

University of California Board of Regents
University of California
Office of the President
Oakland, CA 94607-9828

March 14, 2023

Dear Board of Regents Chair Leib and Investment Committee Chair Sherman:

We are writing to reiterate our opposition to the University of California's investments in Blackstone Inc. The CIO Office's recent \$4.5 billion investment in Blackstone Real Estate Income Trust (BREIT) — in effect, a bailout of a fund plagued by high redemption requests — cements the University's position as a major driver of the housing affordability crisis.¹ We continue to call on UC to divest from all of its Blackstone holdings, currently valued at over \$7 billion, and in its stead chart a new course that expands truly affordable housing for all Californians.²

The current threat of housing insecurity and displacement facing millions of Californians is disproportionately borne by lower wage workers and low-income households — the majority of whom are Black and Latina/o.³ Households in California need to make approximately \$42 per hour, almost triple the state's minimum wage, to afford a two-bedroom apartment.⁴ This is simply not sustainable, and places millions at risk of losing a roof over their head.

As you know, the United Nations has condemned Blackstone for helping fuel a global housing crisis and singled out its predatory business practices — such as massively inflating rents, implementing heavy fees, and charging tenants for ordinary repairs.⁵ Blackstone even filed to evict tenants after the Center for Disease Control issued a national moratorium on evictions for nonpayment of rent early on during the pandemic.⁶

Blackstone tenants in California have recounted similar predatory practices. In 2021, Blackstone purchased 5,600 apartment units in San Diego County — with capital from a fund partly bankrolled by UC staff retirement assets — making it one of San Diego's largest landlords.⁷ Tenants of these buildings recently traveled to a Regents meeting to give their personal account of what it is like to live in a Blackstone property. They spoke of eight- to nine-percent rent increases, and sustained maintenance neglect, including cockroach infestations and poorly done repairs — experiences Blackstone executives attending the meeting dismissed as “misinformation.”⁸

More pain for low-income Californians lies ahead as federal and state eviction moratoriums are lifted. Blackstone's need to deliver for its investors will create even greater housing insecurity. Head of the company's Americas Real Estate, Nadeem Meghji, recently indicated during an internal company call that “evictions [will] help contribute to Blackstone's future ‘cash-flow growth.’”⁹ Dan Defrancesco at *Business Insider* does not mince words. “...Blackstone is preparing to wage war with tenants who live in buildings it owns either by raising their rent or outright evicting them.”¹⁰

The company's extractive business model is predicated on the gross imbalance between housing supply and demand. There is no other state with a greater housing shortage than California.¹¹ Mr.

Meghji assured investors that BREIT will continue to deliver rising rents and higher cash flow because of a long-term supply shortage.¹² This is also true for its affordable housing portfolio, as relayed by another Blackstone executive. “The national shortage of affordable housing means occupancy rates tend to hover around 100 percent. As a result...returns are enough to satisfy the core-plus expectation of BREIT.”¹³ Contrary to claims Blackstone used to justify pouring millions of dollars into campaigns to kill tenant protection ballot measures, investment returns also rely on a low supply of affordable housing.

UC students will also likely not be spared from these predatory practices. Blackstone’s recent acquisition of American Campus Communities — owner of 166 student housing properties, including at UC Berkeley and UC Irvine — positions the company as the largest owner of student housing in the U.S.¹⁴ In fact, Blackstone predicts high single-digit growth for rents in both its student housing and affordable housing holdings, and boasts of signing student housing leases with 9 percent rent hikes this coming academic year.¹⁵

The University’s massive investment in Blackstone further entrenches its contribution to the state’s housing affordability crisis. UC is already the largest landlord in California, controlling nearly 150,000 beds in university housing, and has a \$11.4 billion real estate portfolio, which includes properties it owns and rents for profit in UC communities.¹⁶ Its failure to build enough housing to accommodate student enrollment and population growth for decades has led to housing shortages and rising rents on and off its campuses.¹⁷ Moreover, UC’s decision to use public private partnerships to build student housing helps explain rent increases the University admits it has difficulty controlling from for-profit developers.¹⁸

As a \$44 billion enterprise, the University of California is no casual observer. Its housing policies — whether through its development activities or investment decisions — reverberate throughout all corners of the state. Hannah Appel, Associate Professor at UCLA, captures it succinctly. “Far from being at the mercy of the housing market, the UC is by any measure a real estate market maker.”¹⁹

We reiterate our call for the University of California to divest from all of its Blackstone holdings. The status quo will only deepen the inequities hurting the very stakeholders the University has a responsibility to protect — UC students, staff, academic staff, faculty and retirees. Imogen Rose-Smith, a former Investment Fellow in the CIO’s Office who served as advisor to the University’s sustainable investment program, calls out the contradiction. “Blackstone might be fixing a few windows. But their ultimate goal is to deliver a return to investors by making their investment as profitable as possible. The system breaks down when that profit comes at the cost of, not in benefit to, the communities to whom the university should be accountable.”²⁰

The University must change course and set high-road standards that can expand access to below-market housing for both UC stakeholders and the communities in which it invests. It should do so both through its investment and its development activities — including through the new real estate limited liability company announced in January that will develop and operate housing on and around UC campuses. A robust high-road development and investment program can help the University achieve investment returns while creating adequate affordable housing for Californians.

