How and Why U.S. Single-Family Housing Became an Investor Asset Class

Brett Christophers

Abstract
Having historically been avoided by institutional financial investors, U.S. single-family housing—that is, free-standing residential property—received large investment inflows after the global financial crisis of 2007-2009 to rapidly become a substantial asset class. Why? And why then? The materialization of an unprecedented investment opportunity—large stocks of cheap, favorably located urban housing—was certainly pivotal. But the attractiveness of that opportunity was enhanced by a series of parallel and (for investors) propitious historical shifts in four key realms: technology, finance, housing supply, and ideas. In short, the investment transformation that occurred was “overdetermined.” The article develops this argument with a focus on investment by the firm that led the way: the Blackstone Group.

Keywords
investment, the United States, asset class, single-family housing, financial crisis

In a March 2009 letter to holders of public shares (“units”) in the Blackstone Group, the firm’s chief executive, Stephen Schwarzman, spoke effusively about the investment opportunities the group was at the time eyeing, in the midst of deepening national and global recession. Among the most attractive opportunities, he said, were in real estate, and especially urban residential real estate. Blackstone is an asset manager: it invests capital entrusted to it by clients such as pension funds, insurance companies, and high-net-worth individuals. The better its investments on behalf of those clients (its “limited partners”) perform, the better Blackstone performs. At the time of Schwarzman’s writing, Blackstone’s investments did not include housing. But, he said, they soon would. As households and real-estate companies struggling to service their loans succumbed to “forced asset sales . . . over the next several years,” Blackstone, predicted Schwarzman, would get “significant opportunities to acquire major property portfolios.” He was right.

While Schwarzman figured such opportunities would arise worldwide, it was in the United States itself, Blackstone’s home territory, that he expected the opportunity to be greatest. A decade later, in a chapter of his memoirs titled, tellingly, “Turn Crisis into Opportunity,” Schwarzman provided a vivid recollection of how, around 2009-2010, he had envisioned this particular salivating prospect:

1Uppsala University, Uppsala, Sweden

Corresponding Author:
Brett Christophers, Institute for Housing and Urban Research, Uppsala University, 752 36 Uppsala, Sweden.
Email: brett.christophers@kultgeog.uu.se
The basic math of the opportunity seemed straightforward—and unprecedented. Here was the biggest asset class in the world [namely, housing], in our home market, trading at historic lows, and the whole world was frozen. It was the right point in the cycle and exactly the kind of moment for investors like us.\(^2\)

Schwarzman immediately followed this recollection with another of equal significance: “I’d seen something similar in the early 1990s.”\(^3\) Indeed, he had. The United States in the mid- to late-1980s experienced a real-estate-centered financial crisis that in many respects was comparable with that which engulfed the country in 2007-2008. Financial institutions whose core business was making loans for property purchase—the so-called savings and loan (S&L) associations, not unlike the United Kingdom’s traditional building societies—had widely failed, ensnared by a deregulation-enabled lending binge and by a crippling, secular rise in the interest rates at which they were able to borrow. Failed S&Ls were taken over by regulators, and in 1989, the government established the Resolution Trust Corporation (RTC) to dispose of their assets, which included repossessed properties as well as delinquent mortgages. A significant downturn in the U.S. economy in 1990 made the RTC’s task all the more urgent. “The RTC came under pressure to move the assets off their books at almost any price they could get,” Schwarzman later wrote, “forcing massive amounts of real estate onto the market.”\(^4\)

It was a situation tailor made for cash-rich, buy-low-sell-high, institutional real-estate investors. In 1990, however, Blackstone did not “do” real estate. Founded in 1985 as an investment bank providing advice on mergers, acquisitions, and corporate restructuring, Blackstone had in 1988 entered a new business: leveraged buyouts, typically of companies whose shares were not publicly listed—hence the more familiar label often given to that business, “private equity.” Its first such deal was the purchase of a majority stake in the network of railroads and barges used by the USX Corporation (formerly U.S. Steel) to transport raw materials—iron ore, coal, and coke—and finished products around the United States. By 1990, buyouts were Blackstone’s meat and drink.

Nevertheless, Schwarzman was smart enough to realize that the opportunity to take property assets off the RTC’s hands was too good to pass up. So, he did not pass it up—and it was thus that Blackstone’s real-estate investment operation, today among the world’s largest, was born.

The key catalyst was a meeting between Schwarzman and a real-estate entrepreneur from Washington, D.C., called Joe Robert. Robert had been helping the RTC dispose of its backlog of distressed property but increasingly hankered to buy such properties himself rather than selling them to others. Yet he lacked the capital to do so—which was where Blackstone came in. Suggesting they team up to acquire cheap, distressed real estate at the next RTC auction, Robert pitched the opportunity to Schwarzman as follows: “Trust me. The country’s in a complete mess. There won’t be many people bidding.”\(^5\)

From among the assets being auctioned, Robert and Schwarzman set their eyes on a package of approximately three-year-old, 80 percent occupied garden apartments—multi-unit, low-rise dwellings with lawn or garden space—in Arkansas and East Texas. To buy them, they joined forces with a team at Goldman Sachs led by none other than Robert Rubin, then the bank’s chief executive, and later the U.S. treasury secretary under Bill Clinton.

Schwarzman’s subsequent enumeration of the simple but compelling calculus of the 1991 garden-apartment deal is enormously instructive, for it encapsulates the logic underpinning not just that particular deal but much of Blackstone’s real-estate deal-making more generally—then and since. “At the price I suggested,” Schwarzman wrote, “I calculated that we would lock in a 16 percent annual yield. That meant every year we would receive 16 percent of our purchase price back in profits from rental income.” Now, 16 percent is the kind of return most real-estate investors can only dream of. But that was not the half of it—“just the start,” in Schwarzman’s words:
These apartments were producing a steady flow of cash. They were almost new, so we wouldn’t have to spend a lot of money fixing them. If we added some debt to the acquisition, we could lift the return on our investment to 23 percent a year... In addition, we thought we were close to the bottom of the real estate cycle. In 1991, we felt real estate had bounced off the bottom. As the economy recovered, the vacant 20 percent of apartments would fill up, lifting the 23 percent return to 45 percent. And rents would then rise, taking the 45 percent to 55 percent.

“[All] we had to do for this 55 percent compound return,” Schwarzman wrote, with something approaching wonder, “was buy the asset.”

In the event, the deal turned out to be even more profitable for Blackstone than Schwarzman had estimated it would be. It yielded no less than a 62 percent annualized return. And Schwarzman was so enamored of Blackstone’s first housing investment that he hungrily inquired as to what other such opportunities existed: “After that auction, I asked Joe how much of this stuff was out there.” Robert’s answer was pregnant with possibility: “There’s a whole country full.” Schwarzman’s reaction to this revelation would resonate with full force two decades later. “I could scarcely believe it,” he reflected in his memoirs. “A country full of value and no competition.” That, in essence, was the U.S. housing investment proposition in 1991.

