Are Institutional Investors Taking a Chunk Out of the For-Sale Housing Market?

Housing values have never been higher; over the past few years, as demand for housing has risen and inventory has continued to fall short of demand, housing prices have risen dramatically. Some homes are now earning more for their owners than their jobs: for the first time, the nationwide growth for the average American home value exceeded the inflation-adjusted median pretax income.

Homeownership and housing affordability have long been concerns for Americans, but the undersupplied market, COVID-19 pandemic, inflation and land use policy has caused the cost of housing to rise at a rate that makes entering homeownership exceedingly difficult. Rental costs have increased as well; Redfin reported recently that the average monthly rent in the United States increased 15% year over year to a record high of $1,901 in February 2022.

Although the cause of the affordability crisis varies, purchases by institutional investors or private firms of for-sale and for-rent units to rent or flip to sell for higher prices are potentially making first-time homeownership more challenging, which limits the ability to build wealth.

Examples include:

- In early February 2020, private equity firm Blackstone announced that it acquire Preferred Apartment Communities, a real estate investment trust that owns 44 multifamily communities and about 12,000 housing units in the Southeastern United States, for approximately $6 billion.
- According to a Bloomberg News analysis, tech-based housing companies "are selling thousands of homes to institutional landlords backed by KKR & Co., Cerberus Capital Management, Blackstone Inc., and other large institutions." Transactions are leading to unlisted properties that are snapped up before they even hit the market and are occurring at greater rates in communities of color.

Perhaps an even more concerning trend is that of single-family rental housing or flipping once for-sale housing to for rent. After the 2008 market crash, when foreclosures were high and housing was cheap, the transfer of foreclosed properties to private companies as a capital investment exploded. A *New York Times Magazine* article from March 2020 notes:

> *Strategic Acquisitions was but one of several companies in Los Angeles County, and one of dozens in the United States, that hit on the same idea after the financial crisis: load up on foreclosed properties at a discount of 30 to 50 percent and rent them out. Rather than protecting communities and making it easy for homeowners to restructure bad mortgages or repair their credit after succumbing to predatory loans, the government facilitated the transfer of wealth from people to private-equity firms. By 2016, 95 percent of the distressed mortgages on Fannie Mae and Freddie Mac's books were auctioned off to Wall Street investors without any meaningful stipulations, and private-equity firms had acquired more than 200,000 homes in desirable cities and middle-class suburban neighborhoods, creating a tantalizing new asset class: the single-family rental home. The companies would make money on rising home values while tenants covered the mortgages.*

Unfortunately, some Americans, like those featured in *New York Time Magazine*, end up paying more in rent than a monthly mortgage payment may have been just a short time beforehand.

“Would-be home buyers may be forced to rent the American dream, rather than buy it” was the title of a 60 Minutes segment from March 2022. It featured a young couple who moved to Jacksonville, Fla., hoping to buy their first home. After 18 unsuccessful months and an upcoming 30% increase in rent, the couple begins to realize that the existence of attainable homes is increasingly difficult to find. Cities such as Jacksonville, as well as other Sun Belt metros such as Atlanta and Charlotte, have experienced huge increases in single-family for-rent homes as American’s shifting preferences in the wake of COVID-19 have made these cities highly desirable.

There are certainly some benefits to renting relative to homeownership, but equity in a home has always been a primary vehicle for building and passing on wealth for many American families. Richard Rothstein, author of *The Color of Law: A Forgotten History of How Our Government Segregated America*, relates current socio-economic patterns in race to government policies of the 20th century that blocked U.S. minority populations from attaining homeownership, while granting it to white Americans. White Americans were able to get their foot on the ladder in a way that Black people were not; through homeownership, white Americans were able to build hundreds of thousands of dollars in net-worth over the past century that was denied to Black Americans. A similar, damaging effect could occur to those unable to enter homeownership today.

Some cities are attempting to outbid investors. For example, in December 2022, the Port of Greater Cincinnati Development Authority purchased 194 single-family homes, successfully outbidding several investors hoping to rent the homes out. Its plan is to help local families buy the homes to increase homeownership in the city.

One of the main causes of housing unaffordability and the reason that yield-chasing investors have entered the real estate market is because of the pre-existing housing shortage created by local governments and certain home owners seeking to block new homes from being built. In a June 2021 report, the National Association of REALTORS estimated the U.S. housing inventory gap totaled more than 5.5 million housing units in the last 20 years. In order to fill this gap over the next decade, building would need to increase more than 700,000 units per year, or approximately 60% relative to the pace of housing construction in 2020 of less than 1.3 million units.

In contrast, the National Rental Home Council (NRHC) states that “large companies own approximately 300,000 single-family rental homes, less than 1.5% of the market, and only about 0.2% of the country’s total housing stock.” According to executive director David Howard, single-family rentals also offer more housing opportunities to those who may not be able to afford to purchase a home.

"Why should it be the case that the only people who can live in those neighborhoods are the people who can afford to buy, who have the wealth and the circumstances to come up with a 20% down payment and to purchase a home in those neighborhoods?" Howard told the ***Charlotte Observer***.

A **recent NRHC blog post** also points to a transition toward single-family built-for-rent properties to help provide more diverse housing options in neighborhoods and communities across the country, which is part of the solution toward creating housing for all.

To help allow more housing to be built, cities and states around the country are looking at their land use policies and zoning codes, and retooling them to promote housing development. The city of Minneapolis and the state of Oregon, for example, "banned" single-family zoning — or, more aptly put allowed non-single-family housing on land previously zoned for single-family only. This policy change allows for 'missing middle housing' —e.g., duplexes, triplexes and townhouses — that may be more affordable and provide a critical housing need for those unable to afford a single-family home.

California has followed suit with Senate Bill 9. SB 9 streamlines the process to subdivide lots and allows up to four units on current single-family parcels. The bill also attempts to benefit homeowners and not institutional investors by imposing an owner-occupancy requirement as a condition of ministerial approval (i.e., allowing projects to bypass public hearings and the California Environmental Quality Act). The City of Sacramento has taken an additional by including policy in its 2040 General Plan Update to streamline the approval of more housing.

Allowing more housing types is one avenue toward solving the housing affordability crisis. Other land use and housing policy that artificially raises housing costs — such as minimum lot sizes, overly stringent construction, design and site requirements and processes, and even some environmental controls — raise the cost to build homes where the cost potentially outweighs to benefits.

It is becoming increasingly important that local community and decision makers tackle housing insecurity and unaffordability, and protect attainable homeownership for all. Homeownership has always been a key part of the American Dream; stable, safe housing is a foundational requirement for a thriving community and people's livelihoods.

Learn more about promoting and developing a greater variety of housing through NAHB's Creating Housing for All Toolkit.

For more information on land use issues, contact Nicholas Julian.