



CRE
ANALYST

Whistles, Hatchets, and a Big Bad Landlord: Backtesting WaPo's Hatchet Job on INVH



invitationhomes™

The Washington Post

Backtesting a Hatchet Job



Whistleblower

Neil Senturia is the classic serial entrepreneur. He has had three careers (unable to hold a job it seems) from writing sitcoms in Hollywood to real estate development and finally technology- nine companies as CEO or Chairman and another dozen that he has invested in. Currently Neil is CEO of Blackbird Ventures, a small venture fund that is focused on very early stage companies.

Awards

California Qui Tam Awards

By filing a qui tam lawsuit, whistleblowers (also known as [relators](#)) who report false claims against the State of California can earn a share of the recovered funds. The qui tam provision of the CFCA may provide an award between 15% and 33% of the amount recovered by the government.

In cases in which the state does not proceed with an action, a whistleblower may be eligible to receive between 25% and 50% of the proceeds of the action or settlement. These amounts depend on many factors, including the significance of the information, and the role of the qui tam plaintiff in advancing the case.

California provides big awards for whistleblowers of false claims

Backtesting a Hatchet Job



The Washington Post
Democracy Dies in Darkness

At Invitation Homes, unpermitted work leaves leaky plumbing, faulty repairs, renters say

One of the nation's largest corporate landlords, the company rapidly bought and renovated thousands of properties, often without required permits

WaPo ran an investigative report on Invitation Homes in July 2022

Backtesting a Hatchet Job



Invitation Homes advertises that it is leading a real estate “revolution.”

Formed by Wall Street investors after the Great Recession and foreclosure crisis, the company accumulated tens of thousands of houses at depressed prices, spent hundreds of millions of dollars on renovations and now leases them out. Never before has a single landlord owned such large swaths of suburban America. As rents have risen in recent years, the value of the publicly traded company has soared to more than \$23 billion.

“Top-quality homes,” it promises prospective renters, “maintained by top-level professionals.”

Yet **some of the company’s homes have missed basic quality checks**: Renovations at the company’s rapidly assembled collection of 80,000 homes often were made without building permits, according to a review of Invitation Homes properties in several states, a California lawsuit and a Washington Post analysis of building data in three cities.

Skipping building permits may have allowed the company to avoid costly delays and save millions in fees, according to estimates based on the number of company homes. But forgoing the permits, which are required by city codes to ensure quality and safety, **has led to shoddy repairs and maintenance that puts tenants at risk**, renters said.

Selections from WaPo’s investigative report

“We’re paying \$4,000 a month to live in hell...”

“They hire people who will just do anything without doing it to code.”

Resident quotes from WaPo investigative report

Backtesting a Hatchet Job



Invitation Homes is one of several large corporations that have transformed the rental housing industry over the past decade, touting their ability to efficiently manage vast portfolios of single-family houses. Tenant advocates say **corporate landlords are helping to drive up rent prices even as they skimp on maintenance and major repairs.**

For this report, The Post analysis looked at three markets where Invitation has hundreds of homes: Charlotte; Orlando; and Riverside, Calif., a suburb east of Los Angeles. In all three, **Invitation Homes properties were less likely than others in the area to have had permits pulled for renovations and other projects,** according to the analysis of local building department data.

“We always seek to comply with applicable laws and regulations, including permitting laws, and are continually evaluating and improving our compliance procedures,” the company said in an emailed statement from spokesperson Kristi DesJarlais. “We expect our third-party vendors to adhere to these same standards and enter into agreements that obligate them to do so.”

“They never seem to live up to what they promise,” said tenant Erich Budde, who said that in addition to the unpermitted renovations, the painting and work on the floor seem in his view to have been shoddy and rushed. **“Things are always discombobulated and disorganized,”** he said.

Selections from WaPo’s investigative report

Backtesting a Hatchet Job

Gambling on suburbia

Before the Great Recession, enormous real estate companies like Invitation Homes with huge portfolios of single-family houses were largely unheard of. Companies that rented houses tended to be much smaller and limited to one town or region.

“Back in 2012, home-leasing options were slim,” the Invitation Homes website explains. “There were only mom-and-pop landlords and a few regional leasing companies. No one could deliver the consistent, worry-free way of life that our founders envisioned.” The foreclosure crisis created buying opportunities for these large ventures, but it was internet technology that enabled them to seize the moment. Using large-scale cloud-based data analysis, Wall Street investors were able to search for and buy hundreds of homes in a week.