Between 1991 and 2011, however, Blackstone made no further investments in residential property in the United States—and very few overseas—even as it built one of the world’s most formidable commercial real-estate investment operations. Why not? It is an important question, and one to which the present article aims to contribute to providing an answer.

Part of the answer, and the part that Schwarzman himself gave, takes us back to the basics of Blackstone’s business model, which, as noted, turns on investing others’ capital. The garden apartments deal was extremely lucrative but also extremely small. If Blackstone wanted to make a big play in housing—and it is clear that, in the early 1990s, Schwarzman definitely did want to—it needed to put significant amounts of its clients’ funds to work. When it asked them for permission to do so, however, they balked.

“I wanted our investors’ consent before we committed such a significant portion of their money to this new strategy,” wrote Schwarzman. “At our annual investors’ meeting, I laid out the opportunity, expecting our limited partners to jump at it. But to my surprise, all except General Motors turned it down.” Their reasoning? It was not that they did not understand Schwarzman’s logic. But the S&L debacle still haunted them: “Even as the real estate market began to grow, investors still felt burned by the crash... ‘[We’re] loaded to the gills with these terrible real estate deals,’” one investor after another told Schwarzman. Blackstone, thus, was hamstrung: “We had a huge opportunity but no money for it.”

All of this was relatively fresh in the memory when, in 2009-2010, Blackstone and Schwarzman once again surveyed U.S.—and indeed, on this occasion, global—housing markets and saw before them the biggest asset class in the world, trading at historic lows, and “the whole world” around them frozen. Two decades previously, a similar opportunity had arisen; the firm had taken a small bite, but, eager to gorge, had been unable to do so. This time would be different.

“Super Tuesday”

On a Tuesday morning in the late summer of 2012, around two hundred people assembled in front of the Gwinnett County courthouse in Lawrenceville, Georgia, some fifty-odd kilometers to the northeast of downtown Atlanta in the southeastern United States. They were there for an auction, and one not unlike that which had seen Blackstone, Goldman and Joe Robert buy their garden apartments from the RTC twenty-one years earlier. Housing was once again for sale.

That day, around nine hundred homes were to be auctioned off. All had been foreclosed upon, meaning that the owners of those homes had been unable to make payments on their mortgages,
leading to their respective lenders taking possession of the properties—and now seeking to sell them off to the highest bidder. In the United States, sales of foreclosed homes typically take place on the steps of the courthouse of the county in which the houses are located, and that is what was happening that late-summer day. What was distinctive about the Gwinnett County auction was its scale. In many parts of the United States, auctions occur daily, meaning that the number of homes for sale is usually small. But in Georgia, they take place solely on the first Tuesday of each month. During the U.S. foreclosure crisis that began in 2007 and stretched at least to the end of 2013, huge numbers of homes could be on the block at Georgia’s monthly auctions. One regular attendee at those auctions called it “Super Tuesday.”

Several of the two hundred or so people who congregated in Lawrenceville on the day in question were representatives of major investment companies. “[Private] equity group employees with millions in cash wired through Wall Street firms swarmed the courthouse steps,” members of Occupy Our Homes Atlanta—a local grassroots organization mobilizing around homeowner and tenants’ rights issues—would subsequently report. One such employee was Albo Antonucci of California’s Colony Capital. As the auctioneer opened the day’s bidding, Antonucci rushed to join the crowd. “Game on,” he could be heard to say.

That day, similar auctions were taking place at other county courthouses throughout Georgia. Colony Capital was present at no fewer than seven of them. Its fifty-two employees stationed at these various fire sales spent about $9 million in total on the day. Colony had sent $3 million in cashier checks just to the Gwinnett County auction. Extensive homework had been done beforehand, and for each property on the block, the firm had identified a maximum bid price that it would not exceed. One of the homes it acquired in Lawrenceville, for example, was captured for just $53,400, even though Colony had been prepared to go as high as $71,000; the opening bid had been a mere $43,515.

As the Occupy Our Homes Atlanta activists noted, Colony was not the only big fish in town for the auction. Reporting from Lawrenceville that day for the Wall Street Journal, the journalist Robbie Whelan noted the identity of another significant investor in attendance: a certain Dallas Tanner. As the day’s auctions proceeded, Tanner “gave orders and distributed cashier’s checks to his team.” Tanner, it transpired, did not work for an investment firm per se; he was in fact a principal and co-founder of an Arizona property management company called the Treehouse Group. However, at foreclosure auctions held in that period, it was usually on behalf of an investment firm, and using investment funds established by that firm, that Tanner and his team bought housing. That firm was Blackstone.

It was one of the Treehouse Group’s other co-founders, Marcus Ridgway, that coined the “Super Tuesday” epithet. “Each month,” another journalist, Aaron Glantz, has written, Tanner, Ridgway, and the rest of the Treehouse team “would take a red-eye to Atlanta, arriving the day before the auction with cases full of cashier’s checks. After the auction, they’d fly home”—with cases now full of property title-deeds. Ridgway told Glantz: “It was amazing, because you’d buy hundred-plus homes in a day, and you’re just ecstatic.”

During the decade following the global financial crisis of 2007-2009, Blackstone has invested in residential property in at least eleven different countries. But the large-scale acquisition in the United States of stand-alone, “single-family” homes such as were for sale in Lawrenceville on that late-summer Tuesday of 2012 stands out from the rest of its housing investment venture. Not only the most widely commented-upon component of that venture, it was also the prototype, the one into which the most capital was sunk, and the one that has yielded the greatest profits. It was the signature project.

It is crucial to recognize that this phenomenon was not just about Blackstone. Both in Georgia and across the United States more widely, other large financial investors, Colony Capital among them, also invested heavily in the single-family housing market with a view to holding and letting such housing, to the extent that it was not long before this—“single-family rental” (SFR)
housing—was being referred to as a discrete “asset class.”16 Five entities rapidly emerged as the dominant players, of which four were asset managers: Blackstone itself, Colony Capital, Starwood Capital, and Waypoint Real Estate Group. The fifth, American Homes 4 Rent, was not a financial investor—it was a real-estate company—but its SFR business was funded in significant part by a financial investor, the Alaska Permanent Fund, which invested $400 million in 2012 and further sums upon and after the company’s initial public offering in 2013. In a report on the SFR asset class published in April 2018, Amherst Capital attempted to ascertain just how substantial it had become. Based on tagging known institutional investors in public county record transaction data, Amherst estimated that some 220,000 SFR homes were now in institutional investor hands; but it reckoned that the real number was “likely closer to 300,000.”17 The peak years for investment were 2012 and 2013; the National Association of Realtors estimated that in October 2012, fully 20 percent of all home sales nationally were to purchasers classified as investors.18

But if the US SFR phenomenon was not only about Blackstone, Blackstone was comfortably the most significant player, consistently outspending and out-accumulating its rivals. Schwarzman would later claim that Blackstone bought its first home—in Phoenix, for $100,000—in spring 2012, but this was one detail on which his memory erred.19 As Tony James, then Blackstone’s president, told December 2012’s Goldman Sachs Financial Services Conference, Blackstone had actually started buying in the autumn of 2011; Amherst estimated that by the end of that year, Blackstone had already bought about 250 homes.20 Nonetheless, Schwarzman was right that 2012 was when things really started to happen. The most frenzied period of acquisition was the fifteen months beginning July 2012, during which time Blackstone bought just shy of forty thousand homes.

