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INVESTOR INVASION

The Changing Landscape of Small Home Ownership in the Queens Housing Market

chhaya
Community Development Corporation

Table of Contents

Acronym Key

CDC	Community Development Corporation
CDO	Collateralized Debt Obligation
CLT	Community Land Trust
HDMA	Home Mortgage Disclosure Act
LLC	Limited Liability Companies
LMI	Low-to-Moderate Income
SFR	Single Family Rental
MBS	Mortgage-Backed Securities
NYCCLI	New York City Community Land Initiative
STAR	School Tax Relief

Background

Since 2000, Chhaya CDC has provided housing and financial capabilities services to the South Asian and Indo-Caribbean immigrant communities of Queens, New York. Our efforts have prevented hundreds of foreclosures and assisted first-time homebuyers in building their assets and obtaining thousands of dollars in down payment assistance. As a result, many members of our community are building stability through informed homeownership and financial planning.

Queens is one of the most diverse counties in the United States, in part because it has been an affordable place to lay down roots, raise a family, and earn a living. However, its communities now face a serious threat. Gentrification, often associated with the borough of Brooklyn, is escalating in Queens – increasing housing rental costs, exerting financial pressure on residents, and contributing to widening economic divides.

One of the unique features that has made Queens so desirable for working class immigrant families is the availability of single-family houses and low-density homes (defined in this report as one and two-family homes) close to public transit. Now, real estate investors and speculators see this housing stock as an opportunity to make money and hold their wealth. When people think of real estate speculation, they often think of large multi-family buildings or commercial developments, but one of the fastest growing real estate trends in the country is speculating on small, single-family houses – especially in Queens.

Introduction

This report reveals the troubling trend of speculators entering the market for small homes (one and two-family houses), and explores the consequences of this exploitative investment practice in Queens. Speculators are pushing up prices, crowding out low-to-moderate income (LMI) and new immigrant families from homeownership, fracturing community relations between tenants, and removing the benefits the neighbor-landlord relationship, disrupting the local economy and the borough's unique culture.

While the trends are troubling, Chhaya also sees hope. We believe there are concrete steps the city and state can take to solve this problem. This report concludes with potential solutions that can help to keep Queens a place to build a family, not an investment portfolio. Our goal is that this document contributes to a productive dialogue among residents, advocates, and elected officials about the preservation of our communities, and the future of our city.

National Context

The purchase of small homes or low-density housing by investors has been on the rise across the country. Investors are buying homes for two primary reasons: 1) for "flipping" a property: buying a home, fixing it up, and reselling it soon thereafter, or 2) for owning a rental property (or several rental properties in a portfolio).

Before the housing crash of 2007, flipping homes became an obsession of American culture. Many books were published telling eager readers how they can get rich quick by buying and selling houses. Television networks glorified the flipping process in reality shows and competitions. At its apex, flipping represented 8.5% of total home transactions in late 2006. This kind of speculation was instrumental in causing the crash, as we explore later. While flipping became less popular after the housing crash, it has since rebounded and now accounts for roughly six percent of annual home sales nationally, and approximately five percent of home sales in the New York Metro Area.[1]

Single Family Rentals (SFRs) are now the fastest growing housing trend in the United States.[2] SFRs have grown by 67% since 2005 and include approximately 17 million homes.[3] Interest in buying low-density homes has spiked among various levels of investors, from large institutions to local limited liability companies (LLCs). Most of the single-family rental market (around 85%) is made of investors that hold 10 or fewer homes.[4] However, a growing number of institutional investors are adding significant numbers of homes to their expanding portfolios. The largest firm to enter the market is Blackstone group, a private equity firm. Blackstone has created a subsidiary entity, Invitation Homes, which is now the largest owner of single-family rental homes in the country at around 50,000. Many of these properties were bought during the foreclosure crisis, representing a large transfer of wealth from homeowners to a private equity firm.[5]

To support the growing market for SFRs, large investors are increasingly bundling rental properties together as Collateralized Debt Obligations (CDOs) similar to the Mortgage Backed Securities (MBS) that became notorious during the financial crisis in 2007. Fannie Mae has underwritten $1 billion of these CDOs, essentially creating a government support structure for these investments.[6]

As we turn our attention to Queens it is important to note that due to limited data, more work needs to be done in order to identify who these investors are and the size of their portfolios. Nevertheless, a preliminary review of the data reveals some alarming trends.

