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Wall Street Landlord Loses Round One in Ohio School Tax Fight: Bloomberg.

It was a good day for Mike Yane, a history teacher in Huber Heights, Ohio. A December storm covered the modest Dayton suburb in snow, and Wayne High School opened two hours late. His students who walk to class could use the extra time.

Funding shortages last year forced the district to stop providing most buses for the high school, so about 1,600 teenagers have to find their own way and several are frequently late. A 14-year-old told Yane she has to leave her house in the dark and walk an hour to get to class before the bell rings at 7:50 a.m. When students arrive, they share decade-old textbooks that are falling apart and microscopes considered antiques.

"There's no money for new books," said Yane, 49, who's been at the school for eight years, since leaving his job at the nearby Wright-Patterson Air Force base.

After \$14.6 million in state and local cuts since 2009, the Huber Heights City School system is bracing for another hit. This time it's from Yane's landlord, a \$9 billion Evanston, Illinois-based hedge fund called Magnetar Capital LLC, which in January quietly bought a third of all rental homes in Huber Heights, including his and those of at least 16 of his students.

In April, Magnetar's management company applied for the largest reduction in residential property taxes in the county's history on more than 1,200 residences. The move threatened to strip as much as \$800,000 from the already stretched seven public schools and reduce funds for local colleges, police, fire, libraries and services to the disabled.

Neighborhood Takeover

The 38,000 residents of Huber Heights are in the crosshairs of a Wall Street takeover of neighborhoods across the U.S. After the housing crash sent home prices tumbling 35 percent, multibillion dollar money managers went on a buying spree. In less than two years, firms including Blackstone Group LP and Colony Capital LLC have become some of the largest landlords in the country by acquiring rental homes, purchasing hundreds of thousands of foreclosed houses to lease and constructing new properties to fill with tenants.

The Big Rent: Wall Street Is My Landlord

They are capitalizing on demand for rentals from families who lost their homes and buyers unable to get mortgages as banks limit credit after the last bust. The U.S. homeownership rate has dropped to 65.3 percent from a record 69.2 percent in 2004 and is almost back where it was two decades ago after the real-estate collapse took more than 7 million properties from their owners in a wave of foreclosures.

"There's a lot of room for this to grow," said Susan Wachter, a professor of real estate and finance at the University of Pennsylvania's Wharton School.

Huber Family

The influence investment firms with Wall Street backing and prowess can have on a community is already apparent in Huber Heights. Named for builder Charles H. Huber, who developed the town in the 1950s, the area expanded after World War II along with Dayton, a crossroads for goods made in America's industrial heartland. When Huber started to build the town, midway between Cincinnati and Columbus, he constructed affordable homes selling for \$13,995 with a \$995 down payment, according to the Ohio Historical Society.

His family also had a rental business that was the biggest in town until this year when his widow, Teresa J. Huber, sold it to Magnetar.

Magnetar picked Huber Heights because it found a ready-made single-family home rental company that could deliver the kind of steady returns its investors expect, spokesman Tony Fratto said in October. The town had 15,875 housing units as of 2010 Census data, with about 28 percent of them rentals. Monthly rents for Huber homes range from about \$500 to \$1,500, according to Amy Logan, head of leasing, who also worked for the prior management company.

Residential Investment

Few in the town knew the homes had been sold or that Magnetar requested to cut property taxes in the area by as much as \$1.39 million, until Bloomberg News reported it in October.

Daniel Bathon, head of Vinebrook Partners LLC, which manages the properties for Magnetar, said at the time that the tax cut would help them to invest more in the residences, which would increase their attractiveness and value over time. He told officials in a meeting at City Hall that Vinebrook planned to make at least \$1 million in improvements to its units in 2013 and 2014. The firm also donated \$25,000 to help staff a police officer at one of the city schools.

Upgrading Properties

"The Huber Heights investment will succeed only if we invest to upgrade and maintain our properties and provide great service to our tenants," Magnetar said in an e-mailed statement. "Over time, and through our actions, the community will see that our investment objectives and the community's interests are aligned."

The Huber Heights school board didn't see it that way and this year sought to block the tax reassessments. The district gets about half of its \$58.4 million operating budget from property taxes. Budget cuts since 2009 already forced the town's schools to reduce staff by 30 percent, including at least 100 teachers. Art, choir, Advanced Placement and physical education classes have been reduced or canceled while janitors, bus drivers and teachers' aides were laid off. Math scores fell last year, a product of the cuts and new state standards that teachers with limited resources were ordered to adopt, according to Superintendent Susan Gunnell.

Gunnell said she understands from a business perspective what the hedge fund is trying to do.

"We just have to protect what we have," she said. "We've made so many reductions, it's already starting to affect our student achievement and progress."

Cuts Rejected

In a series of hearings since early October, the county auditor's Board of Revision rejected most of the tax cuts requested by Magnetar's property manager. Still, the board granted enough to save

Magnetar \$183,736 next year and cost the schools \$114,676. Even though that's just a fraction of the initial reductions sought, Gunnell isn't celebrating.

"We're not in the clear yet," she said. Next year, values for all the homes will be reappraised in Montgomery County, which encompasses Huber Heights, as part of a regular countywide process.

Less than 300 miles from Huber Heights, Magnetar's executives are focusing on providing opportunities to high school students. They started the Magnetar Youth Investment Academy two years ago to increase financial literacy in the Chicago area.

"Our children are graduating high school and entering a world where it's far too easy to accumulate debt," Alec Litowitz, Magnetar founder and CEO, said in a March statement. "They must be equipped with the information they need to make smart financial decisions."

College Scholarships

Students receive 40 hours of instruction on topics including financial planning, decision-making and money management. At the end of the course, they can compete in a year-long competition, which awards college scholarships to the person or team with the highest-performing stock portfolio at each school. The program doesn't extend to Huber Heights.

Magnetar said in an e-mailed statement that the academy, which is philanthropic and separate from its investments, is "proving to be an excellent way to help students learn about the financial system."

The hedge fund's investments include bonds backed by home loans and financing for energy companies. In 2006 and 2007, Magnetar helped banks create complex securities backed by risky mortgages. At the same time the hedge fund made bets that would profit if the homeowners defaulted. The U.S. Securities and Exchange Commission investigated the deals after housing imploded and has fined some of the banks involved. The government hasn't filed a complaint against Magnetar.

The Dayton area lost 9 percent of its jobs after the housing crash led to the longest recession since the Great Depression. Huber Heights was hard hit, with 50 percent of the public school students now on free or reduced-price lunch, up from 30 percent in 2007.

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