

24-05-10 TheBuzz web

Thu, May 09, 2024 2:54PM 27:16

SUMMARY KEYWORDS

tucson, rent, institutional investors, arizona, stephanie, company, wealth, western, unlawful, optimization, enclave, apartment, cockroach, market, properties, national average, lawsuit, pest, homes, area

SPEAKERS

Nicole Cox, 'Stephanie', Zac Ziegler, Christopher Conover, Jennifer Von Pohlmann, Barak Orbach



Christopher Conover 00:03

Welcome to The Buzz. I'm Christopher Conover. This week, corporate ownership of Southern Arizona homes. A common narrative when it comes to housing issues is that one place where blame can be laid is on large corporations and investment firms looking to maximize the profit they can make out of the real estate market. In fact, that topic is the subject of a recent lawsuit by Arizona Attorney General Kris Mayes. That suit alleges a number of companies that own multiple apartment complexes across Arizona are illegally colluding to raise rent prices as high as possible by sending their pricing data to a company called RealPage, who then in turn advises them on rents that would bring in the most profit. That alleged collusion would be a violation of the state's antitrust laws. We reached out to the Attorney General's Office, RealPage and the two defendants in the case who operate properties in our listening area, HSL Properties and Greystar. They all either declined our request for interviews, or simply didn't return multiple messages. To discuss the details of the lawsuit we spoke to Dr. Barak Orbach, a law and business professor at the University of Arizona's Eller College of Management, and an antitrust law scholar. I started by asking him how the state came to see this as alleged collusion.



Barak Orbach 01:38

So if you engage in a crime, in an unlawful conspiracy, you always have concerned that your co conspirators will cheat you or you cannot trust them. You are competitors. So you need a third party to organize it. Here we have real page which is the third party that orchestrates the collusion. So the story, here the legal story, is that this is a what is called Hub and Spoke conspiracy. RealPage is the hub. And that its agreements with each landlord are the spokes, and they're all on the same rim, the way it has agreements with each landlord set up an agreement among the landlords. The claim is such because each landlord provides RealPage with its sensitive business information that is information that you will not share with competitors. So the claim is that we have RealPage which orchestrates a collusion among large

landlords in certain geographic areas, and the specific facts allowed to prove it in court. Again, we're going to quote always, like, it's always uncertainty, but the facts here are quite remarkable in my mind, you

C Christopher Conover 02:54

wrote about this recently in the online publication, Promarket, and you talked a lot about the hub and spoke you were just mentioning, you also talked about revenue management systems. And that seems like what RealPage is doing so what is a revenue management system and how does it work in this case?

B Barak Orbach 03:12

Operational optimization is essential for competition, if the three of us compete with each other, if one of us cut costs, it can outperform the rivals. So, optimization is essential for competition. Optimization, so computers can be very effective because computers process information really well. So we started having revenue management systems, which are basically optimization in the 1960s American Airlines was the first to introduce optimization and again in and of itself, optimization is essential to competition. Now, then there was the rise of AI powered revenue management, there are two situations that can create problems for competition. One situation is that in a small market, concentrated market, if everyone optimizes the business, the algorithms quickly learn that they respond to each other. And then independent optimization may result in inter-competitive outcome. Under present law, this is not unlawful. Many small companies cannot have in-house optimization, so they go to a third party to provide optimization such as RealPage. So we have companies that specialize in optimization for specific industries, whether these are landlords or healthcare or casinos, etc. And one of the things they do, they take the sensitive business information and provide it with optimization, but if they comingle information of competitions, this is where things can become unlawful under antitrust law. In order not to comingle it in AI models, you need to create some rail guards. So in theory, they could have had them but real page was unwise to say on the website plenty of times that they use the information of rivals to optimize your own. So they basically have admission, which again, for as teaching materials, I'm grateful, but it will not sell them code.

C Christopher Conover 04:54

So if the attorney general and the multiple cases, not just Arizona's, against RealPage are successful, what's the penalty could RealPage be forced out of business? And depending on what the penalties are, could rents drop back down again?