The Rising Cost of Housing in Queens

In recent years, investors have been drawn to Queens and other New York City boroughs because of increased demand, high rents, and a limited supply of land in the city. Figure 1 shows the rising prices in New York City's boroughs and surrounding counties. Investors buying up homes for rental properties, or for flipping purposes, are inflating the price of housing to a prohibitive level, making it harder for families to become homeowners – the primary means of building assets in America. With such an influx of investors, the LMI community risks being permanently pushed out. Consequently, inequality and the concentration of wealth stands to increase at the expense of a stable middle-class.

Figure 1: House Price Index New York City & Surrounding Counties
Source: Federal Reserve Bank of St. Louis

Housing across New York City and the surrounding suburbs has become prohibitively expensive over the last two decades. After Brooklyn, Queens has experienced the next largest increase in housing prices in the area since 2000 (Figure 1). As shown in Figure 2, housing prices (indicated by the blue line) have increased compared to median household income (indicated by the red line) over the last 17 years, leading to a growing gap between incomes and affordable homeownership. This trend is also reflected in asking rents which, according to the NYU Furman Center, have increased in Queens by 29% over the last eight years while incomes have remained stagnant. While prospective homeowners experience this growing gap as a barrier to achieving their goal, speculators see this as an investment opportunity.

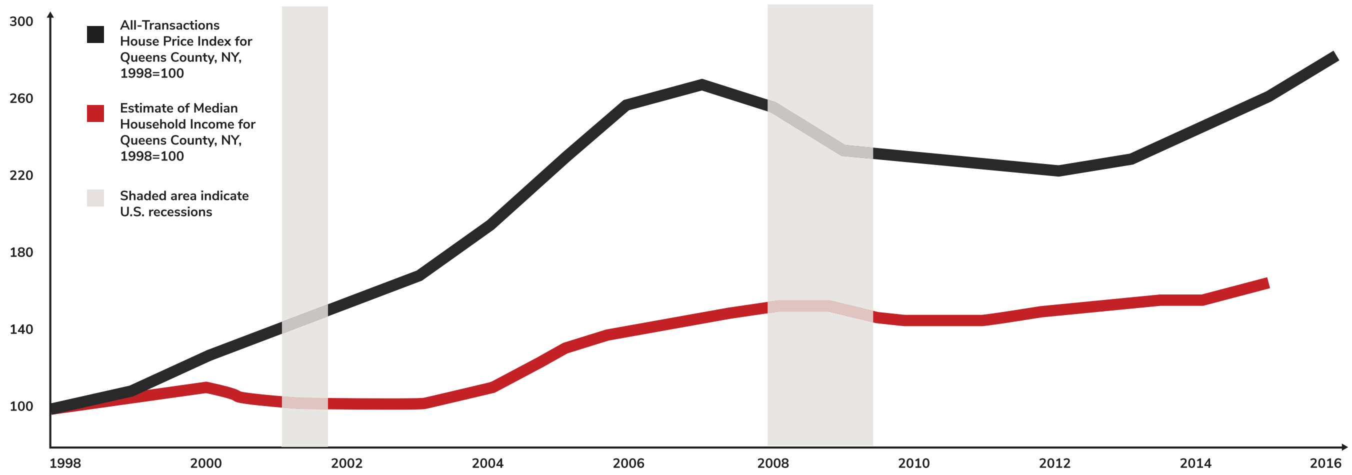


Figure 2: House Price Index for Queens County
Source: Federal Reserve Bank of St. Louis

The Growth of Non-Owner-Occupied Mortgages in Queens

With slow income growth, we might ask how the market can sustain rapidly inflating housing prices? With a relatively fixed stock of housing, where is the demand coming from to support rising prices? A growing number of investors are now buying low-density homes in Queens, competing with LMI residents trying to break into homeownership. According to the Home Mortgage Disclosure Act (HMDA) data, the share of non-owner-occupied mortgages for one to four-family homes has more than doubled in the last decade (Figure 3). If used as a proxy for investor activity, HMDA data is likely an underestimate as many investors are cash-buyers or using lending products that are not reflected in HMDA data. For LMI families in Queens aspiring to become homeowners, this creates a significant barrier. Investors, therefore, are buying homes at the expense of LMI families. A higher proportion of investors can result in a destabilized housing market.