To this end, we call on the University of California to take the following actions:

1. Divest from all of its \$7 billion investments in Blackstone holdings through the University of California Retirement Plan and the General Endowment Pool.
2. Invest in and develop, through the new limited liability company, social housing affordable to households of different income levels, including the U.S. Department of Housing and Urban Development's "extremely low" and "very low" Area Median Income limits.
3. Immediately freeze annual rental rates for on- and off-campus UC housing, and all properties it owns through its investment holdings.
4. Commit to not utilize "no fault" evictions of tenants at any UC property.
5. Assess now which of UC's surplus properties, as identified through Executive Order N-06-19 by the California Department of General Services, can be utilized for affordable housing and then act quickly to create new housing opportunities on this land, including social housing.²¹
6. Divest from firms who support, financially or otherwise, policies to limit consumer protections for those who rent.

UC can establish itself as a high-road investor and landlord committed to the creation and preservation of truly affordable housing for UC stakeholders, and for the communities in which it invests — all the while generating robust investment returns for its students, workers and retirees. The time to act is now.

Sincerely,

Kathryn Lybarger, President
AFSCME Local 3299

Stephanie Short, Asst. Director, UC Division
California Nurses Association/NNU

Dr. Lorenzo Gonzalez, President
Committee of Interns & Residents, SEIU

Constance Penley, President
Council of UC Faculty Associations (CUCFA)

Rafael Jaime, President
UAW Local 2685

Neal Sweeney, President
UAW Local 5810

Katie Rodger, Ph.D., President
UC-American Federation of Teachers (AFT)

Dr. Stuart A. Bussey, President/Doug Chiappetta, E.D.
Union of American Physicians and Dentists

Dan Russell, President
UPTE-CWA Local 9119

Alex Niles, President
UC Student Association

Christina Livingston, Executive Statewide Director
Alliance of Californians for Community Empowerment

Cecily Myart-Cruz, President
United Teachers Los Angeles

Richard Marcantonio, Managing Attorney
Public Advocates Inc.

Shanti Singh, Legislative & Communications Director
Tenants Together

Sarah Sherburn-Zimmer, Executive Director
Housing Rights Committee of San Francisco

Ismael Armendariz, Interim President
Oakland Education Association

Ben Grieff, Executive Director
Evolve California

Molly Goldberg, Director
San Francisco Anti-Displacement Coalition

Mai Thao, Political Director
Courage CA

California DSA

Arturo Aguilar, Chairman
Amalgamated Transit Union, CA Conference Board

Debra Grabelle, Executive Director
IFPTE Local 21

Jim Araby, Director of Strategic Campaigns
United Food and Commercial Workers Local 5

Cha Vang, Interim Co-Executive Director
APPis for Civic Empowerment

Nuemi Guzman, Community Housing Advocate Supvr.
Law Foundation of Silicon Valley

Theresa Zamora, California Program Director
Mi Familia Vota

Leah Frances Simon-Weisberg, Chair
Elected Berkeley Rent Board

Berkeley Tenants Union Steering Committee
Berkeley Tenants Union

Favian Gonzalez, Dir. of Community Organizing Strategies
Strategic Actions for a Just Economy (SAJE)

Lian Cheun, Executive Director
Khmer Girls in Action

Council of Community Housing Organizations

Katie Goldstein, Dir. of Housing & Healthcare Campaigns
Center for Popular Democracy

Jim Baker, Executive Director
Private Equity Stakeholder Project

Lew Finfer, Director
Massachusetts Action for Justice

Janine Nkosi, Director of Housing Justice Initiatives
Faith in the Valley

Jess Ahart, Executive Director
Communities United

Paterson McCoy, Executive Director
Action NC

Teresa Quintana, Housing Equity Organizer
Make the Road Connecticut

Donna Massey, President
Arkansas Community Organizations

Andy Romero, Housing Organizer
Make the Road Nevada

Dominique Medina, Co-Executive Director
Fuerte Arts Movement

Churches United for Fair Housing

CASA

cc: Michael V. Drake, UC President
Nathan Brostrom, UC Chief Financial Officer
Jagdeep Singh Bachher, UC Chief Investment Officer
Regents of the University of California

¹ <https://www.fool.com/investing/2023/02/02/blackstones-reit-continues-to-face-massive-redempt/>

² As of June 2022, UC had invested more than \$2.7 billion in various Blackstone funds. With the CIO Office's recent commitment of an additional \$4.5 billion in capital, total investments in Blackstone funds exceed \$7 billion.

