

***A Rising Threat to the U.S. Economy
That Few are Mentioning***

By Bob McHugh

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www.technicalindicatorindex.com

mainrdmch@aol.com

This weekend, let's talk about Private Equity firms, Institutional Investors, Real Estate Investment Trusts (REITS) and other major corporate investors' destruction of the American dream of family / household home ownership (and many small business property ownership). In this article, For simplicity, I will refer to all these corporate entities as PEFs / Investors.

There is a widespread corruption going on from a host of PEFs / Investors that poses an existential threat to our economy. Many of these firms take investors' cash (including institutional and mega corporation investors), and borrowed funds (some of which came from government funding), to purchase the real estate of small businesses and family / household residential homes. Their strategic plan is to buy the properties and lease / rent them back to the sellers, offering market or above appraisal value prices to buy, with the promise that the sellers can continue to occupy the real estate as tenants.

They then raise the rent substantially above market prices when the initial lease term ends, often to levels above what households can

afford to pay, and as a convenient byproduct, are simultaneously raising the current market value of real estate in a community, based upon higher-rent valuation models. In effect, they have achieved the establishment of new higher real estate comps.

They then force the occupants to either pay the above market lease rates or vacate the premises.

In a market lacking in sufficient real estate supply, they can get their target lease profits from new desperate tenants, or sell the property at above what they paid – the “flip,” as the comps have now been manipulated higher by them, the PEFs / Investors.

The rub here is, that the reason there is a shortage of real estate supply to begin with, is largely due to these PEF's buying up huge chunks of real estate and single-family residential houses, in the first place, denying families, or small business entrepreneurs, the chance to buy them, outbidding their buyer market competition. These PEFs / Investors and their surrogates often pay above appraisal value prices, and offer fast settlement with waived contingencies, to box out mortgage dependent, or commercial loan dependent, buyers who need the property to appraise to qualify for their mortgage loan.

This entire game, think Parker Bros. Monopoly board game, has been a major causal factor in the hyperinflation economy we are stuck with now.

There have even been instances where some real estate agents (not all) have bird-dogged for the PEFs / Investors, knocking on doors of existing homeowners, telling them they have an above market buyer interested in their home, cash deal, and then feeding these homes to these barracuda buyers before listing the home for sale. Within days of listing, the home is noted as “pending.” Potential family household home buyers never had a chance. They are left thinking that they did not move fast enough.

Another REIT / Investor Monopoly Tactic: The PEFs decide they want to buy thousands of houses, with fast offers and cash deals above appraisal value, in some cases 10-day settlement, as an advantage over competitor mom and pop household purchasers. Since the PEFs / Investors do not have the personnel to do due diligence on a scale this large, on this many houses before they purchase them, they cleverly work an arrangement with key local realtors (not all), to get one or two bids from mortgage dependent mom and pops on houses as they become available. As competitor mortgage dependent mom and pops visit the properties and do their due diligence, and feel confident enough in its condition to put an offer on the property, the PEFs / Investors can now have confidence that the house is in satisfactory condition to buy without having to do their own due diligence. The Realtors involved work a “silent auction,” where they arrange for multiple showings on the property at the same day and time, telling potential individual buyers this house is going to go fast, so if you want it, get your offer to them within a day or two. Once the Investor hears from the Realtor that there are one or two offers, the

investor is “guided” toward the highest price to offer. Result: Corporate investor gets the house, wins the bid, and can have confidence it is in satisfactory condition, without having to spend the money and time for inspection or due diligence. The losing bidders did that work for them. Easy sale for realtor; top dollar offer for seller; another property in the game of monopoly for investor buyer.

Sellers are enticed because they believe they have received a windfall. However, where are they going to go? If they leaseback, the above scheme is waiting to trap them. If they move, anything they buy will be hyperinflated to a price they may not be able to afford.

Other PEF Investor tactics are being used to monopolize housing. For example, through systematic purchases of large quantities of homes in targeted neighborhoods, the PEFs / Investors can take control of the Homeowners Association (HOAs). Once in control, they jack up the HOA fees beyond what many homeowners can afford, order special assessments that can be as much as half the price of the home’s original cost, and foreclose on the properties if the HOA fees are not paid in prompt fashion. In effect, they corruptly evict homeowners through HOA powers. The PEF investor then acquires the property for themselves in forced foreclosure. Even if a person owns their home free and clear, pays their taxes, they can find themselves evicted from corrupt HOA management.

These PEFs / Mega Corporate residential home buying practices are wrong, a restraint of trade, violate the Sherman Antitrust Act, and the

thing is, those elected and entrusted to oversee our economy have ignored this frog in the pot, this creeping contagion. These predator PEFs, REITs and corporate surrogates are devouring housing and small business real estate opportunities for millions.

On the business side, a recent example is Red Lobster. They sold and leased back hundreds of locations, and got burned on the PEF lease repricing. They closed hundreds of restaurants in response.

Have you noticed the “We Pay Cash for Houses” ads and signs all over the place? They are the devil. Run.

Many of these PEFs et al, have bought up well-known local contractor names with long-time solid reputations for quality construction of single family and multi-family homes. The original builders are no longer involved. A PEF / Investor created mega-firm is now doing the construction. Many are building entire neighborhoods – not to sell – but to rent. Strategy: raise the rents to above market levels as soon as the lease renewal period arrives, and tenants are hooked. This is one reason it is hard to find the small-time quality builder. They cannot compete with the monopolistic mega contractors.

Some PEFs / Investors are building new home neighborhoods with introductory mortgage rates substantially below market, that are in effect adjustable-rate loans, that will reprice each year to, not just the higher current market interest rates, but to levels above current market rates. The strategy here is that many home purchasers will not

be able to afford the homes they purchased, given the new higher rate mortgages they find themselves in at year 3, and can then be foreclosed upon if they miss the payments, giving ownership back to the PEFs / Investors. In this case, the PEFs / Investors are enticing “buyers” by selling a temporary lower mortgage payment, and not a home. This has been a particularly effective deceit upon first time home buyers. How are they doing this? Well, the PEFs / Investors have their own mortgage firms. They cross sell this mortgage firm to potential buyers as part of the sale.

This is not capitalism. These are modern-day Robber Barons. Legislation requiring divestiture of residential real estate single family home ownership by corporations and PEFs should be passed, with limitations on holdings restricted to a reasonable maximum number per PEF, REIT, or any corporation, a number less than 10. Divestiture required in this legislation should be over a multi-year period so as to not shock the real estate market, perhaps 20% of current holdings per year, over 5 years.

Why is there a housing shortage? Why are home prices not dropping much with historic 7.00% to 8.00% mortgage rates? These PEFs, these REITs, these Monopolist Real Estate Mega Corporations are a major causal factor. They must be stopped. Otherwise, in a decade, half of all Americans will be tenants of these sharks. If you agree, write your Congressperson and urge them to pass necessary legislation, along the lines of the *“End Hedge Fund Control of American Homes Act of 2023”* bill that was introduced in late 2023.

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