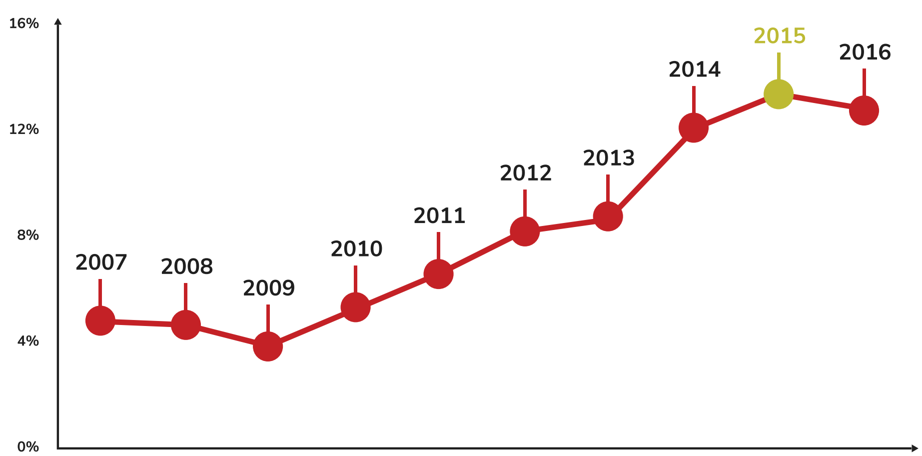
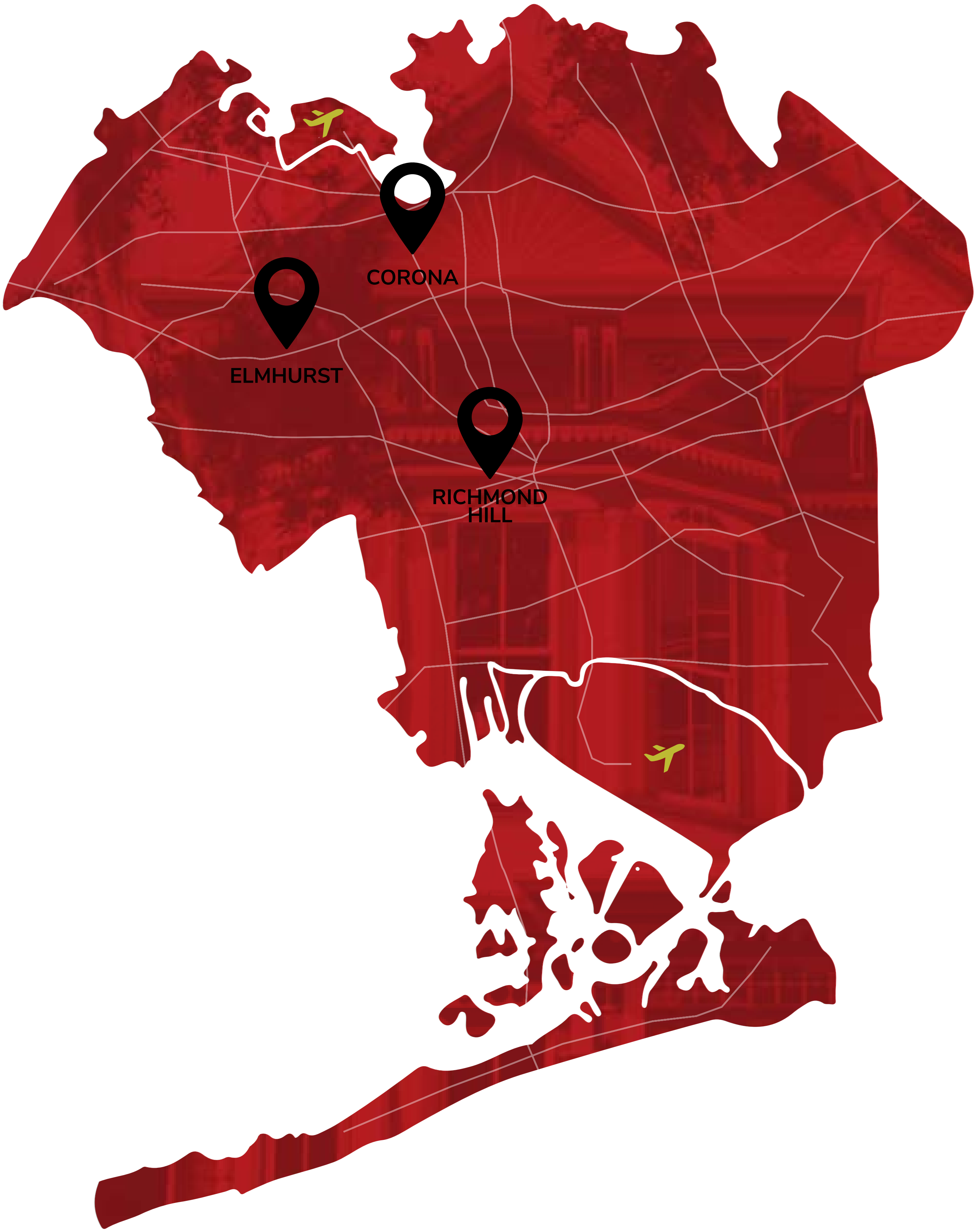