To conduct its single-family-home acquisition spree and to manage and let the resulting stock of assets, Blackstone in late 2012 created a new portfolio company, which it called Invitation Homes; Marcus “Super Tuesday” Ridgway became its chief operating officer, and Dallas Tanner its chief investment officer. As with all portfolio companies, Invitation Homes was not owned by Blackstone itself; it was not a subsidiary in the formal corporate sense. Rather, it was owned by investment funds that Blackstone created and controlled. In Invitation Homes’ case, the main such fund—several funds held stakes—was Blackstone Real Estate Partners (BREP) VII, which Blackstone had closed to new investors in September 2012 having raised $13.3 billion in limited partner capital.

Although the pace of housing acquisition dropped sharply after the fall of 2013, Invitation Homes continued to buy, and by late 2016 its portfolio was nearing the fifty thousand homes mark, with over half of its rental revenues being generated in California and Florida; outside of those two states, its most significant other metropolitan markets were Atlanta, Phoenix, Seattle, and Chicago, which together accounted for another c. 35 percent of revenue.21 It was at this point that Blackstone’s funds began the process of liquidating their investment. The first step, in January 2017, was the listing of around 30 percent of the shares in Invitation Homes on the New York Stock Exchange.

As a publicly listed entity, Invitation Homes continued to grow, partly through further purchases of homes, but mainly through industry consolidation. Most notably, in November 2017, it merged with—essentially, bought—the thirty-thousand-home-owning Starwood Waypoint. The latter itself represented the combination of three of the investor-owned SFR businesses identified above: Starwood Capital and Waypoint Real Estate had merged their SFR assets in 2013, and, to these, Colony Capital’s SFR business was added in 2015. Five years after eyeing one another as rival bidders across the steps of the Gwinnett County courthouse, in other words, buyers for Blackstone and Colony were now operating under the same roof. Meanwhile, just two major players now dominated the SFR market between them: Invitation Homes (the name remained the
same after the integration of Starwood Waypoint—with c. 80,000 homes) and American Homes 4 Rent (c. 50,000). No other entity owned more than 25,000.

Between 2017 and 2019, Invitation Homes became less and less a Blackstone entity: BREP VII and the other invested funds progressively whittled down their holdings, and Blackstone itself ceded board control. In November 2019, Blackstone finally cashed out of the investment.22

“Unprecedented”

Prior to the financial crisis that began in 2007, the U.S. SFR market, which contained in the region of 10 million homes, was dominated by the legendary “mom-and-pop” investor, an individual or a small business owning one or a handful of rental properties, and for whom rental income typically represented a pension or a supplement to income from employment. Around three-quarters of all rental homes were held by entities that owned fewer than ten units.23 Indeed, as late as 2011, when Blackstone started buying, no single landlord in the United States owned more than one thousand SFRs.24

Thus, when, from that year, there began to emerge what Amherst Capital described as “big institutional investors . . . owning several thousand properties as opposed to the few or the 10s-100s historically owned by some other business entities,” it was “for the first time in history.”25 Having historically given single-family housing a wide berth, at least as a locus of direct investment, big finance was now “in.” Writing about this development for the Wall Street Journal, Ryan Dezenheim has invoked epochal terms. The “final frontier in real estate for institutional investors” had been breached.26

Such historic shifts demand careful consideration. How can we account for the United States, within the space of seven post-crisis years (2011-2018), going from having zero to somewhere between two- and three-hundred-thousand stand-alone homes under the consolidated ownership of big investment groups like Blackstone?27

That is the question addressed in this article. Focusing on Blackstone as the exemplary case, the answer the article provides is that the shift was not inevitable—the predictable and more-or-less determined outcome of history’s teleological unfolding—and nor did it result from one overriding factor above all else. Rather, it was utterly contingent. It reflected the coming-together in a particular time and place of a set of transformed conditions that were both exceptionally propitious and, in some cases, entirely unprecedented. Individually, any one of these conditions probably would not have been sufficient to lead Blackstone and its peers down the path they took. Collectively, however, those conditions were enough to tip the scales heavily in favor of that path.

One of the most significant conditions, of course, was the nature of the investment opportunity specifically as it presented itself in the U.S. urban landscape in the wake of the financial crisis. The word used by Schwarzman to describe this opportunity will be remembered: “unprecedented.” But unprecedented in what economically significant senses?

Scale was a pivotal consideration. One of the main explanations for financial investors not having historically bought into single-family housing is that ordinarily the economics of such acquisition are terribly inefficient. Blackstone and its ilk do not generally deal in thousands or even millions of dollars; they deal in tens or hundreds of millions. To invest $100 million or more in houses worth say $200,000 each would take inordinate time and effort if those homes had to be bought independently of one another in discrete, isolated, single-asset transactions. Single-family residential property, in short, has traditionally been deemed too “bitty,” too small.

But in the United States from around 2005, that changed. Not only did vast amounts of stock begin to come available for sale as the combination of rising interest rates—which increased
payments for those on adjustable-rate mortgages—and falling house prices pulled the rug out from under struggling homeowners. But, equally importantly, as the foreclosure crisis escalated, this stock increasingly became available for sale in consolidated chunks. U.S. lenders do not sell repossessed homes through their own independent distribution channels. They sell them at auctions featuring the stock of all lenders with local assets to dispose of, such as the above-mentioned auction held in Lawrenceville, Georgia, in 2012. “Super Tuesday” was super precisely because Blackstone–Invitation Homes could purchase many homes in one swoop, at an average transaction cost substantially lower than would otherwise have applied. “The ample supply of properties for sale at foreclosure auctions,” James Mills and co-authors have observed, “provided a unique opportunity for buy-to-rent investors to purchase large numbers of properties.”28 On one day in 2013, for example, and again in Georgia, Blackstone bought no fewer than 1,380 single-family homes, which cost it more than $100 million.29 Arguably, the economics of investing in such housing at scale had never been remotely as efficient.

Another crucial feature of the investment opportunity that heaved into view amid the wreckage of the financial crisis was of course the sheer cheapness of the housing. The U.S. housing market, as Schwarzman said, was trading at historic lows when Blackstone made its move in 2011-2012. The market and its inhabitants were, in a word, in distress. “Each distressed single-family liquidation creates a potential renter household,” Morgan Stanley succinctly (if coldly) summarized things from the institutional investor perspective, “as well as a potential single-family rental unit.”30 What Schwarzman did not say, however, was that the housing was especially cheap for buyers such as Blackstone—not all types of buyer paid the same price for equivalent properties. For this, there were several reasons, of which perhaps the most significant were the advantages to being a cash buyer.

