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Antonio:

Vice Chair Roegner, Ranking Member Smith, and members of the Ways and Means Committee, we stand before you today in support of SB 76, legislation that we believe to be the silver bullet to the problem of large, institutional housing investors buying up single family homes and turning them into permanent rental properties. It uses elements of anti-trust law to accomplish this, a timely concept given the parallels between today's world and the Gilded Age of the late 19th and early 20th centuries.

The business model for these investors is not difficult 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. The homes that are targeted are starter homes, and this phenomenon is strongest in our urban counties, affecting the poor, middle class, and minorities the most. Knocking out the lowest rung on the housing ladder can be devastating for low and middle income families, as it all but forces them to rent. Given that the money behind these large institutional investors is coming from large funds, pension funds in some cases, what hope do these families have in competing with such large entities who have limitless capital, and have no need for traditional lending? It is indisputable that these entities have driven up the cost of housing, and broken a market that was meant for families. It should be noted that homeowners typically have forty times the net worth of renters; this tried and true avenue to building intergenerational wealth has been increasingly cut off. Simply put, families should not have to compete against hedge and pension funds for a basic necessity like housing.

There is also a business case to be made for reform. Businesses today are constantly complaining that they cannot find workers, and if the wages are insufficient to make it work those potential employees will look elsewhere. 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. Many will call for us to attack this from the supply side, and build more homes to reduce home prices and rents. We would agree with that. However, that will take time, and the most effective way to bring homes online for purchase is to eliminate the middle man: the private equity that didn't exist in this space two decades ago. Moreover, who's to say these folks won't outbid Ohioans on those "workforce" homes, too, driving up the price of a single family home. Fun fact: did you know that in this country you now need a six-figure income to afford the median home price? Needless to say, given how lucrative renting can be, it wouldn't surprise us in the slightest to see even more interest from hedge and pension funds: higher rents mean higher returns when you dominate the local market; and in our high interest rate environment, competition from families is down as those same interest rates make housing more expensive for them, but not for cash buyers. In fact, it should make housing cheaper for cash buyers, driving more people to rent, which then drives rent up further. The nasty net effect is that many employees cannot live and work in the same area.

Blessing:

So how does this legislation accomplish the goal of ending this monopolistic practice? Simply put, it is a tax that nobody will ever pay. For any given county, if any entity or group of entities under common control, owns more than fifty 1-3 unit single family homes, they are subject to a charge of $1500 per month per property. This is too much to pass on to tenants and it destroys the business case for buying up properties in this fashion. The result is that they'll be forced to sell the properties above the threshold and likely at lower prices to minimize losses. It is highly likely that many of these properties would be purchased by families and the dream of homeownership could be somewhat restored in the most affected areas. It also stops the growing practice of build-to-rent neighborhoods which, at first blush, appear identical to owner-occupied neighborhoods. However, the homes in these developments are not for sale.

It should also be noted that this legislation only includes one to three-unit single family homes. It does not include apartments or condominiums. Moreover, it excludes land banks, port authorities, community development corporations, non-profits, etc. In essence, it only targets the largest players who are distorting the markets through constricting supply and driving up prices, which comports with good anti-trust law. If there are corner cases that we've missed – as of this writing we've heard that condo'd multifamily may be one – we're happy to address them.

We'll close with some thoughts. First, you cannot be in favor of homeownership and opposed to this bill: there is no other practical way to combat this monopolistic practice without legislation of this sort. As it stands, the General Assembly will try various carrots – tax preferred savings accounts, abatements, etc – however, every one of these approaches will fail to solve this problem. Simply doing nothing – the "markets will work this out" response – will also fail and for the same reason: renting properties is too lucrative for large investors, and they have no disincentive to stop. Second, do you want to live in a world where homeownership is dying? We certainly don't, but many people are pushing exactly that: housing by subscription. Bloomberg ran an article a few years back by Karl Smith pushing the idea that America should become a nation of renters. Of course, there is also the loathsome World Economic Forum of "you'll own nothing and like it" fame. Third, it'll be interesting to see who comes out in opposition to this. Smaller landlords might, ditto for the realtors, banks, small investors, and lenders. However, these large investors have no need for any of those entities, and will likely put many of them out of business in the same fashion that Amazon decimated retail. With their limitless capital they don't need lending; once they acquire homes they never sell them, thus cutting off the oxygen for realtors, especially in affected areas; and what mom and pop real estate investor, who likely needs to secure lending on their own like potential homeowners, can hope to compete against such financial firepower. Fourth, take a look at this article: https://www.wvxu.org/politics/2023-01-18/cincinnati-suesvinebrook-homes-public-nuisance-business-practices. Cincinnati recently sued one of these investors. That same investor owns north of 3,000 single family homes in Hamilton county alone. If you care about homeownership, acquiring a portfolio of that many homes in a county should simply not be allowed to happen.

Thank you for indulging this testimony bordering on treatise. It is most definitely not an easy issue, and we hope that you can at least appreciate the problem, even if it isn't one in where you live. At this time, we are happy to answer any questions the committee has on SB 76.