Figure 3: Non-Owner Occupied Mortgages in Queens
Source: Consumer Finance Protection Bureau


CORONA
ELMHURST
RICHMOND HILL

Neighborhood Focus

The data looks even more troubling when we dive deeper into the trend at the neighborhood level. New York City is a city of neighborhoods, with the borough of Queens being emblematic. Each neighborhood is unique and distinct. However, many are rapidly being dismantled or destabilized. Communities that have historically been welcoming for LMI immigrant families are now at risk of displacement due to predatory speculation and gentrification.

Corona

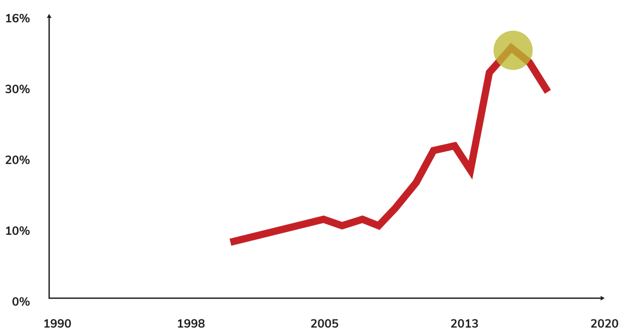


Figure 4: Percent of Homes Bought by Investors in Corona
Source: geodatadirect.com (1/3/2019)

Corona is a diverse community with Latinx families making up about half of the neighborhood and Asian Americans comprising about one-third. The neighborhood has long drawn LMI communities seeking to build assets and a sense of place. Parts of Corona were redlined* during the 1930s and excluded from federally-insured mortgages. Yet African Americans built a strong sense of community and homeownership in the neighborhood during the mid-twentieth century. Corona is now increasingly home to new immigrant communities including: Mexicans, Central Americans, and most recently South Asians. With a mix of multi-family apartment buildings and lower-density housing options, Corona has always been a great place for families to stay rooted in the community while building their assets through homeownership. However, investors now recognize that they can buy up properties and profit from rent. As Figure 4 illustrates, back in 2000 nearly seven percent of low-density and one- and two-family homes were bought by investors. Today, 30% of homes that go on the market are purchased by investors.

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Elmhurst

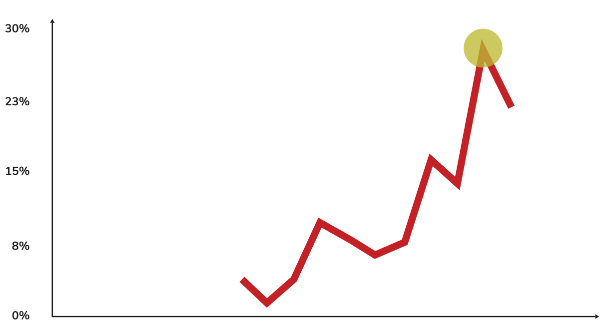

Figure 5: Percent of Homes Bought by Investors in Elmhurst
Source: geodatadirect.com (1/3/2019)

Elmhurst, an adjacent neighborhood to Corona, has experienced a similar influx of investors purchasing low-density houses. Like Corona, Elmhurst is known to welcome immigrant communities. In fact, it is one of the most diverse neighborhoods in the country. According to the 2010 Census, 43.8% of residents in Elmhurst identified as Asian and 46.1% identified as Latino or Hispanic. These two broad ethnic categories include a rich heterogeneity of cultures. However, with rising rents and soaring property values, this may not be the case for long. In 2007, right before the housing bubble crashed, four percent of low-density homes were bought by investors; in 2017, around a quarter of homes were bought by investors.