It is true that Invitation Homes, like other institutional investors, borrowed heavily to finance its acquisition splurge—we will turn to the details of its debt financing presently. But it was nonetheless a cash buyer inasmuch as debt was never part of the purchase consideration when it acquired homes. It raised cash by borrowing, and then it used that cash to buy. This is fundamentally different from what happens when you or I take out a mortgage to buy a home, in which case debt is part of the purchase consideration: the lender must wire funds to the seller.

The advantages to being a cash buyer in the post-financial crisis U.S. conjuncture were two-fold. One was being able to buy at foreclosure auctions, where purchases had to be made with cash. The other had to do with the fear then stalking the market: sellers preferred buyers whose offers were not contingent on mortgage approval, which could delay the whole process, and potentially even derail it if an appraisal came in lower than the purchase price. For these two reasons, cash was king, and sellers sometimes accepted lower bids if there was no mortgage involved.31 In Atlanta, where Invitation Homes accounted for over one-third of all institutional purchases of distressed single-family properties between 2011 and 2014, institutional investors paid 6 to 12 percent less than individuals making equivalent purchases in the same period.32 In Florida, the range of discounts was comparable.33 In May 2013, meanwhile, Blackstone reported that the average price paid for the approximately twenty-five thousand single-family homes it had acquired nationwide by that juncture had been just $153,000, versus an estimated average 2006 value for those homes of $303,000—a stunning measure of market distress and cash-buyer power.34

Finally, the geography of this unprecedented investment opportunity was critical. Just as foreclosure was not socially even—Latino and black homeowners had been much more likely than white homeowners to be offered subprime loans prior to the crash, and were much more likely to lose their homes after the crash—nor was it spatially even. Foreclosure hotspots developed, among them Atlanta, Phoenix, southern Florida, and the major urban conurbations of northern and southern California. This meant that the homes that institutional investors were able to buy in bulk at foreclosure auctions were often geographically clustered. More than just
buying into housing, in other words, the likes of Blackstone bought into specific urban housing neighborhoods.\textsuperscript{35}

Indeed, Blackstone and Invitation Homes have frequently identified the acquisition of clustered homes as an integral part of their strategy. In its listing prospectus, for instance, Invitation Homes highlighted that more than 95 percent of its revenue was earned in local markets where it owned at least two thousand homes—this was a selling point.\textsuperscript{36} In 2020, meanwhile, an Invitation Homes spokeswoman described a business model of buying further homes where the company already had a strong presence: “We call that infill—so we’re going to fill in in those concentrated suburban areas that we’re already in . . . where we already have geographic heft.”\textsuperscript{37}

What does such “heft” offer? One thing, potentially, is pricing power: the ability to influence market rents; to be a price-maker rather than price-taker. Suzanne Lanyi Charles argues that institutional investors have indeed attained sufficient local dominance to enjoy what she calls “near-oligopolistic power” over certain local SFR markets.\textsuperscript{38} In the media, Blackstone–Invitation Homes has repeatedly refuted such suggestions that it has sufficient scale and power in any locality to influence market rents. But it has said something rather different to the financial markets. In reporting on results for the second quarter of 2018, for example, Fred Tuomi, Invitation Homes’ then chief executive, noted that “pricing power remained strong”—an unambiguous statement.\textsuperscript{39} This squares with the company’s consistent success in increasing rents at rates above inflation. During the third quarter of 2017, for instance, annualized rental growth rates in the company’s strongest regions—which were typically those where its properties were most clustered—were between 6.5 and 8 percent.\textsuperscript{40} In some places within those regions, such as Oakland in southern California, annual increases were higher still—around 10 percent, double the norm for that area.\textsuperscript{41} “The company owns so much of the available housing in their neighborhoods,” Invitation Homes tenants told Reuters in 2018, “that they had no alternatives if they wanted to keep their kids in the same school, or remain close to jobs or relatives”; in other words, they rented from Invitation Homes “not because they loved their rentals, but because they felt they had to.”\textsuperscript{42}

The other benefit of geographic clustering is operating efficiencies. Again, this is an issue that historically had militated against institutional investment in single-family housing: as well as being too bitty to buy, it was considered too bitty and fragmented to be managed economically. A portfolio of homes dotted hither and thither was deemed a logistical—and hence financial—nightmare. As the \textit{Economist} noted in an article published in 2012, “finding, buying and managing thousands of homes scattered around the country” is, at best, “a fiddly process.” And it would be especially fiddly for a Wall Street investment institution: “This is not easily done from a skyscraper in Manhattan,” the magazine wryly observed.\textsuperscript{43} But, operationally, the picture potentially looks very different when the homes are clustered together in geographic space, as the thousands of homes acquired by Invitation Homes from 2011 predominantly would be.

\textbf{Contextual Determinations}

In the aftermath of the financial crisis, then, an investment opportunity of rare quality materialized in the United States: for institutional investors to acquire large amounts of single-family housing that was both cheap and favorably located, to acquire it efficiently, and to do so at lower prices than other categories of buyer were able. Nevertheless, it is far from certain that all of this would have been enough to precipitate the extremely broad and deep wager on single-family housing that Blackstone and other institutional investors placed in those post-crisis years, were it not for a series of historical contextual shifts that had taken place and that substantially enhanced the attractiveness of the investment opportunity. Those shifts were in the realms of technology, finance, housing supply, and ideas.
Technology

Even the humble individual homeowner knows that over the past two decades, digital, networked technologies have made an enormous difference to the process of searching for purchasable residential property. Before the Internet, consolidated listings incorporating the inventory of multiple real-estate agents typically only existed at the local scale, in the form of printed magazines or newspaper sections, and absorbing and analyzing the information contained in those listings was a cumbersome, time-consuming process: they had to be read. With the likes of Zillow in the United States and Rightmove in the United Kingdom, all of this has changed. These online aggregator sites list, in principle, everything there is to be bought, nationwide; and with a few clicks of the mouse, house-hunters can narrow down their search to exclude properties in the wrong region, the wrong price range, and so on.

The changes experienced by the individual house-hunter as a result of these technological developments are as nothing, however, compared with those from which institutional investors interested in buying thousands rather than individual properties have benefited. All such investors now use automated digital platforms with varying degrees of customization to search for, screen, and evaluate potential acquisition targets. The result is that the time and cost involved in appraising vast numbers of homes for suitability for acquisition is today a fraction of that which was required in the past. Whether Blackstone–Invitation Homes would have gone to the trouble of buying c. 50,000 single-family homes between 2011 and 2017 were it not for these accommodating technological advances is moot. Yes, the homes were historically cheap; but running the rule over each and every one would, in the pre-digital age, have been extraordinarily costly, and perhaps prohibitively so.