Invitation Homes “has spent thousands of dollars on renovations to its single-family homes in California but intentionally and systematically failed to obtain building permits,” according to the lawsuit from tech firm Blackbird Special Project, which is using the proprietary technology of a related company, Deckard Technologies, a firm that uses machine learning to review real estate data. The plaintiffs have been represented by Leonard B. Simon, a San Diego attorney, and the firm of Sanford Heisler Sharp.

The “company chose to ignore permitting requirements to avoid permit fees and to get the properties into the rental market as quickly as possible,” according to the lawsuit. The lawsuit is intended to recover money from Invitation Homes for local governments under a whistleblower law that would give the tech firms a portion of any award.

Selections from WaPo’s investigative report

Backtesting a Hatchet Job

Response from Invitation Homes

Attorneys for Invitation Homes have called the allegations “unfounded” in court documents and said the case is “a manufactured story, unsupported by particularized allegations.”

During a call with investors this year, Invitation chief executive Dallas Tanner said “we think we have some pretty compelling arguments” in response to the lawsuit and that the company looked forward to defending itself in court. Invitation’s attorneys filed a motion to dismiss the lawsuit in April.

“We believe this case has no merit and is riddled with factual errors and legal deficiencies,” the company said in its statement to The Post.

“We believe this case has no merit and is riddled with factual errors and legal deficiencies...”

Invitation Homes response quoted in WaPo’s investigative report

Backtesting a Hatchet Job



Invitation Homes Continues Shameful Treatment of Tenants

In News by Patrick Range McDonald / July 12, 2022

A new article in the [Washington Post](#) reveals that Invitation Homes, one of the largest corporate landlords in the United States, is continuing its shameful treatment of tenants. [Invitation Homes already has an alarming track record of excessive rent increases and fees](#), sudden evictions, and long waits for repairs. Now the corporate landlord has been charged with not obtaining building permits for its properties, which has led to shoddy renovations and poor living conditions.

Based in Dallas, Texas, Invitation Homes owns more than 80,000 single-family rental homes in California, Seattle, Dallas, and other markets. Led by CEO Dallas Tanner (above photo), it has total assets of more than \$17 billion, and was once a division of [Blackstone Group](#), one of the most notorious corporate landlords in the world.

Over the years, Invitation Homes has been an aggressive opponent of rent control. In 2018 and 2020, it shelled out a total of \$2.5 million in campaign contributions to kill statewide rent control ballot measures in California. Recently, [Housing Is A Human Right](#) ranked Invitations Homes as the third worst corporate landlord in California, noting that even the United Nations singled out the corporate landlord for its predatory business practices.

Now the *Washington Post* has weighed in.

Commentary from a tenant advocacy organization

Backtesting a Hatchet Job



🕒 03/03/22 03:07 PM EST



INVH: Adding Invitation Homes (INVH) to Investing Ideas (Short Side)

Hedgeye CEO Keith McCullough is adding **Invitation Homes (INVH)** to the short side of Investing Ideas. Below is a brief note.

Shorting stocks at any time and price is for amateurs...

Timing matters, especially when grossing up top short ideas.

Rob Simone recently added Invitation Homes to his SELL list, and it just bounced to a lower high. That's when you get more aggressive (selling).

Here's an excerpt from Rob's REITs Pro research product on the name:

- We are adding **Invitation Homes (INVH)** to the **Best Idea Short** list, as we think the recently revealed whistleblower case in San Diego is a much bigger deal potentially than the market is currently discounting.



🕒 07/13/22 07:18 AM EDT



SELL INVITATION HOMES | 7.13.22 | (INVH)



Rob Simone, CFA
@HedgeyeREITs

Takeaway: We checked Glassdoor for some margin math, but couldn't find any. So we ran it ourselves...

Hedgeye Cartoon of the Day: Trouble with the Curve



Commentary from a hedge fund pundit / subscription service

Backtesting a Hatchet Job



We are adding **Invitation Homes (INVH)** to the **Best Idea Short** list, as we think the recently revealed whistleblower case in San Diego is a much bigger deal potentially than the market is currently discounting.

Yesterday was obviously an interesting day, with the **Washington Post** [reporting](#) on **Active Short Invitation Homes' (INVH) systemic non-permitting issue.**

This is not only a credible and significant issue, its GROWING in size and scope. This was not a politically motivated "ambulance chaser" in San Diego trying to make a quick buck, rather what is likely to be only the first volley in a series of complaints across multiple jurisdictions. We expect additional cities of the remaining 16 in CA to object to the MTD before oral arguments on 7/25.