³ <https://cepr.net/report/housing-insecurity-by-race-and-place-during-the-pandemic/>

⁴ This wage is calculated by multiplying the HUD 2023 statewide Fair Market Rent by 12 to obtain an annual cost of rental housing. The annual cost is divided by 30% to the determine annual income needed to afford rent at the 30% affordability threshold, and a full-time hourly wage is derived from the annual wage. Because HUD does not publish statewide Fair Market Rents, the 2023 statewide average was found by averaging fair market rents for all counties in California and weighing by the total number of renter households in each county. The number of renter households in each county is from the 2017-2021 American Community Survey. HUD defines affordability as paying no more than 30 percent of gross household income on housing costs.

⁵ <https://www.theguardian.com/us-news/2019/mar/26/blackstone-group-accused-global-housing-crisis-un>

⁶ <https://docs.house.gov/meetings/VC/VC00/20210727/113955/HHRG-117-VC00-Wstate-BakerJ-20210727.pdf>;

<https://pestakeholder.org/news/private-equity-landlords-advance-evictions-during-covid-19-pandemic-2/>

⁷ <https://www.sandiegouniontribune.com/business/story/2021-05-11/blackstone-group-to-buy-66-apartment-complexes-in-san-diego-for-more-than-1-billion>; <https://assets.ctfassets.net/dqx4ywg83raq/3K0fZPG9HRlc3RGPFs6DQa/8295e9221d6b373a6b4d1501bac3165b/384344.pdf>; As of June 30, 2022, UC Retirement Plan (UCRP) held \$104 million in the Blackstone Real Estate Partners IX Fund that sponsored the purchase of the San Diego properties. As of June 30, 2021, UCRP held \$66 million in the fund. <https://www.ucop.edu/investment-office/ucrp-holdings-disclosure-6-30-2022-final.pdf>.

⁸ <https://www.latimes.com/business/story/2023-01-20/university-california-blackstone-real-estate-fund-housing-prices>; Regents of the University of California, Investment Committee Meeting, January 25, 2023.

⁹ <https://www.businessinsider.com/blackstone-increases-evictions-as-exec-predicts-cash-flow-growth-2023-1>

¹⁰ <https://www.businessinsider.com/blackstone-breit-redemptions-real-estate-investing-strategy-2023-2>

¹¹ <https://thehill.com/changing-america/sustainability/infrastructure/3559650-these-are-the-states-where-housing-shortage-is-the-worst/>

¹² <https://www.bloomberg.com/news/articles/2023-01-31/blackstone-s-breit-ready-to-play-offense-with-14-billion?sref=kCxHz370>

¹³ <https://www.perenews.com/real-estates-ugly-stepchild-returns-to-the-spotlight/>

¹⁴ <https://www.yahoo.com/now/blackstone-funds-complete-13-billion-160000564.html>

¹⁵ <https://www.businessinsider.com/blackstone-increases-evictions-as-exec-predicts-cash-flow-growth-2023-1>;

<https://www.ft.com/content/d02a59fb-493a-427a-849a-9acbd576cddf>

¹⁶ The \$11.4 billion real estate portfolio figure adds \$500 million to the real estate holdings figure included in a slide deck presentation on UC Investments Asset Allocations at the UC Regents Investment Committee meeting on January 17, 2023, to reflect UC's additional Blackstone investment announced January 25, 2023; https://www.sfexaminer.com/our_sections/forum/the-high-cost-of-housing-is-a-a-uc-created-crisis/article_76149e18-701e-11ed-bad3-337f34ad12d1.html.

¹⁷ https://www.sfexaminer.com/our_sections/forum/the-high-cost-of-housing-is-a-a-uc-created-crisis/article_76149e18-701e-11ed-bad3-337f34ad12d1.html; <https://www.sfchronicle.com/eastbay/article/UC-Berkeley-s-housing-crisis-is-50-years-in-the-16996100.php>

¹⁸ Remarks made by UC San Diego Chancellor Khosla. "Issuing our own bonds rather than entering into public private partnerships has allowed UC San Diego to keep costs down for our students." California State Assembly Subcommittee No.2 on Education Finance, Informational Hearing, November 8, 2021; Remarks made by UC San Francisco Associate Vice Chancellor Schnnerl explaining why the campus chose not to use a public private partnership as a delivery model for student housing. "The primary reason was to have full control of the rental costs. That is really important to our students, and we are committed to assuring they have the lowest rates possible. There is a risk to that when it is with a for-profit developer." Regents of the University of California, Finance and Capital Strategies Committee, March 15, 2017.

<https://regents.universityofcalifornia.edu/regmeet/mar17/f3.pdf>

¹⁹ https://www.nybooks.com/online/2023/02/08/tenant-debtor-worker-student/?lp_txn_id=1427812

²⁰ https://impactalpha.com/university-of-californias-rescue-of-blackstones-reit-exposes-rot-at-the-core-of-institutional-asset-management/?mc_cid=599bc9d897&mc_eid=eb63c521f7

²¹ DGS identified 50 parcels owned by UC and CSU systems as potentially viable for affordable housing development. In its audit of the efficacy of Executive Order N-06-19, the Auditor of the State of California recommended DGS contact the university systems about potential affordable housing development on these surplus properties. See: <https://www.auditor.ca.gov/reports/2021-114/index.html#QL1>