When, in the years after the financial crisis, firms such as Blackstone and Colony Capital pitched up at foreclosure auctions in Georgia and elsewhere with maximum bid prices for homes that were for sale, those prices incorporated an enormous amount of prior, largely automated, data retrieval and analysis. One of the most revealing descriptions of what is involved has been given by Amherst Capital, which owns and manages a portfolio of SFR homes through its property arm, Main Street Renewal. According to Amherst, in the region of five hundred homes newly for sale are listed daily within its target geographic markets. Its “market surveillance tool,” Amherst Data Explorer, filters these listings and delivers automated valuations. It does so by running all properties through an underwriting model—which estimates potential rents, refurbishing costs, taxes, insurance, and other expenses to calculate an estimated net operating income and capitalization rate for each property—and joining these outputs with census-tract-level information such as population, homeownership rates, vacancy levels, incomes, crime indices, school quality, mortgage delinquencies, and so forth. “Thus each morning,” Amherst explains, “we have a ‘bid list’ of targeted properties with projected returns automatically run”—before anybody has even had time to put on the coffee.44

As Amherst further explains, the deeper into the process of evaluation of any particular property the process goes, the more human involvement is required. Thus, taking the first six months of 2016 as an example, its fully automated first-pass model performed 130,000 total underwrites. Of these, around 15 percent—some eighteen thousand—“went through more detailed underwrites using tweaked models.” It was then that things became labor-intensive: Main Street Renewal employees went out and physically inspected about four thousand of these eighteen thousand homes. And of these four thousand, “more than 1,500” were purchased—a little over 1 percent of those originally, automatically, underwritten. But if it was not feasible to automate absolutely everything, technology was demonstrably a sine qua non of appraisal on such a massive scale. “The entire process,” Amherst reflected, “uses [a] vast amount of data that is impossible to distill into actionable information without the use of technology.”45

Blackstone–Invitation Homes has not described its own platform in similar detail, but it has said that it has used something similar. What it called its “integrated acquisition platform” enabled
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Invitation Homes to underwrite more than one million single-family homes between its 2012 launch and March 2017, with each such home being evaluated on sixty-four different criteria. Bids were placed on around 300,000 of these homes, with c. 48,000 ultimately being acquired.46

Although the new technological milieu has offered the biggest efficiency gains in the pre-acquisition stage of the investment life cycle, it has also helped optimize post-purchase property management. As Desiree Fields has explained, Invitation Homes and its peers introduced, among other innovations, online portals (often available as smartphone applications) for prospective tenants to search and apply for properties, and for existing tenants to pay rent and submit maintenance requests; keyless entry systems enabling prospective tenants to access and view properties using a code sent to their phone (Francesca Mari reported in March 2020 that 80% of prospective Invitation Homes tenants view homes via self-show); and smart-home technologies that existing tenants can access from their smartphone to control temperature and door locks.47 Mobile technologies also allow those carrying out renovation or maintenance work to access and report information while on the move from property to property.48 The availability of such technologies may not quite have been a prerequisite for Blackstone and the like to take the plunge into single-family housing around a decade ago; but it will certainly have made the decision easier, and the venture more profitable.

Finance

In the post-financial crisis period during which Blackstone and other institutional investors became major buyers of U.S. single-family housing, the world looked different from earlier decades not only in technological terms; it also looked radically different in financial terms, not least in the United States itself. The central consideration here was interest rates, which had plummeted. The federal funds rate, for example, having been above 5 percent in 2006-2007, fell to below 0.2 percent by early 2009, and did not again exceed that level until 2016. By that time, commentators were widely describing rock-bottom interest rates as the “new normal.”

It would be difficult to overstate the significance of this transformed interest-rate milieu to firms such as Blackstone, in relation to its housing investment but also more generally. Not for nothing is one of the labels that is most frequently applied to Blackstone’s business—alongside “private equity” and “asset management”—“leveraged buyouts.” The use of large amounts of debt (leverage) to finance acquisitions is one of the business’s signal features. So integral is the power of leverage that Blackstone highlighted this power when explaining its business model to potential buyers of its shares when they were listed on the stock exchange in 2007. The relevant passage from its flotation prospectus merits citation in full:

A significant reason why many private equity funds may deliver superior returns on equity relative to traditional equity investments is the benefit of leverage. In the typical transaction effected by a private equity fund—a leveraged buyout acquisition of a company—the private equity fund borrows most of the purchase price and thereby magnifies the gain on its investment if the company’s value appreciates (or its loss if the company’s value declines). If a private equity fund were to acquire a company today with a total enterprise value of $1 billion, a typical capital structure for the transaction would be an equity investment of $300 million and $700 million of debt . . . If the private equity fund is successful in its objective of improving the operating performance of the acquired company over the period of its ownership of the company so that five years later it can effect a sale of the company at a total enterprise value of $1.3 billion, a 6% annual appreciation over the price it paid, it will have achieved a doubling of its equity investment or a gross annual internal rate of return of 15%.49

In this example, the profit on sale is $300 million ($1.3 billion less $1 billion); the fund doubles its money, meaning a return of 100 percent, because it put in $300 million but takes out $600 million ($1.3 billion less repayment of the $700 million of debt). Had no debt been used, its
return would have been only 30 percent—putting in $1 billion and taking out $1.3 billion—even though the profit on sale was the same. That is the power of leverage. Needless to say, the lower the interest rate on the debt, the higher the return on the investment.

In the wake of the financial crisis, as the U.S. Federal Reserve’s policy of quantitative easing (QE) took hold, the rates at which Blackstone and comparable operators were able to borrow to finance their buyouts plunged to historic lows. This was, as Henry Sender remarked, a “godsend,” debt being such firms’ very “lifeblood.” Hence, they were among QE’s “biggest beneficiaries.” Indeed, as the dust gradually settled in the years following the height of the financial storm, something that increasingly became clear to observers was that unlike many other financial institutions, buyout firms such as Blackstone had done strikingly well. They did not just weather the storm, they positively thrived, and super-low interest rates were a principal reason. “Private equity managers won the financial crisis,” concluded a 2019 Bloomberg special report.

In terms of reliance on debt, Invitation Homes was a typical Blackstone creation: it was leveraged to the hilt. When, in 2017, it became a publicly listed company, it did so with a leverage ratio of over 75 percent—it had $7.7 billion of total debt on its books. Blackstone had started with simple loans. In March 2013, for instance, to fund the acceleration of homebuying, it arranged for Invitation Homes to borrow $2 billion from a range of banks, including Deutsche Bank (the lead lender), Bank of America, and Credit Suisse. Only when Invitation Homes later filed to go public did it become apparent quite how favorable the loan terms it was able to secure actually were: at September 30, 2016, Invitation Homes had six different credit facilities with interest rates ranging from 3.03 to 3.54 percent. Not free money, to be sure, but, for a private equity-backed company, very, very cheap.

Beginning in late 2013, however, Blackstone increasingly turned to another form of debt financing to support Invitation Homes’ spending: securitization. Just as Wall Street, for decades prior to the global financial crisis, had sold investors bonds backed by residential mortgages and the future flows of interest they elicited, now, led by Blackstone, it would sell bonds backed by the future flows of rental income from single-family homes. While others would follow its lead, Blackstone, that is, Invitation Homes, sold the very first such bond—a $479 million offering in November 2013, collateralized by the rents on 3,207 of Invitation Homes’ properties—and it would sell more than any other institution. By the time Invitation Homes listed on the stock exchange, it had raised $5.33 billion of debt through this technique, of which $5.26 billion remained on its balance sheet—more than double the amount of its outstanding loans.