Richmond Hill

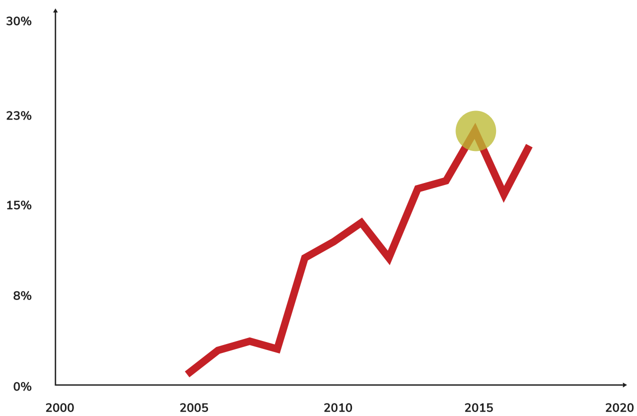

Figure 6: Percent of Homes Bought by Investors in Richmond Hill
Source: geodatadirect.com *(1/3/2019)*

Richmond Hill is a bustling neighborhood populated by immigrants from Guyana, Trinidad, India, and other countries throughout South America, the Caribbean, and South Asia. The area's housing consists primarily of low-density and one- and two-family homes. Homeownership is a goal for many of the immigrants living in the neighborhood, as it allows them to build assets while being surrounded by the small businesses and religious institutions that provide the infrastructure for a healthy community. But this neighborhood, too, has experienced a growing influx of corporate investors buying up properties. In 2005, two percent of houses were purchased by investors. In 2017 one out of every five homes on the market was bought by an investor (Figure 6).

The Threat to Homeownership & Affordability

Affordability and Increasing Divides

New York is a city of renters. With more than eight million residents, more than 65% of them are renters.[7] Many New Yorkers, however, strive for homeownership. For immigrant communities that call Queens home, homeownership is the foundation of their American dream. For several decades, Queens has been an accessible and affordable place for LMI families who work hard to save, buy a home, and raise a family while building assets that provide stability for their futures. Today, this is becoming nearly impossible for many families.

The significant increase of investor dollars flooding the housing market in Queens is making it harder for families to become homeowners. Investors buying up homes for rental properties, or for flipping, are inflating the price of housing to a prohibitive level for LMI families. With a fixed stock of low-density housing in Queens, real estate investors looking to capitalize on the increasing popularity of the borough are in effect competing with LMI families for cheap houses and crowding out first-time homebuyers looking to be part of the community and build assets towards their long-term goals.[8]

As investors buy more properties in Queens, families have fewer affordable options, which only serves to further acquire wealth. Looking ahead, those who already own property and have access to capital will grow their wealth, while LMI families trying to establish roots will face greater barriers to building their assets. Consequently, inequality in the city increases as a greater share of workers' income goes towards rent. This will reduce savings rates, ultimately making it more difficult to acquire assets. Without a house, the primary means of building wealth in America, families have less opportunity for upward mobility.

As William Brown, President of National Association of Realtors, explained:

> "These investors do not expand the affordable housing stock. Rather, in this limited market they drive up the price of rents and remove affordable inventory from the hands of American homeowners. ... At a time of a historically low homeownership rate, our nation needs to bolster homeownership opportunities for millions of responsible, middle-class American families, not funding special interest deals with Wall Street financial firms that take away those opportunities."

Homeownership: A Dream Displaced or a Dream Deferred

Chhaya's clients are directly impacted by the declining affordability in the borough's housing market. As a HUD-approved housing counseling agency, Chhaya serves hundreds of first-time homebuyers each year in Queens. Increasingly, our clients report struggling to afford homes on the market. Many express their frustration about being edged out of the market by speculators, flippers, and cash buyers who use the house for rental income.

The single-family home is the type of housing most desired by Chhaya's client base. Based on a survey of 300 individuals collected at our 2018 annual homebuyer fair, 50% of respondents said they were looking for a single-family home, compared to 40% searching for multi-family, two-to-four family homes, and 10% interested in buying an apartment. When asked about their greatest barrier to acquiring a home, 62% cited the prohibitive cost of housing in New York. 40% of respondents said they would move out of New York for homeownership opportunities. A majority, 60%, shared that leaving the cultural communities and economic opportunities of New York would be too challenging and they would prefer to continue renting. The choices are clear, if unpalatable: defer your dream of owning a home or be displaced from your city.

