



Institutional Investment in the Housing Market

Throughout 2021, the housing market set record after record, regarding the percentage of homes being purchased by institutional investors. After hitting a record high of 18.4% of homes being purchase by investors in Q4 of 2021, the number reached the highest *monthly* percentage, in at least a decade, with 33% percent of homes being purchased by investors in January 2022¹.

The increase of institutional investors, combined with the inadequate housing supply cultivated over the last decade, has contributed to an unparalleled increase in housing prices in the U.S. and resulted in challenges for first time home buyers, unable to contend with investment firms' access to capital.

Such realities bring into question the accessibility of housing ownership across the U.S. for younger, working, middle class segments, potentially threatening one of the most important ways for Americans to build wealth².

How did we get here?

The 2008 housing market crash initially piqued the interest of institutional investors, introducing an opportunity for firms to buy up empty, foreclosed homes for rent. As investors found there was money to be made by “professionalizing” the rental market, traditionally run by local landlords and mom & pop investors, the trend only became more widespread over the last decade³.

Investor purchase of homes has only been exacerbated by the pandemic, and when accompanied by the inadequate housing supply and rocky economic outlook, the trend is only anticipated to increase.

What types of communities do investors target?

While communities of all types across the U.S. have been targeted by institutional investors, these groups have a heavy presence in markets that have experienced the highest housing price spikes in the country (e.g., Phoenix, Las Vegas, Dallas)⁴ and in addition to the surrounding, affluent suburbs in these areas. Communities with limited supply are particularly targeted.

While suburbs across the country have sought to implement strict standards to maintain the quality and longevity of development in communities, certain standards have limited competition in the housing market, by decreasing supply and the rate of construction in communities.

“In places where regulation limits new apartment construction, acquiring existing buildings is less risky than trying to build new rental housing,” Jenny Schuetz, Brookings Institute⁵.

Adequate housing supply is less attractive for institutional investors that benefit from the lack of supply.

“We look to purchase homes in markets that we expect to exhibit lower new supply, stronger job, and household formation growth and superior [net operating income] growth relative to the broader U.S. housing and rental market”- Invitation Homes' SEC filing.

Institutional investors target markets with strict controls on new construction, as investors' easy access to capital allows them to purchase the scarce commodity with cash offers⁶.

¹ [Business Insider: Investors Bought 33% of U.S. Homes for Sale in January 4/14/2022](#)

² [Axios: Big Investors are Hogging American Homes 2/18/2022](#)

³ [The Atlantic: When Wall Street is your Landlord 2/13/2019](#)

⁴ [Axios: Big Investors are Hogging American Homes 2/18/2022](#)

⁵ [California YIMBY: Institutional Investors in California Housing Markets 2/24/2021](#)

⁶ [California YIMBY: Institutional Investors in California Housing Markets 2/24/2021](#)



What are Communities Doing?

Moratorium on Renting a Property

What: Require owners to own property for 'X number of years' before leasing it. Such action can theoretically discourage investors since they cannot drive profit immediately.

Cases:

1. **Charlotte, NC (Potters Glen HOA):** Request any new home buyer to wait two years before renting it out. Since the adoption in 2019, property records show the pace of investor purchases has dropped by more than half ⁷.
 2. **Walkertown, NC HOA (Whitehall Village Master Homeowners Association):** HOA is amending covenants to require buyers to live in the home or leave it vacant for at least 6 months before renting it out ⁸.
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Additional Rental Restrictions

What:

1. Limit the % of homes to be rented in an HOA or limit the total number.
2. Prohibit short term rentals within communities.
3. Limit rentals by single entity (requires LLC transparency).
4. Require rental applications to be submitted.
5. Completely ban leases/ short term leases (via a zoning requirement)

Cases:

1. **Newark, NJ Mayor Baraka:** Proposed legislation aimed at preventing steep rent increases and blanket policy to regulate institutional ownership⁹
2. **Florida, Arizona, North Carolina, Texas:** 30% of more than 1,000 HOA documents in 21 counties in these 4 states include leasing and usage restrictions, including short term & long-term rental restrictions. This is an increase of 21% in the same counties from 2016-2018¹⁰

Note: Rental restrictions can be deemed discriminatory and can hurt segments of the population in need of rental housing.

Banning Solicitation of Homeowners

What: Restrict door to door solicitation by investors making offers to homeowners. In many communities, investors are knocking on doors (5-10 times a day) with offers to purchase homes¹¹.

Case:

1. **Newark, NJ Mayor Baraka:** Proposed to make it illegal for people to solicit homeowners for the purchase of their home.
2. **Oregon:** The State banned "love letters" from buyers to homeowners, a popular tactic by institutional investors.¹² **Note:** This recently was suspended by a judge determining this is impeded first amendment rights by restricting free speech too broadly.