When Blackstone was carrying out these securitizations, the concern was widely voiced that this was yet more “risky” Wall Street chicanery, which, like the mortgage-backed securities fiasco, would end in tears. What commentators largely overlooked, however, was the most important factor of all, which was how incredibly cheap for Blackstone this debt was. The coupons (interest rates) on the seven outstanding bond issues on the Invitation Homes books when it went public ranged from just 2.21 to 2.89 percent. This was much cheaper than the company’s loans (3.03%-3.54%, see above). And it was much lower than the net yields—averaging above 5 percent—occasioned by the rents that backed the bonds.

Finally, and no less importantly, the debt that Blackstone used to finance its investment in single-family homes was not only cheap in absolute and historic terms; it was also cheap in relative terms—which is to say, relative to the interest rates that other categories of homebuyer were required to pay when borrowing. This gave it and its peers another source of enormous competitive advantage. Many categories of homebuyer, including individual households, rely on debt to fund their housing purchases—there was and is nothing unique about Blackstone and other buyout firms in that regard. If all categories of buyer had seen their financing conditions improve after the crisis in the way and to the extent that Blackstone and its peers did, the latter would not necessarily have been better off in relative terms, even if they were in absolute terms.
But that is the point: other categories of buyer had not seen comparable improvement. In fact, conditions had deteriorated. Under (understandable) pressure from the government, banks that had loosened household-mortgage lending standards in the years leading up to the crisis now proceeded to tighten them, demanding higher down-payments and higher credit scores. In mid-2011, just as Blackstone set out on its own single-family-home acquisition venture, Morgan Stanley reported that a lack of mortgage credit availability was “severely hindering” homebuying by potential owner-occupier households.\(^{57}\) In a grim symmetry, the group most affected by this tightening was the very group that had suffered most from pre-crisis predatory lending and subsequent foreclosure—black households. While in 2012 home-purchase lending in the United States to whites was down “only” 41 percent on 2001 levels, for blacks it was down 55 percent.\(^{58}\) The upshot was that during this window of opportunity to acquire single-family housing at historically cheap prices, black households accounted for an even smaller share of purchases than usual, and were concentrated primarily at the bottom end of the market—which large investors such as Blackstone, focused chiefly on middle-income suburbs, essentially spurned.\(^{59}\) Meanwhile, credit constraints also hindered house-buying by small, buy-to-rent, “mom and pop” landlords. Indeed, Blackstone, ever the opportunist, took advantage of precisely this squeeze on lending to such actors by launching in July 2013 its own mortgage business to cater specifically to their demand for finance—B2R (Buy to Rent) Finance.

In any event, during the pivotal year of 2011, as it was fine-tuning its plans to buy single-family housing at scale, and as it surveyed the overall U.S. financial landscape, Blackstone could not quite believe its luck. While it could now borrow unprecedentedly cheaply, many of those who might also be keen to buy the homes it would be targeting not only could not borrow cheaply but could not borrow at all. “Oh my goodness,” Stephen Schwarzman and his colleagues said to one another, “this could be huge. Nobody is going to be able to borrow”—but, “they’re [still] going to need housing.”\(^{60}\) Blackstone would therefore buy it, and let it to them.

**Housing Supply**

And there was another critical sense in which Blackstone could not believe its luck when it evaluated the U.S. single-family-housing investment opportunity. For, not only were these assets cheap, thus promising healthy capital gains once the housing market eventually recovered—which Blackstone never doubted it would. But it was clear to Blackstone that if it invested in and rented out such housing, the prospects of achieving sustainable increases in rents were also extremely strong. The clustering of homes for sale in foreclosure hotspots, potentially furnishing Blackstone with pricing power within the rental market, was, as we have seen, one relevant consideration in this regard. But there was a much more significant consideration, relating not to the investment opportunity per se but to wider contextual developments that substantially augmented the attractiveness of said opportunity.

Those developments were in the realm of the supply and demand of housing, and especially rental housing. The issue of supply sits at the very core of Blackstone’s overall real-estate investment philosophy. As articulated by Jonathan Gray, who ran the firm’s global real-estate operation throughout the period during which it owned Invitation Homes, the nub of this investment philosophy is supply shortages: you buy into them, and, just as importantly, you sell if it looks like new supply is coming on stream. In a profile published in 2016, the *Financial Times* described this maxim of Gray’s thus: “pay attention to capital and cranes. When the supply of either rises dramatically, it is time to run.”\(^{61}\) Why? Because new supply is liable to ease the upward pressure on rents that is associated with supply shortages, and which fuels incumbent property owners’ profits.

As David Carey and John Morris note in their book on Blackstone, the philosophy was not really Gray’s to begin with, though it was he that gave it the catchy “capital and cranes” spin.
Gray learnt the principle from the man Carey and Morris identify as his “mentor and sounding board”—Alan Leventhal, the founder and head of the real-estate investment firm Beacon Capital Partners.62 Gray and Leventhal moved in the same small circles, and on more than one occasion were both involved in the same deal. In 2005, for instance, the year he became co-head of real estate at Blackstone, Gray led the group’s $3.2 billion purchase of the upscale hotel chain Wyndham International—Beacon was one of the majority owners of Wyndham, and Leventhal sat on the board, across the table from Gray in negotiations. Leventhal’s belief, imparted to Gray, was that as a real-estate investor you should buy where supply is constrained.

This was exactly the scenario with single-family housing in the United States after the financial crisis. As Blackstone told its limited partners when, in Invitation Homes’ early days, they queried why Blackstone was buying such housing: because of supply shortages, as well as distressed prices. It highlighted a “significant decline in new supply”—single-family housing completions had collapsed by two-thirds, from around 2 million in 2006 to just 650,000 in 2012.63 “[Just] like in commercial real estate, there’s a lack of new [housing] supply,” Gray enthused at February 2013’s Credit Suisse Financial Services Forum.64 Just “very, very limited new supply,” said Tony James, Blackstone’s president, on a call with investors five months later.65 It became a persistent drumbeat to the Invitation Homes phenomenon over the ensuing half-decade.

