Protections are Needed for Ohio Renters, Homeowners and Communities Facing a Dramatic Increase of Investors Purchasing Homes in Ohio

Testimony In Support of Senate Bill 76

Senate Ways and Means Committee

Ohio Senate

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Chairman Blessing and members of the Senate Ways and Means Committee, thank you for the opportunity to testify today in support of Senate Bill 76 which will help curb the harmful impacts from increasing real estate investor activity in Ohio. My testimony will consist of two parts – background on the problem, and recommendations.

Background

The Cuyahoga County Vacant and Abandoned Property Action Council (VAPAC), a coalition of civic and governmental agencies, began an investigation of real estate investor activity in 2017 in response to an alarming increase of reports of property investors engaged in non-compliance with laws and other irresponsible activity. The investigation led to the publication in March 2022 of "The Impact of Real Estate Investor Activity on the Cuyahoga County, Ohio Housing Market 2004 – 2020".[1] The study found the following:

Dramatic increase of investor home-buying. The percentage of homes acquired by investors tripled in Cuyahoga County from 7.17 percent of home purchases in 2004 to 21.1 percent in 2020. As noted in Figure 1 below the largest increase occurred in the East Side of Cleveland. The result of this rise in investor-ownership is a housing submarket that is largely rental, no longer controlled by local actors, and with limited opportunities for new home owners and the associated benefits of stability, health, and wealth building[2].

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[1] http://web.archive.org/web/20221201211448/https://www.wrlandconservancy.org/wp-content/uploads/2022/03/20220306_The-Impact-of-Investor-Activity-in-Cuyahoga-County.pdf

[2] Laurie S. Goodman & Christopher Mayer (2018), Homeownership and the American Dream, *Journal of Economic Perspectives*, vol 32-1, Winter pgs 31-58
https://www.urban.org/sites/default/files/publication/96221/homeownership_and_the_american_dream_0.pdf