Put simply, it cannot be ignored. As clearly as we can state it, **THIS IS REALLY BAD.** Given these rising probabilities, this translates into a **higher probability of an unfavorable outcome**, which also translates into a **lower stock price as the buy-side begins handicapping things differently.**

Clearly something is very wrong here, the only question is "what will the financial impact/resolution be?" We think it's safe to say the question as to whether this is an actual issue is no longer relevant or debatable.

An independent and highly credible third-party news organization conducted its own research and due diligence, and found enough data and evidence to publish this very high profile and damaging story.

Commentary from a hedge fund pundit / subscription service

Backtesting a Hatchet Job

Why hasn't the company responded yet via a press release or other public appearance? Why did they try to deflect blame towards the GCs AGAIN? Do they care about this issue? Are they taking it seriously?

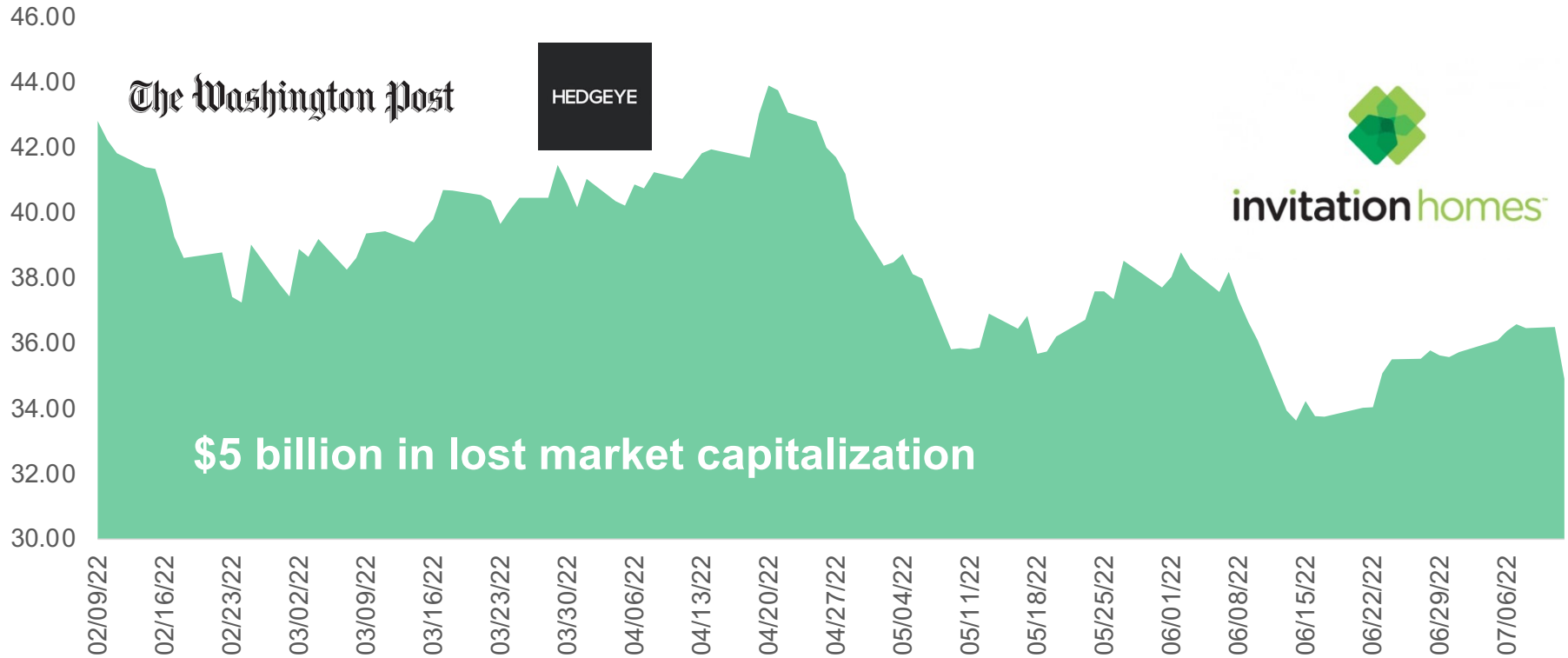
Just 30% of the ~82k homes impacted would result in a ~100bp NOI margin drag for the ENTIRE company by our math. We are fairly certain no one is underwriting this risk right now, irrespective of what we believe will be a general RoC slowdown for the sector.