As well as buttressing Blackstone’s confidence in investing in single-family housing nationally, supply shortages also shaped its regional patterns of investment. If where Invitation Homes bought homes was dictated first and foremost by where distress was greatest—it will be remembered that the new company concentrated on foreclosure hotspots—it was also strongly influenced by where Blackstone believed the likelihood of “capital and cranes” bringing new supply to the market was smallest. “Our investment strategy is simple; we invest in supply-constrained infill locations,” declared Invitation Homes’ then chief executive, John Bartling, in mid-2017—indeed, in that period, the company was generating more than 70 percent of its revenues in “supply-constrained Western U.S. and Florida markets.”66 A year on, the mantra remained the same: “Looking ahead, new housing supply remains muted.” This was from Fred Tuomi, the new chief executive, during the earnings call for the second quarter of 2018. “Are there any markets where you anticipate supply over the next couple of years to pressure your pricing power, in particular some markets that you find less attractive than others?,” asked one analyst on the same call. “[Certainly] not in our West Coast markets,” answered Dallas Tanner, the chief investment officer; these benefited from “very limited new supply.”67

Of course, supply is always a relative phenomenon. Even the severest restrictions on supply will fail to exert upward pressure on rents if there is muted demand for rental housing. But here again Blackstone found itself investing in an extraordinary sweet spot: while supply had collapsed, demand was buoyant. Why? Chiefly thanks to the financial crisis itself. The pressures that the crisis and ensuing recession imposed on U.S. household finances—and not only among those households that actually lost their homes to foreclosure—saw the United States become more and more a renter rather than homeowner nation. Before the crisis, only about 31 percent of U.S. households rented; by 2016, nearly 37 percent did—a huge shift over the course of just one decade.68 In acquiring foreclosed homes and then converting them to rental units, Blackstone directly contributed to this shift, even if only on a relatively small scale. More fundamentally, though, it benefited from it: it invested in the rental-housing asset class just as demand for the service associated with that asset class—that is, rental accommodation—was enjoying its most significant growth for generations.

Hence, when recounting its investment rationale and regional strategy, Invitation Homes emphasized demand no less than supply factors. It invested, it explained, in markets with “stronger job and household formation growth . . . relative to the broader U.S. housing and rental market.” Specifically, it targeted “neighborhoods in in-fill locations with multiple demand generators, such as proximity to major employment centers, desirable schools and transportation corridors.”
These “demand fundamentals” were said to be especially favorable in the Western United States and Florida, where employment growth and household formation rates exceeded national averages and were responsible, the firm believed, for “strong rental rate growth and home price appreciation.”

In short, when the opportunity to buy significant numbers of U.S. single-family homes arose after the financial crisis, it did so in the context of an ongoing and deep-seated shift in national and regional flows of housing supply and demand that would redound to the abundant benefit of any actor that invested at scale and with attention to those regional dynamics. Blackstone saw this: it saw that the conjunction of falling supply and rising demand was creating both national and regional supply deficits that could only mean one thing: rising rents. Schwarzman, with unflinching clarity, explained the economic logic to investors: buy into supply shortages (“there’s virtually no building going on in the United States”), rental markets tighten (“you get closer to more normal levels of occupancy”), rents start going up (“you get rent spikes”), and the homes can then be sold for a premium (“when you sell those types of assets at that time period where there’s a perception that rents are going to be going up significantly above trend you can get much more for those buildings”). It was that simple.

Ideas

We have seen that, in the past, various material considerations militated against direct Wall Street investment in U.S. single-family housing—most importantly, perhaps, such housing’s bittiness, and the obstacles that such bittiness posed to cost-efficient searching, acquisition, and rental management at scale. Yet the barriers to investment in such housing by major financial institutions such as Blackstone were never only material barriers. There were, and to some extent still are, powerful ideational barriers: barriers existing in the realm of ideology, even sentiment, as opposed to practical viability.

Indeed, we encountered some such barriers at the outset of the article. When, having made a hugely profitable investment in garden apartments in 1991, Blackstone sounded out its limited partners about making a bigger play in U.S. residential property, they demurred: this was not the course they wanted their asset manager to take. Blackstone, as we saw, yielded, but not because it had to—it did not need to seek limited partner approval. Rather, it wanted limited partner approval. It cared what its clients thought. Their ideas mattered.

Meanwhile, there was also a much broader ideational complex weighing against institutional investment in housing. Big financial investors trod warily around the housing market for fear of trampling on—or at least, being seen to trample on—the homeownership “dream,” a dream promulgated by politicians as eagerly as it was pursued by households, not least, although of course not only, in the United States. Popular sentiment, in other words, warded off scale buyers. For there is something special about housing. People do not live in financial assets, after all; but they do live in houses. To treat housing like any other financial asset—which is essentially what Blackstone and its peers have done with single-family housing since 2011—is to encroach upon emotive cultural territory. Consider the contrast with commercial real estate. Few if any companies “dream” of owning their own offices or factories or shops, or if they do, they tend not to make a big deal of it; the question of renting or owning tends to be treated in a much drier, more calculating, less emotionally freighted way in the commercial than residential context.

Many people do dream of owning their homes, and for the best part of a century, in many parts of the world, the “dream” of homeownership has been a central and extraordinarily powerful cultural leitmotif. For financial institutions—never the public’s favorite constituency at the best of times—to purchase homes that could, in theory, be owned instead by their occupants, and then to treat those homes just like any other investable asset, which is to say by seeking to maximize financial returns from them, with implications for their inhabitants that are too
obvious to require stating: to do so would be, at the very least, a risky proposition, and potentially a highly contentious one.

Furthermore, there is the political support that historically has been provided for the public’s homeownership dream, in which regard the United States is again an exemplary case. One of the reasons that Americans have long dreamed of owning their homes is that politicians of more or less all stripes have long told them that it is normal and natural, even virtuous and essential for personal, community, and national integrity, for them to want to do so. Credit and tax policies designed to subsidize and support homeownership have been a feature of the U.S. political economy since as far back as the early twentieth century. Indeed, numerous scholars have observed that in the United States, federal and state programs encouraging homeownership have effectively served as a surrogate for public welfare policy: We won’t provide a meaningful social safety net, but we will help you own your home instead. Thus, Wall Street buying up residential dwellings would risk incurring the wrath not only of aspiring homeowners but also of politicians committed to helping voters fulfill those aspirations.

The financial crisis of 2007-2009 precipitated something of an ideational shift, and one of significant advantage to Blackstone and other investors. The shift was not, though, in the views of Blackstone’s limited partners. Just as in the early 1990s Schwarzman and Blackstone, to their surprise and frustration, had found their clients unwilling to risk capital in the housing market, so again after the financial crisis of 2007-2009 they found many of their clients to be circumspect. And, as in the early 1990s, this was of course not surprising: many had been terribly burned by the subprime debacle, as they had been by the S&L debacle. However compelling the logic of the single-family play in 2011-2012 appeared to be, the scars had not yet healed. As late as 2014, Blackstone executives still found themselves having to justify their single-family-housing venture to clients who, in Schwarzman’s words, were not just reticent about residential property but “very cautious generally about the real-estate asset class.”

The difference this time around was that Blackstone was not constrained by investor sentiment. In 1991, it had still been a relatively new kid on the private-equity block, with a limited track record; Schwarzman’s view was that at that time it simply could not afford to pursue what investors deemed to be unacceptable risks. The balance of power looked very different two decades later. Money now poured in to Blackstone’s funds; it did not need to go cap-in-hand to find it. When, in mid- to late-2012, Blackstone ramped up its push into single-family housing, it did so armed not only with the largest opportunistic real-estate fund ever raised—the $13.3 billion (and oversubscribed) BREP VII, which was closed with perfect timing in September of that year, and to which more than 250 investors globally had committed capital—but essentially with carte blanche as to how it put that funding to work. On this occasion, investor sentiment was, in reality, neither here nor there.