B Barak Orbach 05:36

Okay, so I have to apologize for being an academic and there are crimes that I like and enjoy. So the beauty of this story is that this business model is bad, not only RealPage, these business models will go away. And for good reasons, they literally have impact on all American households. And it should be understood that RealPage is only one, perhaps particularly dumb,

because it they have admissions on the websites. But in many other industries, we have the same thing. How it will happen, it we you know, quite a messy process, because the legal process is slow and messy, and consists of tactical defeats and victories and parties make mistakes, but I'm confident some lawsuits will win and this business model will go away. The subsequent question that you asked is, will it have any positive impact on us? Will we see rents going down will we see healthcare costs going down, et cetera? This is much less clear. Okay. So for example, when the Ag or other plaintiffs argue that rents went up, it partially because of RealPage, but there are other factors that lead to a rent increase so just remember that just because rent doubled itself in some regions within a few years, this is not all RealPage, too many other factors. So we should remember that the effect is not as large as it might seem, the next thing is, well, will they be able to substitute the unlawful model with a model that is lawful? You can have independent optimization, so long as the prices are relatively transparent. And you could respond quickly to your rivals. And in certain markets, you have that. That's under present law, this is not unlawful. And I don't see I don't think that in anytime in the foreseeable future, that will be unlawful. And again, I don't express opinion about right or wrong just about for that to be unlawful, we either need the Supreme Court to say that it is unlawful. We know the opinions of the court of each judge. So that will not happen. Or it will require a law of Congress. And we know how functional Congress is.

C Christopher Conover 07:54

So the other thing that seems to play in a lot to this, and as far as I know, is not illegal is just simply consolidation. In the rental housing market, we're seeing big outside companies come in, we see it here in Tucson, where they come in and buy a number of properties all over town that didn't used to be owned by the same group. But that's not price fixing. That's just one company owning a lot. And obviously, therefore controlling prices.

B Barak Orbach 08:21

Well, that's one of the issues of our time. So we see consolidation in many industries. And on the one hand, it is clearly that they can use power to increase prices. On the other hand, it comes with many efficiencies, because if you only have individual household, you know, small people who have investment, it's very difficult for them to get into rentals, their cost of maintenance is high. So there are considerable efficiencies. And the issue with consolidation is at what point consolidation is too much? That's always the case. In the past, the notion of competition was oh, we only want to have small businesses compete with each other. And they're all price takers. And some people still think this is competition. But economically, it results in higher cost and the product quality is not as good. It is just like, do we want to have many small streamers or we want to have Netflix? And in the context of real estate? I don't think that there is there has been enough work to create standards of what degree of consolidation harms competition. And again, people who say Oh, why do you need standards, all these technicalities? We know that it's bad. And the reason is that if you want to win in court, you need to provide a distinction between permissible and impermissible and it's good. It protects us that the line between unlawful and lawful clear. Right now we don't have such rules.

C Christopher Conover 09:48

That was UA professor and antitrust scholar Barak Orbach. We're looking at how investment

groups and other corporations may be pushing up the cost of homes this week, while a number of large firms who used RealPage to help set their rent rates are mentioned in the state attorney general's lawsuit, not all of them are. One such company not mentioned in the suit is Phoenix area company, Western Wealth Communities. It's a subsidiary of Western Wealth Capital and investment firm operated out of Vancouver, British Columbia. Joining me now to tell us about one tenant in a Western Wealth property is The Buzz producer, Zac Ziegler. Zac, welcome.

Z

Zac Ziegler 10:31

Good to be here, Chris.

C

Christopher Conover 10:33

So you found out about this story through the Tucson Tenants Union. Let's start with learning a little more about this company.

Z

Zac Ziegler 10:40

Western Wealth owns 34 complexes in Arizona, Nevada, and Texas. 18 of those are in Arizona. Of those five are in Tucson largely in economically disadvantaged areas. Western Wealth told us that they have ties to RealPage both for revenue management and marketing. But the company's president says they did not use YieldStar. That's a tool mentioned in Arizona Attorney General Kris Mayes' lawsuit against real page and other companies that own apartment complexes. Western Wealth is not mentioned in that lawsuit. The Attorney General's office would not comment as to why the company is not named a plaintiff or if it was part of the investigation.

