PRIVATE EQUITY IN HOUSING: FAQ

1 What is private equity?

Private equity is a type of investment where a group of investors pools their money together to buy a company or real estate property. The goal is to make the company more profitable so the investors can sell it for a higher price in a few years.

2 What's the difference between a privately held company and a public one? Can private equity firms also be publicly traded?

Most private equity firms themselves are privately held companies. A privately held company is owned by a small group of people, whereas a public company has shares that are traded on a stock exchange and can be bought by anyone. Publicly traded firms are overseen by financial regulators and must publicly disclose details on their profits and financial condition. Private equity firms themselves are usually not publicly traded, but some of the largest firms—Carlyle, KKR, Apollo, and Blackstone—are. This means the firms themselves sell shares of their stocks to anyone who wants to buy them. Private equity dealmaking occurs without oversight by regulators, and details are not required to be disclosed to the public.

3 How do private equity firms execute their investment strategy?

Private equity firms typically buy a controlling stake in a company and then seek to increase profits through things like cost-cutting, restructuring, and strategic planning. They may also bring in new management or sell off parts of the business to make it more profitable. Essentially, they try to increase revenue while trying to minimize costs.

In the housing market, this means private equity owned landlords seek to increase revenue by raising rents and charging high fees. At the same time, they try to reduce expenses by ignoring maintenance and repairs.

4 Where does private equity get its investment money?

Private equity firms get their investment money from so-called "institutional" investors like pension funds, endowments, and insurance companies. These investors are called limited partners or LPs. Individual people are generally not allowed to invest in private equity unless they have a very high net worth. Pension funds provide one third of the investments in private equity.[1]

Every few years, private equity firms solicit their investors in order to amass a new pot of money called a "fund". Investors often commit to multiple funds of the same private equity firm over and over. Activists can intervene by trying to dissuade investors from making additional commitments to problematic companies in the future.

5 Why is private equity such a popular investment choice for pension funds?

Pension funds need to make money in order to pay retirement benefits to their members, and private equity has the potential to provide higher returns than other types of investments (ideally 15–20% vs. the 7–10% returns that are typical for other investment types). However, private equity is also riskier than some other investments, so pension funds need to be careful when investing in this area.

Critics argue that private equity's high returns are often overstated due to accounting techniques and don't take into account the high fees that private equity firms charge.[2]

6 How did the private equity industry expand into what it is today?

Private equity has been around for a long time, but it really took off in the 1980s and 1990s when firms started using leverage (borrowed money) to buy companies and make big profits. Since then, private equity has become a huge industry with billions of dollars invested in companies all over the world.

7 What types of companies and industries do private equity firms invest in?

Private equity firms touch nearly every industry, and thus every aspect of our lives. They tend to focus on companies that are "undervalued" or have potential for growth. They may also invest in distressed companies that are in financial trouble. Some invest in specific sectors, like real estate.

8 Why is real estate, and especially housing, such a popular investment choice?

Housing is considered a recession-proof investment because people will always need somewhere to live, where investments like technology or office space are subject to changes in demand.

9 Why is private equity especially harmful for tenants?

Private equity firms that invest in real estate often prioritize profits over the well-being of tenants, which can lead to things like rent increases, eviction, neglect of maintenance issues, increased fines and fees, and poor customer service.

10 Why is divestment from private equity not an option?

Once a pension system or other investor agrees to make a commitment to a private equity fund, it is considered an "illiquid" investment, meaning it is almost impossible for them to get that money out. However, investors do have the ability to monitor the fund manager over the lifetime of the fund (typically around 10 years), which includes inquiring about risks, investment strategy, and impacts.

11 How many homes are owned by private equity firms in the United States?

It's difficult to say exactly how many homes are owned by private equity firms in the US because firms use confusing networks of shell companies to hide their ownership. Americans for Financial Reform estimated in June 2022 that private equity firms owned at least 1.6 million units, including over 1 million apartment units, 275,000 manufactured housing (mobile home) lots, and 240,000 single family homes.[3]

12 Who are the biggest players in the private equity real estate world?

Some of the biggest players in private equity real estate include Blackstone, Brookfield Asset Management, The Carlyle Group, Pretium Partners, The Amherst Group, and Cerberus.

13 How do I know if my landlord is a private equity firm?

It can be difficult to know if your landlord is a private equity firm. However, you can use your county's property records to identify which LLC owns your building and look up that company's registered address. Then Google the address or check the LLC's Secretary of State listings for possible ties to a private equity firm. Contact the Private Equity Stakeholder Project if you need help.

14 How are private equity firms different from venture capital, hedge funds, REITs, and other Wall Street Investors?

Private equity, venture capital, and hedge funds are all considered "alternative investments", meaning investors typically commit money for a period of years.[4] Private equity firms buy established companies, while venture capital firms invest in startups that are still in the early stages of development. Hedge funds are focused on making short-term profits through buying and selling stocks and other securities, while REITs invest in real estate properties that generate income through rent or capital.

15 What "value" do private equity firms add to our society?

The value that private equity firms add to our society is debated. Some people argue that private equity can use their expertise to help struggling companies grow and create jobs. In practice, firms often prioritize profits over people, harming workers, communities, and the economy.

16 Where do private equity firms operate?

Private equity firms operate everywhere in the world, although many real estate-focused firms concentrate on US housing markets.

17 What are some well-known companies that are controlled by private equity?

Some well-known companies that are controlled by private equity include Toys "R" Us, J. Crew, Petco, and Neiman Marcus.

18 How have people successfully mobilized against private equity in the past?

Tenants have mobilized against private equity in the past through various means such as protests and rent strikes. Tenant unions have also formed in various cities across the country to organize tenants and advocate for their rights and needs in the face of private equity landlords. For example, Inquilinxs Unidxs por Justicia / Renters United for Justice of Minneapolis was successful in motivating government intervention against their private equity landlord, Progress Residential. In 2024, the Minnesota Attorney General reached a settlement with Progress Residential, requiring them to pay $4M in restitution and debt forgiveness to former tenants. As part of the settlement, Progress also announced plans to transfer some of their properties to affordable housing entities.

ENDNOTES

1. https://labornotes.org/blogs/2014/08/review-private-equity-pillages-economy
2. https://www.nytimes.com/2021/12/04/business/is-private-equity-overrated.html
3. https://ourfinancialsecurity.org/2022/06/letters-to-congress-new-afr-research-estimating-minimum-number-of-private-equity-owned-housing-units/
4. https://www.preqin.com/academy/lesson-1-alternative-assets/what-are-alternative-assets