What had shifted, crucially, was the wider ideational field. After the crisis, Americans certainly still widely dreamed of homeownership, and yet a new, sobering cognitive reality had set in. Following six straight decades of growth, the U.S. homeownership rate had peaked, at just below 70 percent, in 2004, and had stubbornly refused to exceed the 70 percent threshold. Commentators now widely mused that perhaps this was the “natural” limit of homeownership in a liberal capitalist society. The Economist’s claim that in reaching nearly 70 percent the U.S. homeownership rate had been “artificially” swelled suggested that there was indeed a natural ceiling, and that it was actually materially lower than that figure.

Whatever the exact “natural” limit was, the crucial implication was that there would always be renters—at least three in ten households—and hence that buying housing as an investor, explicitly to let it, would not necessarily be to stymy someone’s homeownership aspiration. Instead, it would be to provide an essential service for which there was, and would always be, a healthy and natural demand. One did not need to subscribe to the view—one increasingly widely disseminated in the wake of the financial crisis—that the United States was en route to becoming
a “rentership” society to believe that the private rental sector had a legitimate role to play within a necessarily variegated housing system.

Indeed, the shift in sentiment went further than that. Not only was there a growing acceptance of renting and, thus, landlordism. The argument increasingly circulated that the dream of home-ownership-for-all was positively damaging as well as being unattainable. In fact, the argument went, it was precisely the blinkered pursuit of that goal that had gotten the United States into the mess that was the financial crisis in the first place: if the government, in its quest for popularity, had not encouraged lenders to give mortgages to people who could not afford them, the collapse would not have happened. (Some) people needed to be excluded from homeownership for the good of both themselves and the financial system.

Given that this thesis was highly beneficial to Blackstone and other investment groups that began buying up single-family homes after the crisis, it is unsurprising that they were among its most enthusiastic proponents. The Blackstone partner Byron Wien, for instance, writing in 2012, traced the crisis to irresponsible lending underwritten by the “government-encouraged goal of creating an ‘Ownership Society’ where most families could realise the American dream.” Schwarzman, similarly, excoriated the government for “politically encouraging home ownership before the crisis, even by people who couldn’t afford it. Lending standards fell, mortgages were pushed on uninformed and unsophisticated borrowers who could never realistically hope to pay them back.”

And, having for so long trumpeted the putative wonders of homeownership, even U.S. officialdom found reason to pause—stung, perhaps, by this very argument that its advocacy of an ownership society had contributed to the subprime meltdown. In the ferment of ideational transformation, this was perhaps the most striking shift of all: now notably subdued on the benefits of owner-occupation, the state, or at least some of its most significant agents, in the post-crisis years began instead to champion the acquisition of distressed housing assets by none other than Blackstone and its peers in the institutional investor community. The Fed was in the vanguard of this discourse. In September 2011, Elizabeth Duke, a career banker and then Fed governor, first publicly made the case for converting foreclosed single-family homes held by state-owned institutions such as the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac into rental properties to be owned by private financial institutions. An influential white paper published by the Fed in January 2012 fleshed out the proposition in more detail. Sales to large investors of pools of GSE-owned single-family homes then followed later in the year. In and of themselves, such sales were relatively insignificant: the numbers involved were small, and the likes of Blackstone, after all, were by that stage already buying single-family homes through other conduits. What was important, rather, as Francesca Mari has observed, was the message—the idea. Actively enabling institutional SFR by auctioning off some of its own stock “gave the government’s imprimatur to the concept.”

In sum, Blackstone and other large investors began buying single-family homes in the context of a transformed ideological milieu, in which it was no longer widely believed that all American families could or should be homeowners. Would these firms have invested in U.S. housing as extravagantly as they did, had it not been for this ideational shift? Quite possibly; we will never know. But there can be little doubt that this shift combined with those in technology, finance, and housing supply to make the “unprecedented” investment opportunity that was distressed single-family housing considerably more compelling, its logic more unanswerable, than it would otherwise have been.

Conclusion

In the decade since the global financial crisis of 2007-2009, major institutional financial actors have invested heavily in U.S. single-family housing, acquiring anywhere up to three hundred
thousand houses, and then letting them out. The biggest investor was the private-equity firm Blackstone. In 2012, Blackstone established a new company, Invitation Homes, to lead its U.S. housing investment venture. By the end of 2016, Invitation Homes had purchased in the region of fifty thousand homes. Today, Invitation Homes owns and leases around eighty thousand homes. Blackstone exited Invitation Homes between 2017 and 2019—it listed the company on the stock market in the former year and sold its last shares in the latter. Its wager on single-family housing via Invitation Homes earned it a reported profit north of $3.5 billion.79

As striking as Blackstone’s return is the fact that up until the financial crisis, major investors such as Blackstone had steered clear of U.S. single-family housing. To all intents and purposes, the “asset class” that such housing today represents simply did not exist a decade ago; Invitation Homes and the other major players have built their portfolios more or less from scratch. What, then, had changed? Why had something—single-family housing—that was not considered investable before the crisis all of a sudden become investable after it?

The answer this article has given is that much had changed—and that, essentially, is the argument. This was not about one overriding determinant of historical evolution. Certainly, the fact that the financial crisis seeded a foreclosure crisis that brought large stocks of distressed property to market at depressed prices was critical. But there was so much else about the new conjuncture that also weighed in favor of massive institutional investment, ranging from the spatial, to the technological, to the ideational. To say that “the stars were aligned” may be clichéd, but it is also, in this case, true. A historically unique investment opportunity presented itself within the historical–geographical context of an extraordinarily conducive investment milieu, which was itself “overdetermined”—to use Louis Althusser’s felicitous term—by multiple historic developments.80 Was the sheer cheapness of foreclosed property in the years of peak investment the determining historic factor? Would it have been sufficient in and of itself to prompt the investment that occurred? It is impossible to say. Such is a “last instance” hypothetical (what if the various other determining forces were not in play?), and as Althusser also, famously, said, the last instance never comes.

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ORCID iD

Brett Christophers ID https://orcid.org/0000-0002-6245-7378

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27. It is worth noting here that while large financial investors had not invested in U.S. single-family housing prior to the financial crisis, they had invested in multi-family apartment blocks, both in the United States and (often to a greater extent) elsewhere. Multi-family rental housing was already an asset class. The arguments developed in this article pertain solely to the question of how and why U.S. single-family housing similarly became an asset class.

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**Author Biography**

**Brett Christophers** is professor of human geography at the Institute for Housing and Urban Research, Uppsala University. His books include *The New Enclosure: The Appropriation of Public Land in Neoliberal Britain* (Verso, 2018) and *Rentier Capitalism: Who Owns the Economy, and Who Pays for It?* (Verso, 2020).