Gambling with Homes, or Investing in Communities

How speculation drives evictions and poor housing quality, and how affordable housing protects neighborhoods of color
New research on the drivers of eviction, and the protective power of affordable housing investments

After the U.S. Supreme Court, hearing a lawsuit brought by realtors and for-profit property management groups, held that the nationwide eviction moratorium ordered by the U.S. Centers for Disease Control and Prevention (CDC) was illegal, evictions increased by 20%, driven mainly by jurisdictions without local protections. And with the repeal of New York State’s eviction moratorium on January 15th, 2022, there are about 220,000 pending eviction cases in New York City—over half of which were filed during the pandemic—and nearly 600,000 households behind on rent, with BIPOC tenants disproportionately impacted. While it is critical to center tenant needs in understanding and developing policies to prevent this impending eviction wave, it is also important to identify the market forces and actors that drive the eviction crisis. New research by LISC and UNHP reinforces what advocates have often claimed: speculation by corporate and private landlords is a major driver of eviction and lower housing maintenance quality. Predatory landlords have generated substantial returns by extracting wealth from low-income and Black and Latinx communities, and speculation demonstrably harms tenants who enable these profits. Accordingly, policies that protect tenants while also curbing speculation and promoting tenant and community control are urgently needed at this moment.

Measuring speculation and understanding its effects

Some real estate speculators profit by buying apartment buildings, displacing existing tenants, and/or raising their rents. But most treat apartment buildings as an asset to be re-sold at a higher price, or that can be leveraged to generate relatively cheap capital in the form of debt. Refinancing mortgages to take on more debt – and then using those funds for profitable investments – has become a particularly important way that speculators realize profits, as shown in the infographic below. Prior research has documented that multifamily property values in Queens, Brooklyn, Manhattan, and the Bronx increased by up to 600% from 2000-2018, and also that 175,000-190,000 evictions have been filed each year in the last decade in New York City. But research had not to date statistically demonstrated the association between speculation and evictions at the building level. Drawing on a groundbreaking database created by UNHP, LISC created a time-adjusted measure of the proportional increase in per-unit sales price and debt amounts – a kind of indicator of asset value inflation. We then traced eviction and maintenance quality outcomes for individual buildings where sales prices and debt rose the most over time, controlling for other community factors such as neighborhood poverty rates. Finally, we analyzed outcomes for properties that received affordable housing investments, to demonstrate the positive effects of these programs on maintenance quality and in removing buildings from predatory cycles of speculation.

Between 2014 and 2019, the appraised value of a building rises from $1 million to $2 million. Based on this appraisal, the landlord, who originally purchased the building with the help of a $750,000 loan, refinances for $1.5 million. Rather than reinvesting the additional $750,000 in repairs and maintenance to the original building, the landlord uses it to purchase an additional, $3 million property.

Major findings

- Lower-income, Black and Latinx neighborhoods seeing signs of gentrification experienced more speculation than whiter, wealthier areas. For example, going from 20-30% in a census tract’s poverty rate was associated with a 14% increase in the likelihood that a landlord will take out the highest additional amount of debt, all other factors held constant.

- Buildings that sold for the highest price increases or that took on the greatest amount of additional debt had up to 2.7x more maintenance violations per unit than those that did not. Even controlling for community characteristics, buildings with the highest increase in debt had about .78 more maintenance violations per unit per year than those that did not. This finding undercuts the claim that multifamily debt is generally reinvested in building maintenance, as represented in the infographic above, and raises serious questions about the responsibilities of banks and Government-Sponsored Enterprises such as Freddie Mac and Fannie Mae in lending to speculators.

