Investors in the Housing Market

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Keys to Opportunity in the Housing Market, October 2, 2023

*aThe views expressed in this presentation are solely those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.
Are Investors Good or Bad?

Based on “The Pros and Cons of Housing Market Investors” in *Economic Insights*, 2023 - Q2, FRB Philadelphia

Who or what is a housing market investor?

- People/entities who do not live in homes they own
- Have financial motivations
Investors can help or harm the housing market.

**Buying & selling**
- **Destabilizing** - buying and selling cyclically
- **Stabilizing** - buying and selling countercyclically
- **Market-makers** - middlemen who facilitate trade

**Owning**
- **Suppliers** - Providing housing services
- **Deniers** - Removing capacity and extracting rents
Whether and How to Regulate

- Some regulatory tools
  - Transaction taxes
  - Property taxes
  - Capital gains taxes
  - Mortgage regulations and pricing

- Some implementation challenges
  - Need to differentiate between good and bad investors
  - Need to target investors without:
    1. being too easy to “game,” and
    2. harming good investors or owner-occupiers
Classification can help to understand behaviors and impact.

<table>
<thead>
<tr>
<th>Housing Market Investors</th>
<th>By Function</th>
<th>By Identity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landlords</td>
<td>Flippers</td>
<td>Individuals</td>
</tr>
<tr>
<td>rehabilitaters</td>
<td></td>
<td>few properties</td>
</tr>
<tr>
<td>middlemen</td>
<td></td>
<td>many properties</td>
</tr>
<tr>
<td>pure speculators</td>
<td></td>
<td>limited liability</td>
</tr>
<tr>
<td>Businesses</td>
<td></td>
<td>other corporations</td>
</tr>
</tbody>
</table>
Taxonomy In Action

I use real estate data of
- transactions registers (transfers and liens), and
- tax assessment records (owner of record for property taxes)
to classify investors by name and number of properties held.

• Steps:
  • Disambiguate individual names
  • Compare property and home (mailing) addresses
  • Count simultaneous property holdings

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1 Data provided to FRS under license from CoreLogic Data Solutions
Activity Over Time by Type of Buyer

Fraction of Purchases by Buyer Class.

Note: 4-Metro average. Source: Author’s calculations using data from CoreLogic Data Solutions.
Investor Activity Over Time and Location

Fraction of Purchases by Investors (All Classes).

Note: Includes individuals, LLCs, and Corps. Source: Author's calculations using data from CoreLogic Data Solutions.
Activity by Size of Individual Investor

Fraction of Purchases by Individual Investors, by Ownership Scale.

Note: 4-Metro average. Source: Author’s calculations using data from CoreLogic Data Solutions.
Mortgage Use By Investor Type

Fraction of Purchases Financed With Mortgage.

Note: 4-Metro average. Source: Author’s calculations using data from CoreLogic Data Solutions.
Why Study Investors?

We need to understand investors’ behaviors in order to:

- Evaluate their effects on the market.
- Effectively implement policies where appropriate.

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Federal Reserve Community Development Research Seminar Series

Keys to Opportunity in the Housing Market: How Financial Models Advance and Constrain Low-Income Communities

October 2, 2023

Brian An, PhD
Assistant Professor of Public Policy & Finance
Director of Master of Science in Public Policy
Adjunct Assistant Professor of City & Regional Planning
Georgia Tech
What We Know and Don’t Know (Evidence-based)
Institutional investors are/cause ________________

• Location and Property Characteristics
  • Own 2-3% of single-family rental housing stock nationwide
  • Concentrated in certain metros (e.g., Atlanta, Jacksonville, Charlotte, Phoenix)
  • Mixed findings but more evidence on concentration in minority and lower-income neighborhoods
  • Purchase newer but cheaper properties (or at a discounted price)

• Impacts on Communities
  • Shrink housing availability for owner-occupancy
  • Raise housing price, making it harder for people to buy home
  • Increase the supply of rental housing
  • Mixed results on rents increase and lower crimes
  • Enhance neighborhood access for renters (White)
  • Reduce homeownership and property tax bills
  • Dearth of evidence on building permits and code violations
The market entry, growth, and spatial concentration of large, institutional investors explains 25% of the weakened homeownership in Atlanta metro during 2007-2016.

