Stavvy, Encapture, capacity, FINLOCKER, docutech, Mortgage Technology, HomePad

Loan Origination & Closing

Encompass, blend, snapdocs, vesta, CLOUDVIRGA, Qualla, nexsys, loanlogics, BLACK KNIGHT, Simplifile, colyx, firstclose, fiserv, DEEDID, TAVANT, lendingQB, BLUESAGE

Capital Markets & Loan Servicing

brace, scratch, Valon Mortgage, earnup, willowservicing, Haven, BLACK KNIGHT, Maxwell, FIGURE, Finley, dv01, POLLY, optimalblue, coooper, ORM, SAGENT, MAXEX, homebot

Created by Nima Wedlake (@nimajw)

Read more at blog.thomvest.com

One landscape of the VC-backed proptech companies. Source: Thomvest

The rise of tech-enabled corporate models that are exacerbating housing inequality falls broadly into three categories:

Digital Property Management

As corporate landlords realize tech's potential to financialize every aspect of what was a “passively managed industry for 30, 40 years, **up until the institutional players came in,**” they are finding new profit centers.¹⁹ Landlords are automating every aspect of renting from increasing monthly payments to treating tenant fees as an unlimited revenue source and using tenant data to deepen their market share.

The Property Management industry **is valued at \$88.4 billion annually**—and is expected to grow.²⁰ An industry of that size is appealing to venture-backed companies; new companies are eagerly joining the fray and existing companies are growing their in-house capacity to **provide streamlined property management to tenants.**²¹ The growth of corporate landlords is made possible both by large sums of capital flowing in but also by a quick, scaled way to manage thousands of tenants via new venture-backed tech tools. While the tools' ease of use is appealing, the unintended consequences and potential harms of automating the landlord-to-tenant relationship become fairly stark.

In 2020, Graystar tenants filed a class action lawsuit against the company for charging \$100 penalties on rent paid one minute late. The company would also apply rental payments to outstanding fees rather than rent, then assess **additional \$100 fees when the monthly rental amount was short without tenants' knowledge.**²² Invitation Homes directed tenants to **do-it-yourself repair videos to cut maintenance costs.**²³ Between 2014 and 2018, American Homes 4

Rent increased its fee revenue from tenants **more than 1000%, despite increasing its portfolio just 70%** in the same timeframe.²⁴

Corporate landlord reliance on digital management systems to indifferently ratchet up rents and fees is fueling the renter instability crisis. **The five largest single-family operators increased fees per year by approximately 40% from 2018 to 2021,** leading the number of their tenants in rental arrears to increase from 11.3% to 19.1% and tenants in fee arrears to increase from 10% to 20.7% over the same time period.²⁵

Individual landlords already benefit from immense power differentials that enable them to raise rents and evict with some limits. Taking a landlord to court requires significant time and money, which is why the vast majority of tenants in eviction court are undefended. Now consider corporate landlords, who are tasked with delivering profit back to shareholders. Their incentive to pursue evictions, rent increases, and fines and fees shoots up. So too does the deck stacked against those tenants who are now tasked with taking Wall Street—and its high-powered attorneys—to court in order to stay in their homes.

The heightened power differentials help explain why the Federal Reserve Bank of Atlanta, whose city frequently tops the list of most concentrated iBuying and corporate landlord markets, found that private equity-funded landlords were as much as **18% more likely to issue evictions** than other non-equity backed corporate owners, who were still more likely to evict than small landlords.²⁶

Private equity-backed landlords are using their power to affect the regulatory and market conditions, too. Blackstone, the Wall Street firm that established Invitation Homes, spent just shy of \$7 million to defeat a 2018 ballot measure in California that would have allowed rent control in single-family rentals; **their corporate contributions accounted for \$1 of every \$7 the campaign received.**²⁷ Indeed, **one analysis** of where private equity concentrates in local housing markets ventures that “investors are likely more attracted to locations where tenant rights laws are more favorable for landlords.”²⁸ Their lobbying arms invest heavily in keeping it that way.

iBuying

The large datasets created in the wake of the REO-to-Rental program allowed for the rise of a new kind of algorithm-driven investor company: the iBuyer.