The single-family home is the type of housing most desired by Chhaya's client base.

Disappearance of the Neighbor-Landlord

A comparison of investor activity with homeownership rates indicates that a portion of the homes transferring ownership to corporate entities, like LLCs, were prior rental homes owned by a small landlord. The small landlord has historically been a part of the community and either an owner-occupier renting additional units on the property, or someone who paid off the mortgage, or was close to it and moved out either to expand their family or downsize in their senior years.

With the influx of corporate buyers we are witnessing the disappearance of the neighbor-landlord, and the emergence of an absent landlord. Corporate, absentee landlords are more likely to raise rents without considering the needs of the tenants or the impact on the neighborhood. This may cause rents to rise at a faster pace, tenant turnover to increase, and a community to lose its character and support systems.[9]

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The growth of corporate landlords at the expense of neighbor-landlords serves to continue the concentration of wealth, making New York City more unequal. The income from a rental property has historically been helpful to young middle-class parents raising a family. Likewise, seniors looking to retire often seek to downsize into a smaller apartment, and partially sustain themselves on the rental income from the home they own, particularly in these times of declining pension plans. However, every year these income generating housing scenarios are becoming less and less likely. Now, more homes in the hands of corporate investors means more income going to a smaller segment of society, thus leading to greater inequality.

Recreating Conditions of the 2007 Crash

In addition to making it harder for LMI families to build wealth through homeownership, a larger presence of real estate speculators and investors in the market can have more widespread, systemic consequences as well. The burst of the housing bubble in 2007/2008 is often attributed to the expansion of credit to low-income, or sub-prime, borrowers. The standard narrative of the crash puts disproportionate blame on poor borrowers taking sub-prime loans at adjustable rates leading to a dramatic increase in defaults. The latest research, however, indicates that the primary cause for the crash rests on the shoulders of speculators and investors.

A study conducted by the National Bureau of Economic Research found that, "The rise in mortgage defaults during the crisis was concentrated in the middle of the credit score distribution, and mostly attributable to real estate investors.[10]" During the lead up to the crash, speculators with good credit and access to capital were buying up properties for rentals as well as flipping them for profit. By 2007, speculators and investors accounted for 43% of the mortgage balance for borrowers with top-rated credit scores and 35% of the mortgage balance for borrowers with middle-range credit scores. When the market slowed down, the investors were the first to start defaulting and did so in large numbers. There was no dramatic increase in sub-prime defaults in the initial phase of the crash. Homeowners who occupy their home are less likely to default or foreclose on their home. The house often has more meaning to them. They have roots in the community.

They have memories of raising their families. They have neighbors and friends they can turn to in hard times. Owner-occupying families will work harder, cut expenses, and find ways to keep their home if they are able. Investors, on the other hand, have little incentive to fight to maintain their investment. They are more willing to forego paying the mortgage and cut their losses if need be.

Policy Solutions

With the rise of investors and speculators in the Queens housing market, we should be concerned about recreating the conditions that led to the crash in 2007. Speculation is bad for a stable and sustainable housing market, and underscores the need for policy solutions that reduce predatory activities. We believe that the following policy solutions would mitigate the rise of speculators:

▸ Community Land Trust Movement

A Community Land Trust (CLT) is a model for maintaining the affordability of housing or other real estate properties that could be used to great effect in Queens. CLTs provide access to affordable homes and mitigate speculation by removing the value of land from the whims of the market. In a CLT model, a non-profit entity, with guidance from community stakeholders, purchases and permanently owns land on which housing can be built. The CLT can sell or offer a long-term ground lease (many last for 99 years) for a house that sits on the land to a low- or moderate-income family. By separating ownership of land from the house, the model effectively cuts the cost of housing in half, as 50% or more of the value of a property comes from the land it sits on, known as locational value.

In addition to making the cost of housing cheaper, the CLT, by permanently owning the land, discourages house flippers and speculators from buying up properties and competing with families in the housing market. Since much of the speculative value of a property comes from location value, and the prospect of what could be built on the land, removing the element of land ownership will minimize investors' ability to profit from speculative activity. A CLT in Queens can compete for property that individual families cannot currently access because of speculative market activity. Once acquired, the CLT can make housing available to low- and moderate-income families. This will make housing more accessible and more affordable.

