

PRIVATE EQUITY  
STAKEHOLDER  
PROJECT

The Business  
Model of Private  
Equity Landlords  
in the Twin Cities  
Region

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# What are Corporate Landlords?

- Corporate Landlords (Institutional Investors)
  - Use network of LLCs to hold large portfolio of properties
  - Vertical integration (involved in different aspects of real estate from acquisition to management)
  - Exerts Controlling Interest
  - Solicits investments primarily from institutional investors – pension funds, endowments, etc.
  - Utilize automation or technology in property management
  - Are relatively opaque and unaccountable
- What do corporate landlords own?
  - Single Family Rentals (SFR)
  - Multi-family (Apartments)
  - Manufactured Housing
  - Student Housing
  - Affordable Housing (LIHTC)

# Types of Corporate Landlords

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## ➤ **Private equity (PE):**

- Buys assets with goal of Increasing profitability in short time period – 3-7 years -- to provide return to investors and pay back debt
- Generally, seeks to re-sell asset or take private company public (e.g. Invitation Homes)
- Increase profitability by:
  - Increasing revenue by raising rents and making tenants pay new fees
  - Reduce expenses by neglecting maintenance and repairs
- Exerts Controlling Interest
- Solicits investments primarily from institutional investors – pension funds, endowments, etc.

## ➤ **Real Estate Investment Trust (REIT):**

- Pools money from investors
- Buys, manages, and maintains real estate properties then pays out profits to investors
- May be public or private
- Some REITS are owned by private equity firms

# Who Are the Landlords in Your Neighborhood?



Name	Type	Based in	# Homes	AKA/Owner
Home Partners of America	PE-owned REIT	Chicago	576	Blackstone
Invitation Homes	REIT	Dallas	619	
Progress Residential	PE	Duluth, GA	470	Pretium, Ares
Bridge Homes	REIT	Charlotte	143	MNSF
Colchis Capital	PE	San Francisco	84	Imagine Homes
Carpathian Capital	PE	Minneapolis	109	

# Who Are the Landlords in Your Neighborhood?

- **Progress Residential (acquired Front Yard Residential/HavenBrook)**
  - Owned by private equity firms – Pretium Partners and Ares Capital
  - Largest SFR landlord in U.S. – 100,000+ homes
- **Invitation Homes**
  - Publicly traded company – was founded by private equity firm Blackstone
  - 2<sup>nd</sup> largest SFR landlord in U.S. – 80,000+ homes
- **Home Partners of America**
  - Owned by private equity firm Blackstone
  - 28,000+ homes in U.S.
  - Biggest rent-to-own landlord in the US.



*“We believe tight credit availability is preventing new households from being able to obtain mortgages to purchase their first home.*

*Households that have been unable to obtain mortgages have become renters, thus driving high occupancy rates and robust rent growth.”*

- Pretium pitch to investors  
(*Wall Street Journal*, Oct 5, 2016)

## Progress Residential

2012 - formed by Pretium Partners CEO Don Mullen, a former Goldman Sachs executive who made a fortune betting against mortgage market in 2007 Global Financial Crisis (*Wall Street Journal*, October 5, 2016).

2021 - bought Front Yard Residential and its portfolio of 14,500 homes, including homes in Minneapolis

### Acquisition Strategy

- Within 15 minutes of home coming on market, search algorithm consider for acquisition
- computerized property-assesses whether to
- Can make cash offer within 2 hours of listing
- Was acquiring 2,000 homes a month

# Progress Residential (cont.)

*The company's "strategy of extracting profit from their tenants by claiming to provide them with prompt, high-quality maintenance and repair but actually leaving them in uninhabitable homes isn't just shameful, it's deceptive, fraudulent, and violates Minnesota law." – MN AG Keith Ellison*

- ABC News found “a pattern of complaints from renters and former employees about the company’s customer service, standards, billing practices, response times and internal culture. The concerns span markets, states, and years.”
- Troubling track record of filing or threatening to evict tenants during pandemic eviction moratorium.
- Requires tenants to do much of yard work, including
  - Winterize – wrap outside water main
  - Remove snow and ice
  - All exterior maintenance at own expense, including fencing
  - Mowing, fertilizing, trimming bushes and trees
  - Power-washing outside walls, walkways, and patio

*“The picture that emerges isn’t as much one of exceptional service as it is one of leaky pipes, vermin, toxic mold, nonfunctioning appliances and months-long waits for repairs.”* – Reuters, July 27, 2018

## Invitation Homes

- 2012 – founded by private equity firm Blackstone
- 2017 - Blackstone conducted initial public offering (IPO) for Invitation Homes and sold 25% of equity
- 2019 - Blackstone sold off remaining stake. Blackstone made \$7 billion from sale.
- 2022 - Investigation by US Congress found that 29% of eviction cases initiated by Invitation Homes during eviction moratorium resulted in tenant losing housing. Invitation Homes had told Fannie Mae just 6%.



*“An analysis of [HPA] contracts and sales and eviction data shows that rent-to-own tenants are often left with the worst of all worlds. They have to shoulder many of the costs and responsibilities of homeownership, and the financial odds are stacked against them to end up as owners. Meanwhile, many are paying above-market rent.”*

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Business Insider

## Home Partners of America (HPA)

- Largest rent-to-own landlord in the U.S.
- Acquired by Blackstone in 2021
- Just 1/5 of tenants end up buying their home
- Pending MN class action lawsuit alleges tenants forced to pay for repairs that they didn't cause, that HPA ignored repair requests or refused to make repairs (even for health and safety issues)

# Mortgages

Cash purchase of properties, but later take out large mortgages on multiple properties

## Examples

- **Progress Residential:** \$508 million total loan - \$33 million of it for 264 Hennepin County properties. (Berkadia Commercial Mortgage loan backed by Freddie Mac)
- **Invitation Homes:** - \$1.2 billion total loan - \$37 million on 153 Hennepin County properties (Loan made by JP Morgan Chase)
- **Home Partners of America** - \$2.3 billion loan total - \$49 million on 99 Hennepin County Properties (Loan made by Bank of America)