C

Christopher Conover 11:25

When we reached out to the Tucson Tenants Union to get their perspective on the issue. They introduced us to a person who lives at one of Western Wealth's communities, Rhe Enclave on 14th Street near Park Place Mall in Tucson. We'll be calling that person Stephanie. They asked to remain anonymous for fear that Western Wealth would retaliate so you'll hear a disguised voice.

Z

Zac Ziegler 11:49

The buzz decided to grant anonymity so long as Stephanie turned over some supporting documents, including leases, copies of complaints and pest inspections, thus ensuring that they live in The Enclave and have documented many of the issues we'll hear about.

C

Christopher Conover 12:05

Stephanie originally moved to Tucson and began renting at The Enclave in the mid 2010s. In 2018, they upgraded to a two bedroom apartment to accommodate an adult child and their spouse moving in with them. At that time, the complex had a different owner and the apartment rented for about \$875 a month.

'Stephanie' 12:27

By 2020, that two bedroom apartment was \$1,175. By 2022. That two bedroom apartment now cost almost \$1,400 \$1,500 a month. Now in 2024 that two bedroom apartment is \$1,600.

C Christopher Conover 12:47

Stephanie saw some life changes in their time at The Enclave. They divorced. The first child moved out and another moved in, along with a spouse and two children. In March 2022, Stephanie and their family received an email stating that The Enclave had been sold to Western Wealth Communities. Since then, the rent increased to \$1,600.

Z Zac Ziegler 13:10

Western Wealth wouldn't grant us an interview, but they did respond in writing to the claims that Stephanie made. The company wrote that it has increased rent by 11% since buying The Enclave and other Tucson properties, but they say the average rent is at or below market rate for the area. Now we compared the average rate they quoted us to the average rent for a condominium in the Tucson Association of Realtors monthly reports. They're quoted average rate was near that number, though the rent we'll be talking about for a two bedroom apartment is about \$400 over it.

C Christopher Conover 13:48

Meanwhile, Stephanie's elderly father needed a place to stay so Stephanie moved out of the original apartment and rented a studio at The Enclave to share with their father. Rent between the two apartments is currently about \$2,400. And that's not counting about \$200 in fees for each apartment.


'Stephanie' 14:08

So we pay a \$6 a month for the parking lot usage, not recovered parking space just to use the parking lot. They've added Amazon boxes in and they're charging us to use the Amazon boxes now. Even though they don't use the Amazon boxes, they still put Amazon packages in our mail or on our front doors.

Z Zac Ziegler 14:25

Western Wealth said it has instituted a number of fees as part of its work to enhance the

property, writing quote "We do not lump additional fees outside of the rental rate together, so there's full transparency for the fees." They listed non optional fees related to utilities community maintenance, parcel lockers and parking lot, running between 1\$50 and \$220 a month. Optional fees include covered parking, pest control and a security deposit alternative. Although Stephanie says they were not given choice on that last fee.

 Christopher Conover 15:01


Stephanie says Western Wealth has made changes to the property, but they've been superficial for the most part

 15:08


Still have toxic mold and events. We still have cockroaches, and we're still charged before dollar a month pest control fee.

 Zac Ziegler 15:16


Western Wealth says it has made a number of upgrades to the common areas: a repaved parking lot, dog park, new paint and pest abatement. We'll give you the company's response to interior pest complaints after we hear more about the problem.

 Christopher Conover 15:32


Stephanie says there have been a number of problems such as pests and mold in the apartments. After an outside contractor diagnosed two kinds of mold in the two bedroom apartment. The effort put in by the managers at The Enclave was less than satisfactory.

 'Stephanie' 15:48

They gave my kids an air spray to put in the vents and told them they'd have to do it themselves.


 Christopher Conover 15:58


The test said it was an indicator of water damage potentially.


 'Stephanie' 16:02

Yeah.


 16:03


 Christopher Conover 16:03
Did the apartment do anything about that?


 'Stephanie' 16:05
No. As a matter of fact, the kids have cockroach poo all the way around all their ceiling's, supportive walls. They have a crack across their living room ceiling from water damage from leaking from the upstairs. The neighbor had cockroach nests for over seven years in their walls before they moved out.

 Christopher Conover 16:27
Have any of these ever, have you been able to report them, for example as code violations to the City of Tucson?