Currently, there is a lot of exciting activity in the CLT sector of New York that can have a real impact in Queens. Interboro Community Land Trust, a CLT coalition consisting of some of the key housing organizations in New York City, is making headway in bringing this model of affordable homeownership to Queens and across the city. Meanwhile, the New York City Community Land Initiative (NYCCLI) is laying the groundwork for CLTs and other non-speculative housing models that promote the development of housing and neighborhoods for and with community members not served by the private market. Chhaya CDC is a member of NYCCLI.

While these groups are doing important work to promote CLTs, the city can do a lot more. New

York City needs to invest in the CLT sector as a means of creating permanent affordable housing and homeownership opportunities for New Yorkers. Additionally, New York residents interested in this model can get directly involved with these groups to learn how they can bring a CLT to their neighborhood. Chhaya CDC is a member of NYCCLI and the Community Land Trust Initiative.

▸ Property Tax System

The current property tax system does not do enough to distinguish between homeowners, small neighbor-landlords, and professional landlords. Owner-occupiers qualify for the School Tax Relief (STAR) program or the Enhanced STAR program, which in 2016 shifted to an income tax credit, but the credit only provides a marginal savings on property tax at just over $300 per year.

Chhaya proposes that the city create separate tax structures for properties that are used primarily as a home for the owner and properties that are used as investments. This would provide significant relief to homeowners while shifting more tax burden onto the shoulders of large investors. The size of an investor's holdings should be taken into consideration.

To make this work, greater transparency is needed in terms of who truly owns investment properties. Throughout Chhaya's work and research we have encountered many obstacles trying to identify the true owner of houses owned by shell companies. Chhaya has even collaborated with several city councilmembers to try to identify the true owners of houses in various districts when unsafe conditions or violations present dangers to the community.

In addition to taxing investment properties and homes differently, homeowners should receive additional property tax relief if they convert a basement into a legal apartment or use an additional unit on the property to provide affordable housing to a low-income family. This will allow homeowners to generate legal income from their properties while providing the city with much needed affordable units for working class families.

▸ Pass the Flip Tax

New York State should pass the Flip Tax, which would deter investors from buying properties for the purpose of flipping them. This type of activity continues to destabilize housing markets. The state has a responsibility to use taxation to reign in flipping, thereby reducing volatility and preserving affordability. The Flip Tax as outlined by recent State Senate and Assembly bills would tax the sale of houses that are sold in rapid succession at higher rates. This tax would make it less attractive for speculative investors to buy and sell houses and increase the opportunity for affordable homeownership among low- and moderate-income families.

▸ Homeownership and Real Affordable Housing

Homeownership remains out of reach for most New Yorkers. Our housing counselors at Chhaya have observed that the primary barriers to purchasing a home is saving enough for down payment, and closing costs. The city and state can help remedy this challenge in three ways.

First, the city and state need to do more to support residents acquiring a home through down payment assistance. Down payment assistance can help level the playing field for families that can afford a mortgage, but cannot save enough to cover the down payment and closing costs.

Second, the state should make distressed properties (often called "zombie homes") available to LMI families who intend to be owner-occupiers. If a property is in disrepair, arrangements can be made to transfer it to a lottery program, making the property available to prospective homebuyers who have completed HUD-approved housing education and counseling, and possess the fundamental tools to become homeowners.

Third, the reason most families cannot save for down payment and closing costs is because rent is too high in New York City. When 50% of a family's income is going to rent, they have little opportunity to build the savings and assets needed to acquire a home. The city needs to invest in real affordable housing for tenants, fight predatory equity and speculation in the multi-family sector, and allow families the opportunity to save their hard-earned income to invest in homeownership.

Acknowledgements

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Chhaya is a community development corporation with the mission to build the power, housing stability, and economic well-being of South Asian and Indo-Caribbean communities of New York City. We advocate for and build economically stable, sustainable, and thriving communities by providing direct services in the areas of housing counseling and homeownership, economic empowerment and financial education, and immigration and civic engagement. Chhaya provides the tools and resources needed for residents to live in affordable homes, improve their financial well-being, and strengthen their communities.

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