Generally, iBuying relies on proprietary acquisition algorithms that use consumer data to competitively price home offers. iBuyers like OfferPad and OpenDoor make the cumbersome process of selling a home much easier for the seller. Once an offer is accepted and a deal is closed, the iBuyer makes minor improvements (if at all) and flips to new buyers, in theory making a profit on the transaction. The process from initial offer to resale typically happens quickly, sometimes within a matter of weeks. Despite some superficial renovations, the homes haven’t actually appreciated in value. Instead, iBuyers speculate that buying slightly below market rate and selling for a small markup will combine, over an entire portfolio of purchased homes, to favorable revenue gains.

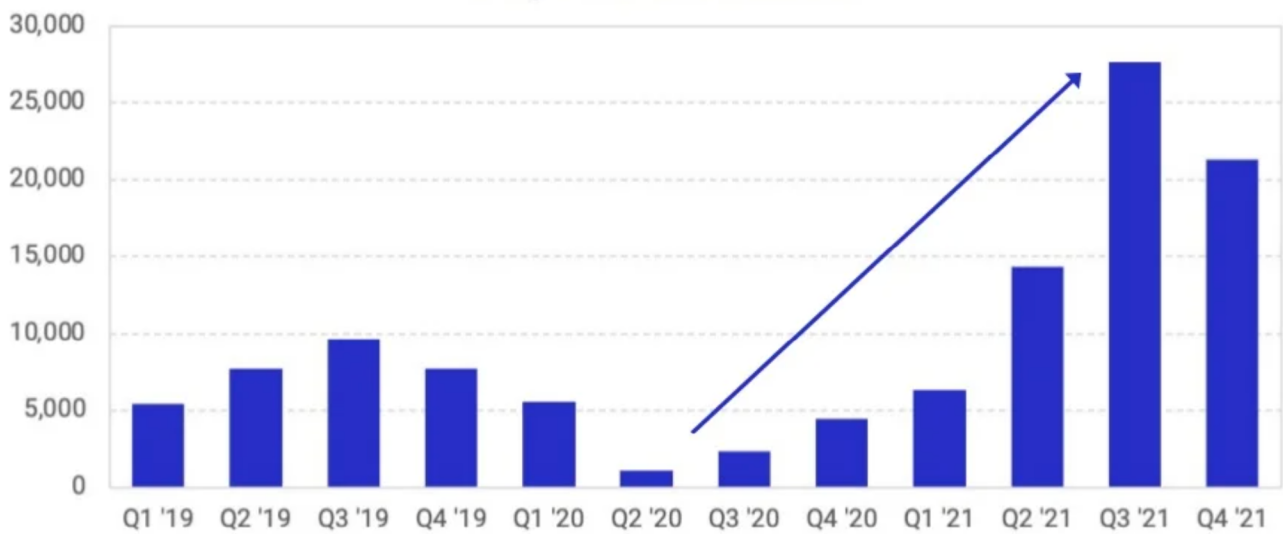
It is a flashy, massive cash-infused spin on home flipping. What sets it apart is the scale. Companies offer homeowners a streamlined sale—eschewing the need for a broker or a mortgage lender.

iBuyers, offering cash, offer a bit under fair market value in exchange for their convenience proposition. With their massive datasets and algorithmic analysis, they know exactly what the next buyer is willing to pay—at least in theory.

However, the algorithm doesn’t always know best. Last year, Zillow drew headlines when it announced it would sell off properties that its rapid acquisition algorithm had overvalued, leading it to **overpay for 7,000 single-family homes.**²⁹ The company sold its portfolio to private equity for a loss (2,000 of those homes went to Pretium Partners, one of the three largest corporate landlords today) and shuttered its iBuying platform, laying off **25% of its workforce in November 2021.**³⁰ Some celebrated the public failure of Zillow’s iBuying program. Yet, Zillow appears to be the exception to the rule.

