

# Policy & Practice

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## Mitigating the Impacts of Institutional Investors in the Single-Family Housing Market

Although many factors affect housing supply and affordability, the increased presence of institutional investors in many markets has garnered increasing attention from advocates, researchers, the media, and policymakers in recent years. Institutional investors are limited liability companies or other entities that purchase large volumes of residential properties, often sight unseen and with all-cash offers. This issue of *Policy & Practice* highlights research on the impact of institutional investors in the single-family housing market and provides an overview of state and local strategies to mitigate the negative impacts of institutional investment on families and neighborhoods. Although this article focuses on the impacts on the single-family housing market, institutional investors also play a growing role in the market for other types of housing, including manufactured homes and multifamily properties.

### Research Insights

Home purchases by investors have garnered national attention and concern, particularly as the country faces a growing housing supply shortage and rising rents. A portion of investors are classified as institutional investors, which generally describe single, nonindividual entities—such as limited liability companies (LLCs), limited liability partnerships (LLPs), and real estate investment trusts (REITs)—that have portfolios of 1,000 or more housing units.<sup>1</sup>

Data from CoreLogic show that roughly one-quarter of single-family home purchases during

the pandemic were made by investors. The driving forces behind that surge in investor purchases were small investors (who own fewer than 10 properties) and medium investors (who own 11 to 100 properties).<sup>2</sup> CoreLogic data show that institutional investors purchased 3 percent of homes sold in 2021, a small figure in the overall market but three times their typical share in prior years.<sup>3</sup> Although still a relatively small component of the overall market, the increased presence of institutional investors in the housing market has led to considerable attention from researchers, advocates, and policymakers.

A large investor presence is often associated with lower rates of homeownership,<sup>4</sup> rapid price escalations,<sup>5</sup> and higher eviction rates of tenants.<sup>6</sup> Investors tend to target undervalued single-family homes, which, due to a history of redlining and segregation, often means that single-family rentals become concentrated in neighborhoods with higher shares of low-income residents and residents of color.<sup>7</sup> Investor activity reduces the inventory of homes available for would-be homebuyers because investors are able to outcompete individuals and families.<sup>8</sup> Researchers have observed declines in the number of homeowners and homeownership rates in areas with high investor activity.<sup>9</sup> And once these investors rent out purchases, research finds that investors with larger portfolios are more likely to file and execute evictions than small- or medium-sized landlords.<sup>10</sup>

Whereas media attention has focused on the negative impacts of institutional investors in housing markets, some aspects of institutional investment could enhance rental housing supply, especially when investors build new single-family homes to rent. Build-to-rent is a growing segment of new single-family housing supply, with approximately 81,000 of these homes started during 2022, up 26 percent from 2021.<sup>11</sup> Although this uptick in supply does not come close to meeting the demand, growth in single-family rentals from new construction could potentially increase access to neighborhoods well suited to meeting the needs of families with children, including families living in poverty.<sup>12</sup>

A baseline level of investor activity has long been present in the single-family housing market, but increased activity from institutional investors is associated with negative effects on renters' housing stability and on households' ability to move into homeownership. It is important that state and local governments take action to mitigate the impacts of increasing activity of institutional investors in many markets.

Although this article focuses on the single-family housing market, institutional investors also play a growing role in the market for other types of housing, including manufactured homes and multifamily properties. For example, stakeholders have raised concerns about investor purchases of manufactured housing communities (MHCs), which have long been a source of unsubsidized affordable housing. Among other reasons, many existing MHCs are attractive investments because they are charging below-market rents that can be raised and because manufactured homes cannot be moved cheaply or easily, despite their common mischaracterization as 'mobile homes.'

### **Innovative Policies and Practices**

This section highlights some innovative steps that state and local governments have taken to address the negative impacts of institutional investors, including preserving local ownership of single-family homes, improving transparency, and increasing protections for renters.

**Purchase single-family homes and other rental properties before investors can.** The best way to break the cycle of investor purchases is to equip public agencies and nonprofits to buy single-family homes before investors can. In Cincinnati, Ohio, the Port of Greater Cincinnati Development Authority recently purchased 194 homes in a foreclosure auction.<sup>13</sup> The Port of Greater Cincinnati Development Authority outbid 12 other investors to purchase the homes. Community land trusts, such as the Champlain Land Trust in Burlington, Vermont, can purchase land and maintain the long-term affordability of housing on that land.<sup>14</sup> Not only do policies and actions like these preserve local ownership of properties, but they can also keep rents more affordable for current tenants and put them on the pathway to homeownership.

### **Increase transparency and accountability.**

State and local governments can also use transparency and accountability to inform policymaking and encourage large landlords, including institutional investors, to maintain the quality of the housing stock.

For example, the Minneapolis Federal Reserve Bank has a property data tool that shows the concentration of investor-owned properties by census tract or at the city/township level.<sup>15</sup> Expanding this database to include more geographies across the country could enable local jurisdictions to provide more transparency on investor ownership and help local policymakers make informed decisions concerning the ramifications of investor-owned properties. Public access to these data could also help tenants, advocates, and others to hold institutional investors accountable when issues arise within their portfolios.

In 2019, the state of New York passed State Tax Law 1409, which requires the disclosure of names and business addresses of all owners of an LLC before the property can be transferred from one party to another in the recording of the deed. New York City instituted a similar policy in 2019 with the enactment of New York Administrative Code 11-2105.

Local jurisdictions can also adopt policies aimed directly at improving the quality of single-family rental properties, regardless of who owns them. In November 2022, the New Orleans City Council passed the Healthy Homes program, which requires a registry of all rental properties in the city and sets minimum standards the rental units must maintain.<sup>16</sup> In addition, this law provides tenant protections from landlord retaliation for filing claims that a property needs to be repaired.

**Enact more robust tenant protections.** Institutional investors are often more active in cities and states with weak tenant protections because it is much easier to evict tenants or evade obligations to maintain decent housing quality.<sup>17</sup> Examples of tenant protections include good-cause eviction, source of income protections, and giving adequate notice before terminating the lease or raising rent. Several cities, including Kansas City, Missouri, have recently enacted tenants' bills of rights that provide protections for tenants and outline available resources.<sup>18</sup> Although this action is not focused specifically on units owned by institutional investors, enacting more robust tenant protections could help mitigate or prevent actions taken by corporate landlords that increase tenants' housing instability.

### **Connecting to the U.S. Department of Housing and Urban Development's Efforts**

In May 2022, the Biden-Harris Administration announced a new Housing Supply Action Plan that includes initiatives to ensure that more government-

owned supply of homes and other housing go to owners who will live in them or nonprofits who will rehab them, not to large institutional investors.<sup>19</sup> As a result, 50 percent of mortgage notes in subsequent Federal Housing Administration (FHA) note sales have been sold to mission-driven nonprofit organizations.<sup>20</sup> FHA has also created a new, exclusive opportunity for owner-occupants and mission-driven organizations to purchase foreclosed homes.<sup>21</sup> The FHA continues to evaluate the success of these programs and consider enhancements that would make it easier for owner-occupants to purchase more of these properties. HUD also published an issue of *Evidence Matters* on the topic of institutional investors that includes a research roundup and local case studies.<sup>22</sup>

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## **Endnotes**

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