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Chair Peterson, vice chair Cirino, and ranking member Craig, thank you for the opportunity to testify on SB 334, legislation that seeks to alter the foreclosure auction process. At this late hour in the 134th General Assembly, and having an introduction date after the deadline, your offer to allow a hearing is truly gracious and much appreciated. I'll give you the history, operation, and necessity for a bill such as this.

This legislation is not new; it's actually current law in California. Sponsored by Senator Nancy Skinner, a California Democrat, it was signed into law by Governor Newsom in 2020. It was a reaction to institutional housing investors scooping up houses by the truckload through the foreclosure auction process in the aftermath of the Great Recession. Rather than flip the homes, the paradigm shifted towards turning them into permanent rentals.

The operation of the bill is quite simple: it's basically a first right of refusal in the foreclosure auction bidding process. Currently the highest bidder wins the property. The process outlined under the bill is best illustrated by example. Suppose a home is being auctioned off. Whomever wins the bid has the option to declare through an affidavit, under penalty of perjury, that they intend to be an owner-occupant. If so then that person will simply win the bid. An investor who intends to rent the property obviously won't sign such a document, and so a new process is triggered. The winning bid is effectively held until others have a chance to either meet or exceed the bid. The first group eligible to win the bid are the so-called tenant buyers: people who are currently renting the property and are not under a handicap, such as being related to the mortgagor. Like prospective owner occupants, they're expected to sign an affidavit stating that they intend to live there, and can win the home by matching the winning

bid. If there are no tenant buyers, the next group are the eligible bidders. They can win the property by exceeding the bid and include groups such as community development corporations, entities dedicated to affordable housing, port authorities, and even political subdivisions. If there are no successful prospective owner occupants, tenant buyers, or eligible bidders then a housing investor with the original winning bid will win the property. The window of time for a determination as to who is the winner could take anywhere from 15 to 45 days.

The necessity for a bill like this is mainly prophylactic at this point: today is not 2009-2012 when most of the bulk buying occurred, but if we go through another recession or housing correction it could ramp up again. It also serves as the opening salvo for a much broader discussion and policy push to go after private equity buying up as much housing as they can, and then turning it around into permanent rental property. It's not a difficult business model to understand: try to get the property as cheaply as possible with a cash offer and avoid an appraisal at all costs; evict any current tenants who are not paying the highest rate the market will bear; ensure that CAPEX is as low as possible, stories abound regarding tenants having to bring their own washer and dryer; and then charge the highest rate the market will bear. This is all done with ruthless efficiency, all the more so given the economies of scale that may be achieved, for housing which, unlike consumer electronics but like education, is a public good.

Do not underestimate the societal harm that institutional housing investors are causing. They're knocking out the lowest rung on the housing ladder: starter homes. This leaves prospective homebuyers with an option: continue renting, which has become significantly more expensive, or roll the dice on a home outside of their price range. That puts pressure on the next rung and so on. It definitely causes upward pressure on home prices which is objectively bad if wages are not rising to meet those prices. How bad is it? Apparently today you need a six figure salary to afford the median home price in this nation according to Redfin. That is utterly shameful.

There is also a business case to be made for reform. Businesses today are constantly complaining that they cannot find workers. That should come as no surprise

as extremely expensive housing, student loans, and childcare costs put significant upward pressure on wages: if you have children you must live somewhere, and you must have somewhere for your children while at work. There is a choice: pay higher wages, or reduce the cost of living. We never hear anything about the latter and that, too, is a shame. Many will call for us to attack this from the supply side, and build more homes to reduce prices. I would agree with that. However, that will take time, and the cheapest way to bring houses online for purchase is to eliminate the middle man: the rapacious private equity that didn't exist in this space two decades ago.

As I mentioned previously, this is the first of many bills I intend to introduce to deal with the Amazon-ization of housing. SB 354 is another such bill in the foreclosure auction space, and I'm working on a third that I believe will be the silver bullet to the overall problem of institutional housing investors. I'd also point out that this is far more bipartisan than you might imagine. In any event, they are issues for the next General Assembly. Thank you for your time, and I'll answer any questions you may have.