Zillow’s competitors—Opendoor, Offerpad, and RedFin—**have all increased their transactions in 2021—53%, 58%, and 230% respectively since 2019.**³¹ iBuyers nearly doubled their purchases between Q2 and Q3/4 of 2021, even as Zillow exited the market.

iBuyer Purchases



www.mikedp.com

iBuyer purchases before and during the pandemic. Source: [The iBuyer Report](#)

iBuyers are a proportionately small yet salient player in the housing market. **iBuying accounted for just 1.3% of all home sales** at its all-time national high in 2021.³² But iBuyers are fueling the transfer of homes from families to corporate landlords.

A survey conducted by the U.S. House Subcommittee on Oversight and Investigations of the five largest corporate landlords of single-family homes—Invitation Homes, American Homes 4 Rent, FirstKey Homes (owned by Cerberus Capital Management), Progress Residential (owned by Pretium Partners), and Amherst Residential—found that “they tended to sell homes primarily through bulk sales to other institutional investors, and very rarely sold homes to their own tenants or to individual homebuyers. The five companies purchased 21.9% of their homes through bulk sale, sold 61.5% of their homes through bulk sale, and sold 0.5% of their homes to their tenants.”³³

In markets with concentrated iBuyer presence, they are making it harder for would-be homeowners to compete—and for sellers to get fair market value for their homes. The pandemic created a sellers market in which homes frequently sold above asking, yet those who sold to iBuyers received an average of **0.22% less than market value**.³⁴

iBuyers concentrate on Sun Belt cities, notably Atlanta and other areas that were also the focus of the federal REO-to-Rental program. In the last quarter of 2021, investors accounted for **41% of the market in Atlanta, 38% in San Jose, and 36% in Phoenix and Las Vegas**.³⁵ In Atlanta specifically, **iBuyers were 60% more likely to flip homes to corporate buyers in communities of color** than in white neighborhoods.³⁶ This trend bears out nationally, with the largest corporate landlords that buy from iBuyers concentrated in zip codes that **average 40.2% Black, three times the national Black population of 13.4%**.³⁷

The vestiges of de jure segregation still affect housing distribution in cities across the nation. This focus on starter home communities, which disproportionately overlaps with communities of color, is exacerbating racial disparities in the housing market, making it even harder for Black and brown Americans to purchase homes and build generational wealth.

While corporate landlords and iBuyers own a small percentage of the national market, **their year-over-year growth has doubled**.³⁸ The practice of purchasing would-be middle-class starter homes, funneling those homes to corporate landlords, and focusing on communities of color is harmful and warrants greater scrutiny.

Alternative Pathways to Ownership

With homeownership increasingly out of reach for everyday people, prospective homebuyers are turning to alternative models that promise to get them on the property ownership ladder—but these models come with their own opportunities and risks.

Rent-to-Own Repackages Racist Business Practices of the Past

Rent-to-own companies such as Divvy, Landis, and many others lease homes to tenants and (in theory) apply their monthly rent payments towards a down payment on the house. The conversion rate to homeownership, however, is largely unknown. Without available information, it's hard to know if that's because participants are still making payments as part of the program, or if the costs and program terms are too onerous to meaningfully facilitate homeownership. In the meantime, there's little scrutiny on the contracts.

These models have troubling similarities to Jim Crow-era contracts-for-deed schemes which preyed on Black homeowners who were locked out of the traditional mortgage market. In 1960s Chicago for example, contract home sales—which set up the buyer as having all the responsibility of owning the home but none of the financial benefit of equity or resale value—came to prominence at a time when **banks wouldn't approve Black people for home mortgages**.³⁹ The terms of those contracts often penalized participants for minor errors, which caused purchasers to lose the house along with all the equity they had already put into it. The new generation rent-to-own companies sells a troublingly similar product which we believe, without the appropriate consumer protections, has the potential to replicate predatory models of the past.