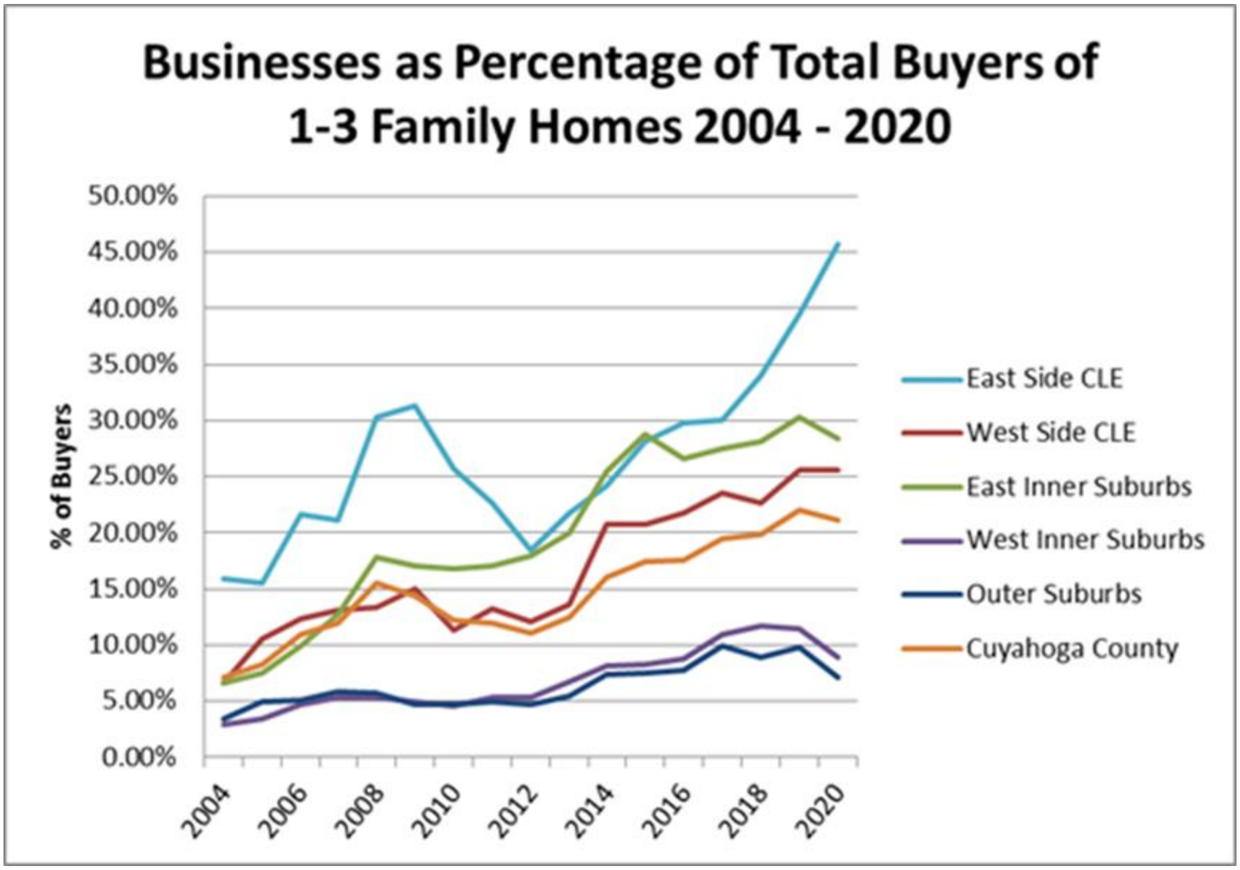

Figure 1.

Investors purchasing without pulling permits for repairs. The study found that investors buying homes in the East Side of Cleveland, where homes are more often in need of repair, were less likely to obtain permits. Repairs were either not made, or were made illegally without a permit. This suggests that investors are making the assumption they can purchase a property and move tenants in without making repairs or without complying with local building and housing ordinances.

Investors paying cash and out-competing homebuyers. As noted earlier, the greatest increase in investor home purchases is in the East Side of Cleveland, where median home sale prices are low and still struggling to recover from the foreclosure crisis. As one investor has stated "The streets in Cleveland are paved in platinum, because the houses are so cheap [following the foreclosure crisis] but the rents never declined".[3]

The low sale prices should be an opportunity for affordable home ownership, but some parts of Cleveland are becoming "cash markets" where potential home buyers have to compete with irresponsible cash investors who often convert these low-priced properties to rentals, further eroding the homeownership base of these communities. This conclusion is also supported by a

[3] Presentation by licensed appraiser Emily Braman at the April 14, 2021 meeting of the Cuyahoga County Council Reinvestment Subcommittee.

recent study published by the Fair Housing Center for Rights & Research, "Cuyahoga County Housing Trends"[4]. As noted in Figure 2 below there were 4,143 home sales in 2021 in the East Side of Cleveland, at an affordable median price of $45,000, yet there were only 914 home purchase loans issued by lenders. Cash-paying investors can move quickly to acquire a home, much faster than a homebuyer seeking a home purchase mortgage.

