PE Firms Impact Real Estate Prices

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Conspiracy theory: PE Firms acquired thousands of houses and created funds where the cash inflow was from rents collected from the houses they acquired. The author of the article mentioned a multiplier effect, how 1 purchase can affect 60 homes. The impact from the PE firm's buying activity influence 23 MM homes in the US, where there is 60MM, or 30% of the houses.

However, now that prices have rebounded from the lows in 2008, the PE firms are selling their pool of houses to each other, or they are securitizing the homes like they did with the mortgages through Freddie. The banks would buy the mortgages and securitize them into mortgage backed securities, where the mortgagees interest and principal payments would be paid out to the investors, and the banks would sell the MBS after collecting major fees.

Now, they are doing the same, but this time around, they are securitizing the rental income. In the case the mortgagees would default on their payments, the investors would technically own the properties as they would be the owner of the mortgages in the MBS tranche. Freddie Mac would guarantee the mortgagees for the FHLC loans, which is why they went bankrupt.

Not sure how it would work with rental income. The collateral is still probably the homes, but the homes are owned by the PE firms. No mortgage since they just acquired with cash at the auction offices. Bought at depressed prices, collected on the rebound price and the rental income is extra cash they can milk out from the real estate.

PE firms could have added leverage to make the returns juicier but the big idea is that they are collecting rent on thousands of homes and paying investors of the securitized, very risky instruments with the rent. The big big idea is that the PE firms led the charge for the pricing rally, and we can expect prices to fall in the ensuing years as they begin to unload their portfolio.