Fractional Ownership Models Raise Concerns About Access to Homeownership

Companies such as Altacasa and Pacaso offer fractional ownership (usually one-eighth) of a home co-owned with strangers. The companies are angling to put vacation homeownership within reach of more people and streamline some of the hassles of owning a second home. For Altacasa, **the lowest one-eighth share runs at 144,000 euros**, getting buyers 44 nights each year at the property.⁴⁰

While these companies got their start in the vacation home market, they have signaled their intent to expand into the primary-residence market. The pitch is that fractional ownership can put the American Dream back in reach of the people who private equity has priced out. It's not clear yet exactly how this model might work, but it raises serious equity concerns given the uneven power differential between corporate owners and increasingly desperate middle-class homebuyers eager to get their foot on the bottom rung of the property ladder.

What Should We Do About It?

With renter stability and the likelihood of homeownership so far out of reach, more households are being lured into predatory schemes. Private equity took the government's foreclosure subsidy, and applied tech efficiencies and avarice to extract more profit out of renters. With the help of venture-backed tech companies, they created digitally-enabled tools with the potential to give unique advantages to the powerful—not just in the rental management business, but across all aspects of the home-buying process.

The impacts to housing stability today and economic stability tomorrow have global implications. In 2019,

the UN Special Rapporteur on Adequate Housing, Leilani Farha, and the UN Working Group on Business & Human Rights [sent a letter to Blackstone](#) outlining its role in creating a global housing crisis through its aggressive issuance of evictions, its effect on the availability of affordable homes, and its model pushing middle class households out of their homes.⁴¹ Farha made housing financialization a focus of her tenure as the UN Rapporteur, highlighting “how the transformation of real estate into an asset class traded on global markets has triggered housing insecurity and homelessness crises in many cities around the world.”

To find our way out of this, we must examine and enact public policy interventions that focus both on tech and tech companies' unique role in exacerbating housing inequity but also on the conditions that empower and enrich corporate owners, creating the market for tech actors to profit.

Solutions

1. Guardrails on tech-enabled housing practices can protect consumers
2. Steep taxes on corporate buyers can enable individual homeowners to compete
3. Better public data on the rental market can help us fix what we don't know
4. Common-sense controls on the corporate rental and real estate market can reduce harmful impact on renters
5. Reparations to Black Americans and investments in public housing can close the widening racial wealth gap

1. Guardrails on Tech-Enabled Housing Practices Can Protect Consumers

As new ownership schemes emerge, consumers and the public must have assurances that these models are not predatory. The housing crisis of 2008 gave rise to the Consumer Financial Protection Bureau which enforces much stricter guidelines for how financial products are presented to potential homebuyers. Mortgage paperwork became much clearer and checks and balances were instituted so loanees knew what they were signing up for. We need the same sort of protections and transparency in the market for new ownership schemes as well. Consumer protection agencies should demand access to customer contracts and require better disclosures from the companies.

We also need better information about how well these schemes actually measure up to their stated claims about serving as a launching pad into homeownership. Much as mortgage lenders do, companies selling these products should be required to report data about who they serve and how many of them are actually building wealth through their services. Without oversight, transparency and intentionality we are concerned that these new models will recreate the racist outcomes of similar models born during the Jim Crow era.