 'Stephanie' 16:36
We tried. We tried it

 Christopher Conover 16:39
what happened?

 'Stephanie' 16:40
Nothing. Absolutely nothing. Everybody said according to the Tucson rules. A certain amount of mold is allowed here in Tucson and a certain amount of bugs and cockroaches is allowed here in Tucson.

 Zac Ziegler 16:55
While tenants are in charge of pest control within their unit. Western Wealth wrote that those who opt into the apartment service will receive pest spraying as often as needed. The spokesperson wrote that Stephanie's account of how mold would be handled is against company policy and quote, "concerns are immediately investigated and resolved." Unquote. They say such reports are given priority and usually resolved within 24 hours.

 Christopher Conover 17:23
Stephanie says there are also structural issues with the apartment.





'Stephanie' 17:27

The windows themselves did not fit into the wall properly. So they had big gaps around the window where mosquitoes and bugs were coming in. And their babies were allergic to mosquitoes. So every time their oldest boy would get bit, he would get these big puss balls on his legs and have to be taken to the doctor.



Zac Ziegler 17:49

Western Wealth did not address this issue specifically in our emails. It noted, quote, "Our community members safety is always our top priority." Unquote. And, quote, "upon notification of a concern, our management team works to eliminate the issue and ensure does not happen again."



Christopher Conover 18:09

Stephanie says their family communicates the problems to the onsite property manager routinely.



'Stephanie' 18:15

We were very communicated with them. We actually had a cockroach folder labelled that they had access to for several years and kept pictures on every single bug, every single mold area ,every single crack in the ceiling. Everything



Zac Ziegler 18:33

Western Wealth had previously stated its policies about how such complaints are handled. They added quote, "We apologize if there have been any miscommunications with a resident about their concerns as we take this very seriously."



Christopher Conover 18:48

Stephanie said they hope to move out when their leases expire. But they're on Social Security and disability.



'Stephanie' 18:55

I have already been looking to try to find some place within my means to try to get my own place where Dad can have his place. I can have mine. I can't even find a room to rent that doesn't have me living in a room and having an addict or somebody for a roommate for less than \$1000 a month.





Christopher Conover 19:15

They're on the section eight voucher waiting list but have yet to hear from the city.



'Stephanie' 19:20

When your Social Security and disability is \$950 a month. You got to pay your rent and your utilities on that. And of course all your other things.



Christopher Conover 19:31

Stephanie volunteers helping unhoused people in the area and many of the elderly people they meet on the street or in shelters have similar stories.



'Stephanie' 19:40

It starts with not being able to afford a place to live because all these rents are so high that they can't afford it on their little paychecks. Even my apartment manager is so upset he says and there's nothing I can do. He has to do his job.



Zac Ziegler 19:57

Western Wealth Communities wrote quote, "We know residents are working hard to pay rent and other bills amid inflation," unquote. It notes that it offers a free month's rent to one renter in need at each complex each year at Christmas, and has programs where quote "Thousands of dollars are offered annually and holiday gifts, food and decorations. We've been able to donate more than \$200,000 in free backpacks and school supplies."



Christopher Conover 20:28

While we've focused on apartment complexes so far this episode. That's not the only instance of corporations buying up homes in the Tucson area. A common practice of investment firms is to buy residential real estate in the hopes of turning a profit, either through the rental market or home flipping. Real estate data firm Attom Data tracks purchases of what it calls institutional investors. Attom's Jennifer Von Pohlmann recently spoke with Zac about what their data show.



Zac Ziegler 21:01

Let's start with the basics here. What is an institutional investor?



Jennifer Von Pohlmann 21:05

Yeah, so we define here at Attom an institutional investor purchase is basically a residential property sales to non lending entities that purchased at least 10 properties in a calendar year.

Z

Zac Ziegler 21:18

Do do institutional investors tend to rent the homes after they buy them? You know, maybe shorter, long term or do they just kind of sit vacant as property values rise?

J

Jennifer Von Pohlmann 21:29

Yeah, so that question, it's somewhat complex to this kind of a lack of specific data that we have. But generally, institutional investors rent out the homes they acquire, opting for either short term or long term rentals, based on market conditions and their investment kind of objectives.