Black/African-American families experienced a 3 times larger effect (An, 2023).
Methodological Innovations in Measurement

- Open-source natural language processing software (OpenRefine)
- Without coding knowledge even for a single line
- Just with publicly available county tax parcel/assessor data

An et al. (2023) “Who Owns America? A Methodology for Identifying Landlords’ Ownership Scale and the Implications for Targeted Code Enforcement”
Policy Approaches

• Ordinances or incentives for greater property ownership transparency
  • Rental registry and ownership
  • Certification: building codes and rental inspections
  • Business licensure

• Broad-based tenant protections
  • State-local landlord-tenant legal regime

• Restrictions on purchases vs. Holding them to higher standards
Monday, October 2, 2023

Single-Family Rental

Federal Reserve System's Community Development Seminar
Keys to Opportunity in the Housing Market

Laurie Goodman
Institute Fellow, Housing Finance Policy Center
Urban Institute
Mega Investors and the SFR Market: A Few Facts

- The 32 mega investors, defined as those who own at least 1000 properties and operate in at least 3 markets, comprise about 3% of all single-family rentals.
  - However, the mega investors are highly concentrated. They own 27% of the single-family rentals in Atlanta, 22% in Jacksonville, 20% in Charlotte and 16% in Tampa and 15% in Phoenix.

- Mega investors tend to own newer properties in the markets in which they were concentrated—year built: 1993 versus 1979 for all rentals.

- Institutional SFR properties tend to be larger than other single-family rentals. 37% of SFR properties nationwide had 2 or fewer bedrooms, versus 4 percent for the mega operators.
Mega Investors and the SFR Market: A Few Facts

- Institutional investors tend to target neighborhoods with above average renter income
  - Median renter income of the top 20 MSA where the mega investors are the most active was $45,102. It was $53,361 in the census tracts within the MSA where the mega operators are the most active.

- Mega SFR operators generally operate in neighborhoods with a racial composition that mirrors the MSAs in which they are located; they tend to be marginally overrepresented in Black neighborhoods and marginally underrepresented in Latino neighborhoods. This may reflect a high initial share of distressed sales.

- Mega SFR operators tend to target homes that need repair. Invitation Homes spent $35K repairing each home they purchased in 2021, American Home for rent spent $20-40K; the average new homeowner spends about $6300.

- Amherst has estimated that 85% of its renters would not qualify for a mortgage, due to credit score or income constraints.
Mega Investor Behavior

- Impact on home prices and rents in the area:
  - Mega investors tend to target fast growing areas, for better returns. These are areas in which prices and rents would have increased more average. Thus, it is hard to determine how much they have actually contributed to home price appreciation or rent appreciation in the area.

- Management of delinquent tenants
  - Mega investors tend to send out more eviction notices as a rent collection technique. It is unclear if they evict more.

- Screening:
  - Mega investors tend to rely more heavily on screening algorithms, rather than gut feeling. They will check previous evictions, criminal history and often credit score.

- The tenant experience:
  - There is no data on whether larger landlords do a better job on maintenance. They tend to rely on in-house property management operations, have staff available 24/7, and have incorporated technology is the maintenance process. However, the lack of a personal connection may make it harder for the landlord to understand the tenants needs, and for the tenant to hold the landlord accountable.
Mega Investors are more responsive to changes in market rents

- Average Price Increases Since 2015:
  - Mega Investors: 5.2%
  - RentRange 3-bedroom: 4.7%
  - RentRange 4-bedroom: 4.4%

Source: August 2023 DBRS Single-Family Rental Research Performance Summary Report
Policy Implications

- Require rental registries, with transparency as to ultimate ownership
- Larger investors, because of their scale, can more easily do certain items to improve the tenant experience than smaller investors:
  - Rent reporting to credit bureaus
  - Accept housing choice vouchers
  - Accept security deposit insurance in lieu of security deposits
  - Disclose fees in a more transparent manner before the borrower signs a lease
  - Give notice to tenants prior to an eviction filing
- Improve renovation financing for owner-occupants