- Landlords who bought buildings at the highest increased value or who took on the most additional debt evicted their tenants at 1.5x the rates of others who owned similar properties in comparable neighborhoods. This finding may understate the extent of displacement caused by speculation, because our data draws only on completed eviction warrants executed by New York City marshals and does not measure other forms of displacement that occur before eviction judgements, as represented at the community level in this map, which shows the overlap of areas with higher levels of speculation and higher levels of eviction.
In contrast, properties that received affordable-housing investments were significantly better maintained than properties in similar neighborhoods without such investments. They were also less likely to be acquired at higher values or to take on higher debt levels than properties in similar neighborhoods. When looking across all private rental units, including new construction and luxury buildings, buildings with affordable subsidies had up to 75% fewer maintenance violations per unit than unsubsidized apartments, depending on the year. In other words, affordable housing investments helped remove properties from predatory cycles of speculation.

Consistent with the experiences of tenants and advocates, our research shows that Upper Manhattan, the Bronx, and Central and Eastern Brooklyn saw the highest amount of speculation and the greatest number of eviction filings, among other places.

SPECULATION AND EVICTION FILINGS IN NEW YORK CITY

This figure examines which zip codes saw the most speculation, measured by the proportion of residential units that saw the greatest time-adjusted, proportional increase in sales price or debt amounts. It then layers this with eviction filings at the zip code level.
Recommendations

Preventing the looming eviction crisis requires immediate actions to keep tenants housed, and strategies to combat the speculative ownership that drives evictions and poor housing quality. Investments in nonprofit and community ownership, and in social housing models that remove properties from the speculative market and promote community wealth building – rather than wealth extraction – should be prioritized as part of an equitable housing recovery.

- **State legislatures and local governments should bolster tenant protections and address rent arrears.** These can include seeking additional funding for effective rental relief funds (including for those excluded from federal initiatives), good-cause eviction protections, rental regulation, right-to-counsel initiatives, harassment protections, and similar measures. For example, New York State lawmakers are considering enacting good-cause eviction (NYS A.5573/S.3082) and right-to-counsel protections (A.7570/S.6678).

- **Government at the federal, state, and local level should support large-scale acquisition funds, to bring distressed rental housing into community and nonprofit ownership and to promote its permanent affordability.** Tenant and Community Opportunity to Purchase Act (TOPA and COPA) policies are promising preservation tools, when combined with adequate funding and technical assistance for tenant organizing. At the federal level, affordable housing investments can be used to acquire and rehabilitate rental housing, and should be increased, as LISC has called for in its 2021–2022 policy platform.

- **Local government should expand enforcement actions in properties that are perennially in poor maintenance condition, and explore ownership transfer from predatory landlords into community and nonprofit ownership.** In these efforts, tenant organizing is a valuable tool that can leverage code enforcement policies and promote tenant self-determination, and should also be supported through government funding.

- **State and local governments should use taxation to discourage speculative sales.** Vacancy and warehousing taxes, flip taxes, and out-of-state transaction taxes all seek to discourage speculative behavior, while other taxation proposals focus on the value that accrues to privately-held property as a result of public investment, infrastructure, and land-use actions.

- **State and federal agencies should use a range of regulatory tools and oversight mechanisms to ensure that mortgage lending to rental housing benefits tenants, particularly in properties with lower-income residents.** Regulators should strengthen the way that the Community Reinvestment Act (CRA) provides incentives for responsible lending to rental housing and regulates investments in housing that receive CRA credit. Regulators should also examine how the government-sponsored enterprises’ (GSEs), Freddie Mac and Fannie Mae, multifamily loan purchase activity impacts tenants and rents. The GSEs provide large sources of liquidity in the rental market, and have recently come under scrutiny for financing provided to large private equity landlords that have displaced tenants. Regulators should work with GSEs to 1) examine existing loan portfolios to ensure tenant well-being, 2) scrutinize new prospective lenders for their track record, and to make sure that new debt purchases are used to preserve the quality of property and its affordability, and to prevent displacement, and 3) move the GSEs to prioritize racial equity goals by advancing low-cost financing for high-quality, deeply- and permanently-affordable affordable developments and social housing projects.