2. Steep Taxes on Corporate Buyers Can Enable Individual Homeowners to Compete

It is currently far too easy for corporate buyers to swoop in with all-cash offers that are too enticing for sellers to turn down, making it almost impossible for buyers using a traditional mortgage to compete. Adding some friction to the transaction, in the form of a tax on corporate buyers, or additional steps in the purchase process, would disincentivize corporate buyers and put individual buyers on a more equal playing field. **One proposed law in California** would tax corporate landlords 25% of their gross receipts in recognition of the fact that “real estate interests have received billions of dollars in tax breaks, and 10 of the largest landlords in California have increased their wealth by billions of dollars during the pandemic and have amassed \$191 billion

cash on hand and available to purchase additional properties.”⁴² In the state’s 2022 legislative session, a bill was introduced to tax those who flip homes within 5 years of purchasing it. Other models might impose a transfer tax on corporate buyers at the time of purchase. Money raised through taxes could fund down payment assistance programs or other efforts to help regular Americans gain access to wealth through homeownership.

3. Better Public Data on the Rental Market Can Help Us Fix What We Don’t Know

There are virtually no publicly available, easy-to-decipher data sets on the rental market in the United States that collate unit information, rental costs, eviction data, and ownership type. There are rental registries in some municipalities, primarily for enforcing rent increase maximums on rent-controlled properties; yet the patchwork of jurisdictions that have rent control means that a dwindling number of units fall under these types of laws.

Many housing experts have **made a strong case that a federal rent registry** could have avoided the months-long delays and problems disbursing critical aid to vulnerable renters in the pandemic-fueled crisis.⁴³ Additionally, **TechEquity has argued that rental registries are key to understanding the rental market**, creating better, targeted policy and implementation of existing housing laws, and creating smarter, more realistic plans for housing development by targeting the communities that need it most.⁴⁴ In California, the state housing agency—the Housing and Community Development Department—**issued a 10-year data strategy** outlining the need for a stronger data infrastructure in order to take a data-driven approach to affirmatively furthering fair housing, measuring displacement, and designing and targeting programs to end homelessness.⁴⁵

You cannot fix what you cannot measure—we know that having publicly-accessible data on the housing market can help identify problems, more accurately target solutions, and ensure critical resources are quickly deployed to those who need them most. Corporate investors have figured out how to harness the power of big data to optimize profit; the rest of us should have access to data about the housing market so we can ensure it works for everyone, not just the investor class.

4. Common-Sense Controls on the Corporate Rental and Real Estate Market Can Reduce Harmful Impact on Renters

Policymakers are heeding the lessons of the Great Recession; in 2020, **California enacted a bill** giving tenants, nonprofits, government, and other non-corporate entities the opportunity to purchase foreclosed homes before corporate buyers.⁴⁶ With corporate homeowners redoubling their purchases during the pandemic, such legislation surely mitigated some of the further corporatization of the housing stock. As this paper has outlined, however, the REO-to-rental model has evolved since 2012. So too must the approach to address harm.

State campaigns in California aim to fix loopholes in landlord-tenant law and stabilize renters whose units have recently been sold. Research has found that 51% of building-wide evictions, known as Ellis Act Evictions in California, **occurred within the first year of new ownership**, echoing the rent hikes that tenants experienced

living in corporate-owned homes post-Recession.⁴⁷ Ongoing efforts⁴⁸ (however difficult they may be⁴⁹) to protect renters by preventing Ellis Act evictions within the first five years of ownership could disincentivize further rental speculation.

In addition, the move by Invitation Homes to combine the rental debt from its properties into a new type of financial bond for investor purchase—harkening back to the sham mortgage-backed securities that ultimately led to the foreclosure crisis—demands attention. To keep investors happy, corporate landlords need to bring in a steady stream of (ideally increasing) rental revenue. If they don't, the bonds are secured by the units' underlying mortgages, meaning if investors don't profit they could seize those mortgages and evict tenants anyway.

Though it is unclear how widespread rent-backed bond securities have become, the historical precedents and increasing renter instability whether the bet succeeds or fails warrants monitoring not just by financial regulators but housing regulators, as well. At a minimum, we need greater reporting requirements for those that are corporatizing the rental market. Rental profiteers must report on vacancy rates, rental amounts, eviction rates, tenant demographics, and geographic concentrations in publicly available reports, in addition to SEC filings. Governments must monitor the impact to human rights as it does the impact to financial markets.