Z

Zac Ziegler 21:47

Southern Arizona counties seem to hover around 5%, give or take, of home sales going to institutional investors, how's that compare to the national averages?

J

Jennifer Von Pohlmann 21:58

In the first quarter of 2024, we found that institutional investor sales for the nation accounted for 6.2% of all sales. Whereas, you know, the state of Arizona sat around 7.7%, which ranked, you know, ninth across the nation for those states with sufficient, you know, sufficient data to analyze so definitely a top 10.

Z

Zac Ziegler 22:19

And there have been some times where we'll see peaks and certain counties, Pima County in the pandemic era or Yuma County, really just recently, are the percentages will just have a big spike in a quarter, sometimes up to around 20%. Do we know what happens to make institutional investors flocked to a market real quickly?

J

Jennifer Von Pohlmann 22:40

Yeah, so like in 2021, the median sales price and like Pima and Yuma County, they were favorably positioned between \$200-100,000. So during that period from about q1 2021, to q2 2022, there was definitely noticeable rise in median sales prices in both counties. So that increase coincided with a surge in property purchases by institutional investors, you know, indicating robust potential for capital growth. So such conditions made it an ideal time for investing before further price increases. So additionally, Arizona has, you know, appealing climate and lower cost of living relative to coastal cities attracted many seeking more space, and just a better, you know, lifestyle overall. So this heightened demand for housing, definitely made it a prime target for investment.

Z

Zac Ziegler 23:30

So just thinking about sellers in general, and we'll get back around to the institutional side of things. The percentage of money a seller typically gains when they sell a Tucson-area home has outpaced the national average since about 2011. I'm guessing that for a long while that might have been linked to the fact that the average homeownership tenure was also above national average. That hasn't been the case. That latter part for the last five years or so. Tucson has been really more around the national average, but still having those high price gains. Does that higher than normal return rate bring in institutional investors?

J

Jennifer Von Pohlmann 24:12

You know, Tucson housing market in looking kind of historically shows a significant recovery and growth post the 2008 financial crisis. Starting from the deep negative gains in 2011, the market progressively improved. So this demonstrates, you know, a resilient market that rebounded from lows much faster than many other US locations. So from around 2015, Tucson consistently outperformed the national average in terms of home seller gains. So such margins can definitely be attractive to institutional investors looking for markets with above average growth potential. So the data suggests that Tucson, Arizona represents a lucrative market characterized by strong recovery, you know sustained growth and the potential for high capital appreciation. So these attributes definitely align with the objectives of institutional investors, you know, seeking that robust and reliable returns.

Z

Zac Ziegler 25:11

So institutional investment purchases nationwide, according to Attom's data are down a bit over the last year nationwide. Arizona is actually a leader in that trend. However, when you take out that big behemoth in the middle of the state, the Phoenix metro area, the percentage of institutional investor purchases are still going up for the rest of the state. What do places like Tucson and Yuma have going on that makes these investors still want to buy here when they're starting to look at the Phoenix market and kind of say, No, thanks?

J

Jennifer Von Pohlmann 25:47

Yeah, so it kind of touches a little bit on the last question, and it really comes down to basically prices and returns. So those areas like Tucson and Yuma still have somewhat decent affordability for investors. And then you mix that with potential reliable returns. Both cities are offer lower entry points for real estate investments compared to that, you know, more saturated markets, which is definitely of course appealing for those investors looking to maximize on return.

C

Christopher Conover 26:11

That was Jennifer Von Pohlmann of Attoma Data Solutions talking with Zac Ziegler. And that's The Buzz for this week. On May 20, we'll tape a live episode of The Buzz as part of our Where to Live? series. If you'd like to attend the taping and participate by asking questions, visit our

Live? series. If you'd like to attend the taping and participate by asking questions, visit our website for more details. You can find all our episodes online at azpm.org And subscribe to our show wherever you get your podcast just search for The Buzz Arizona. We're also on the NPR app. Zac Ziegler is our producer with production help from Desarae Tucker, our music is by Enter the Haggis. I'm Christopher conover, thanks for listening.



Nicole Cox 27:01

AZPM's original productions are made possible in part by the community service grant from the Corporation for Public Broadcasting and by donations from listeners like you. Learn more at support.azpm.org