We continue to be of the view that both the sell- and buy-sides are MASSIVELY offside on this one. Sell the stock.

Commentary from a hedge fund pundit / subscription service

Backtesting a Hatchet Job

Invitation Homes Share Price



The Washington Post

HEDGEYE



invitationhomes

\$5 billion in lost market capitalization

Invitation Homes fell by about \$5 billion following the lawsuit

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Voice of reason?

“While regulatory scrutiny continues to grow for INVH and the broader SFR sector, this particular event does not appear to pose a meaningful financial risk to Invitation Homes (i.e., legal damages, a looming wave of deferred cap-ex, or property tax assessments). We will adjust our views if we learn otherwise. For now, it appears to be a case of social media and a retail trading community blowing a sensational headline out of proportion.”

-- Green Street (2/19/22)

In a letter to clients, Green Street suggested the issue might have been overblown.

Invitation Homes Announces Settlement of California Qui Tam Dispute

07/22/2024

DALLAS--(BUSINESS WIRE)-- Invitation Homes Inc. (NYSE: INVH) ("Invitation Homes" or the "Company") announced today that it has reached an agreement to settle the legal dispute entitled *City of San Diego et al v. Invitation Homes, Inc.* The complaint in the dispute, also known as a *qui tam* action filed under the California False Claims Act, alleged that the Company's contractors failed to pull building permits on certain home improvements.

The Company has maintained that the complaint was without merit since it was filed. However, the Company believes reaching this settlement is in the best interest of all its stakeholders and allows the Company to better focus on its core business operations. Upon final approval of the settlement agreement by the U.S. District Court in the Southern District of California, the Company will pay a total amount of \$19,992,900 to completely resolve the dispute, thereby fully releasing the Company without any admission of liability.

Invitation Homes recently announced a settlement.

Backtesting a Hatchet Job

Final damages

Legal fees

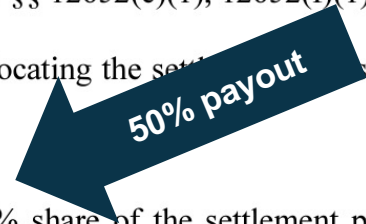
The proposed settlement of \$19,992,900, with \$4 million of that amount earmarked for prevailing party attorneys' fees, is in "the best interests of the parties" and furthers "the public purposes behind [the CFCA]," Cal. Gov't Code § 12652(c)(1), because it promotes the protection of the public fisc, which is "[t]he ultimate purpose of the [CFCA.]" *See, e.g., State of California ex rel. Bowen v. Bank of America Corp. et al*, 126 Cal. App. 4th 225, 236 (2005); *American Contract Servs. v. Allied Mold & Die, Inc.*, 94 Cal. App. 4th 854, 858 (2001); *see also State ex rel. Bartlett v. Miller*, 243 Cal. App. 4th 1398, 1405–06 (2016).

Settlement details

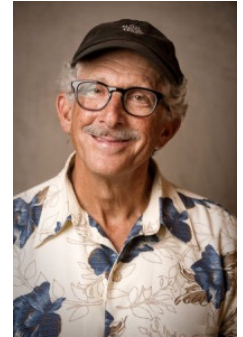
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All aspects of this settlement are fair, reasonable, and in the best interests of all parties and real parties in interest, including California Subdivisions not before the Court. Relator asks that the Court:

- Approve of the settlement, including entry of a stipulated judgment of dismissal of the action, after finding the settlement is in “the best interests of the parties involved” and furthers “the public purposes behind [the CFCA],” pursuant to Cal. Gov’t Code §§ 12652(c)(1), 12652(f)(1);
- Approve of the proposed plan for allocating the settlement proceeds among California Subdivisions; and
- Find that Relator’s request for a 50% share of the settlement proceeds pursuant to the CFCA is fair and reasonable.



Settlement details



≈ \$7.5M payout

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Estimated vs. Actual Cost of the Invitation Homes Suit

% of Current Market Capitalization

7.6%



Estimated Damage (2022)

"We continue to be of the view that both the sell- and buy-sides are MASSIVELY offside on this one. **Sell the stock.**"
-- Hedgeye, July 2022

Invitation's final settlement represents less than 9 bps of today's market cap.
-- CRE Analyst, July 2024

0.1%

Actual Damage (2024)