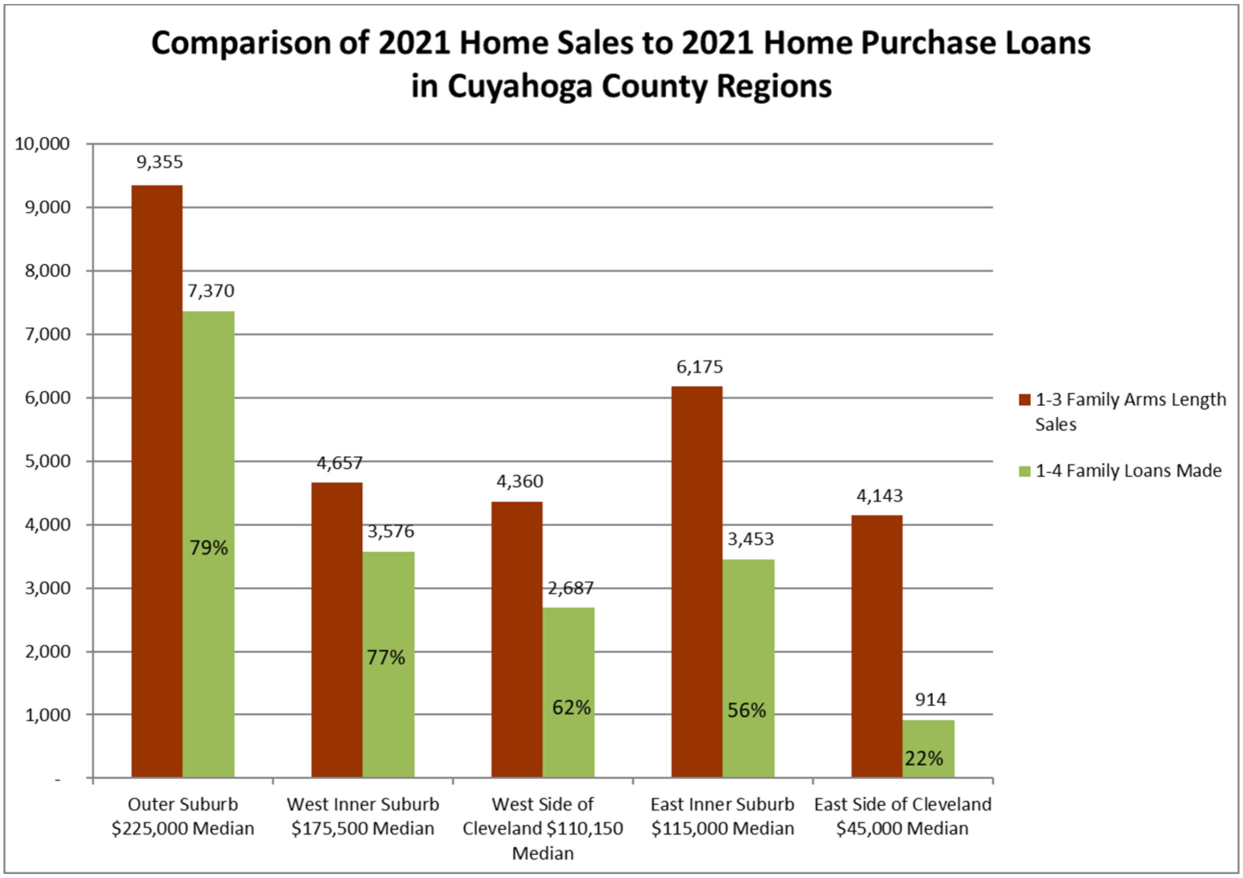

Figure 2.

A new type of investor – off the radar. The VAPAC investigation has also surfaced a new type of investor - they don't hold title to any property, but use internet platforms to recruit investors from around the country and around the world. They offer to link investors with properties for sale, then handle all property management and tenant relations. These entities may touch, and control, thousands of properties, but they're off the radar because they don't hold title to anything. Yet because they handle day to day management for owners who may be hundreds or thousands of miles away, and who may never have even seen the property, they are the key players responsible for complying with local housing codes. These manager-investors have little incentive to comply with local ordinances if their identify and role is never disclosed to local housing officials.

[4] https://www.dropbox.com/s/7hx52zokr7jjd2k/Cuyahoga%20Housing%20Trends%202020-2022.pdf?dl=0

Recommendations

Based on these findings and observations, we offer the following recommendations.

Housing Impact Tax. Since investors are motived by financial gain, we support the bill's proposed housing impact tax to curb harmful investor activity.

Change from single family to 1 to 3 family. We appreciate and support the expansion of the tax to include 1-3 family homes. In many older communities in Ohio, and Cuyahoga County, these homes are common, and they are often the most attractive to investors. Twenty percent of the homes in the city of Cleveland fall into this category.

Reduction of threshold to 50 homes. We appreciate and support the reduction of the threshold for imposing the housing impact tax to 50 homes. The previous language in the bill would have imposed the tax only when an investor owned 1/10th of one percent of the single-family homes in a county, which would have required 350 homes in Cuyahoga County. There are very few, if any, investors who own 350 homes in Cuyahoga County. And, if there are, it would take considerable effort on the part of county auditor and fiscal offices to do the investigative research to determine that.

Disclosure of LLC owner information. Municipal code enforcement officials struggle to hold investors accountable when the owners are shielded by layers of multiple LLC subsidiaries. We support the requirement that contact information for owners, including phone and email, be disclosed. However, we recommend that this be augmented with a similar requirement for property managers.

> **Recommendation:** as noted earlier, investment companies that specialize in recruiting investors may control thousands of homes, but never take title to any of them. We recommend that the same disclosure be required of the owners of property management companies acting as agents for investors.

Exclusion for beneficial owners. We appreciate the exclusion that was provided for land banks, port authorities, and 501c3 charitable organizations. However, it is common for 501c3 charitable organizations to create for-profit subsidiaries to further their charitable purposes and it would be counterproductive to penalize the subsidiaries of a 501c3 organization that is advancing affordable housing opportunities. Similarly, public housing authorities routinely hold title to more than 50 units for the purpose of providing affordable housing.

> **Recommendation**: We suggest amending the exclusion section to add a 4th and 5th category as follows:

4) A partnership, limited liability company, joint venture, for-profit corporation created to own or have ownership interest in affordable housing including, but not limited to, single-family, two-family, three-family housing which is financed with low-income housing tax credits and/or other private and public funding sources where an organization described under section 501(c)(3) of the Internal Revenue Code and exempt from federal income taxation under section 501(a) of the Internal Revenue Code has created and/or has an ownership interest in one or more of these entities;

5) A public housing authority.

Institutional Investor vs Bulk Investor. The term "institutional investor" has been widely used in news media reports around the country. Large corporate investors that control thousands of homes are often the subject of these reports. There is strong evidence to suggest that many of these companies are operating in Ohio. But there is also evidence to suggest that significant harm is being caused in communities by investors that own far fewer homes. We support the use of the term "bulk investors" which better reflects the varied housing market conditions that are found in Ohio communities.

Conclusion

Thank you again for the opportunity to provide testimony on Senate Bill 76. Please contact me if I can be of further assistance.

Respectfully submitted,

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