5. Reparations to Black Americans and Investments in Public Housing Can Close the Widening Racial Wealth Gap

The racial wealth gap has dramatically expanded in the wake of the 2008 housing crisis and subsequent rise of corporate homeownership.⁵⁰ This devaluation of assets in Black communities was driven by predatory lending, and has now created the conditions for private equity to profit by snapping up homes in these communities and turning them into rental properties.

The only way to redress these harms—and the decades of housing bias and wealth stripping that preceded them—is to enact policies that shift wealth back to the people who call these communities home. The conversation about reparations is beginning to gain traction nationwide. California's groundbreaking reparations task force recently released its findings which focused heavily on housing and recommended redress through financial compensation and new policies that support Black homeownership.⁵¹

As we look to constrain the reach of corporate investors in the housing market, we must also invest in new publicly-owned models that place more of the housing stock out of reach of private investors. California's proposed Social Housing Act, which would provide permanently affordable housing to people at all income levels, is reinvigorating the principle that housing is a human right.⁵² At the national level, the Homes for All Act would spur the construction of new permanently affordable housing and invest in community efforts to combat displacement and gentrification.

Rent-to-own companies such as Divvy, Landis, and many others lease homes to tenants and (in theory) apply

Conclusion

The rise of tech-driven solutions in homebuying and ownership, and the ascendance of venture capital in the sector, is causing harm. At a macro level, we are experiencing a massive wealth shift from the middle class to the capital class through the financialization of housing. As corporate owners push homeownership further out of reach, the ability for people to achieve financial and housing stability is eroding. Tech-driven housing financialization poses existential questions about human rights and economic fairness.

Tenants are in more precarious situations than before, despite paying even more for rent. Homebuyers are competing for aging and limited supply against corporate capital, bringing the homeownership rate even lower. Home sellers are lured into uncertain financial agreements. All of this is being enabled and exacerbated by private equity investors. At the same time, venture-backed tech companies are capitalizing on the desperation everyday Americans feel about housing.

While the commodification of housing long predates the rise of the PropTech sector, it is clear that tech, tech companies, and the investors who support them have accelerated the corporate commodification of housing and exacerbated wealth inequality.

Given the speed at which the tech industry moves, regulation must move faster if we have any hope of stopping the damage before designing systemic solutions for housing justice. Advocates have been **sounding the alarm** on these issues for years.⁵³ Increasingly, people are taking notice. Fannie Mae discontinued its loan services to private equity firms. In California, the legislature passed a bill in 2020 **to give nonprofits, individuals, and governments the right to purchase foreclosed properties**.⁵⁴ While the previously mentioned bill to tax those who flip homes within 5 years of purchasing failed to consider the unintended consequences to individual homeowners, its stated intent to regulate corporate buyers is a sign of progress. Ultimately, without a State recognition that housing is a human right, as well as a commitment to decommodify housing, anti-Black housing practices will continue to be “innovated” to transfer homes—and wealth—into fewer and fewer hands.

The immense power differentials between corporations and housing seekers are weaponized to ensure a permanent and growing renter class so investors realize ever-higher profits. Investors, and even the government agencies and journalists who cover these issues, often point to the increasing percentage of Americans who rent their homes. It’s necessary, they intimate, that someone offers more homes for rent because that’s where demand is.

But pausing to reflect on why illuminates an ecosystem that uses large sums of cash to create market dominance, swallowing what we once considered starter homes—predominantly in communities of color—and transferring them to corporate landlords with a track record of harm. Far from an organic trend, the increasing number of renters is a problem in part created by the corporatization of housing, rather than one it addresses.

As the world finally recognizes the racial wealth gap and its inextricable link to our long legacy of extractive housing practices, one has to wonder—are we going to fix this problem? Or are we just letting these companies and investors transfer wealth from households to their own pockets?

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