⁷ [The Washington Post: Corporate Landlords are Gobbling up U.S. Suburbs 3/31/2022](#)

⁸ [New York Times: Why the Road is Getting even Rockier for First Time Home Buyers 4/23/2022](#)

⁹ [Business Insider: Real-Estate Investors have been Snatching Up Homes 5/7/2022](#)

¹⁰ [Lawyers Blog: Homeowner Associations Push Back Rental Investors 5/10/2022](#)

¹¹ [CBS News: Newark Mayor Barak Introduced Proposals Designed to Stop Investors from Buying Homes 5/4/2022](#)

¹² [Money: Oregon is about to Ban a Popular Homebuyer Bidding War Tactic 12/22/2021](#)



Zoning/ Land Use Policy to Increase Housing Supply

What: Retool land use and zoning codes to increase housing development¹³. Institutional investors target areas of low new supply, with strong job formation and household growth. Many suburbs fit this bill, with more restrictive development standards.

Cases:

1. **State of California:** Passed legislation to allow two-unit buildings on previously single unit zoned lots to increase density in neighborhoods¹⁴. The legislation is intended to bring an influx of housing options to the market.
2. **Arlington, Massachusetts:** Proposed density bonuses for developers looking to develop attainable, denser housing projects in the downtown.
3. **Buffalo NY, Hartford, CT:** These cities have reduced minimum off-street parking requirements for denser residential developments, which often increase project costs and create inefficient use of space.¹⁵

Note: This is not a quick fix and will take years to address the shortage that has been accumulating over decades in the U.S. A wide variety of additional local and state level strategies exist to address the housing supply.

Tax/Financial Incentives

What:

1. Impose increased taxes on single family rentals.
2. Institute higher tax for homes sold within a period after buying (to prevent flipping by short term investors).
3. Create financial incentive to sell house to owner occupied buyer, rather than investor.

Cases:

1. **Canada:** Canada instituted higher tax for home sold within a year after buying them¹⁶; Dallas leaders are exploring similar limits to investor purchases.
2. **State of California:** Introduced a bill to discourage flipping of properties by short term investors by adding a tax on profits from sales that occur within three years of the purchase¹⁷.

Note: Need to differentiate between investor properties and owner-occupied properties with these options, which may be difficult. Additionally, tax incentives of this nature do not solve supply issues.

Ban of Foreign Investment

What: Based on Canada's recent ban on foreign investment in housing, Dallas is exploring what this would look like as well.

Cases:

1. **Canada** announced ban on *foreign* investors from buying homes in the country for two years to cool the market¹⁸.
2. **Dallas, TX** is considering local legislation to ban foreign investment in its housing market as well.

Note: Investment exclusions could prove discriminatory, as differentiating between large institutional investors and small-time landlords is difficult and could just restrict small time landlords from investing in property.

¹³ [National Association of Home Builders: Are Institutional Investors... 4/28/2022](#)

¹⁴ [Business Insider: Wall Street Loves the Housing Crisis 9/8/2021](#)

¹⁵ [Urban Institute: How Communities are Rethinking Zoning to Improve Housing... 6/12/2019](#)

¹⁶ [Business Insider: Real-Estate Investors have been Snatching Up Homes 5/7/2022](#)

¹⁷ [Business Insider: Real-Estate Investors have been Snatching Up Homes 5/7/2022](#)

¹⁸ [Business Insider: Real-Estate Investors have been Snatching Up Homes 5/7/2022](#)



Additional Efforts:

Government Involvement in Purchasing Housing Supply

1. **Case:** The Port of Greater Cincinnati Development Authority (Laura Brenner CEO) paid \$14.5 M for nearly 200 properties from out of state landlord to renovate and sell back to Cincinnati residents with mortgage counseling. Outbid 13 other investment firms.

Deed Restriction to City-Owned & Land Bank Properties

2. **Case:** Newark, NJ is proposing City Owned & Land Bank properties be reserved for attainable residential opportunities.

LLC Transparency

3. Increase transparency of LLCs, to prevent firms from using multiple LLC names to bypass HOA restrictions.

Expedite FHA Loan Applications (Federal/ State Issue)

4. Often buyers needing to borrow money using Federal Housing Administration loans are at disadvantage competing with investors, due to slow turnaround time of the FHA paperwork¹⁹

Considerations when Exploring Solutions:

Many institutional investors refer to any rental restriction as “prejudicial, discriminatory, and misaligned with the concept of fair housing,²⁰ and large-scale single-family rentals provide opportunities to individuals to live in safe areas with good schools that, they otherwise would not be able to afford if purchasing a home. This is a difficult argument as rental prices surge and exceed a monthly mortgage payment.

Groups also suggest that investment by such firms provide long- term stability to the market, filling the gap in rental properties, as small landlords have been forced to exit throughout the pandemic.

¹⁹ [Slate: Investment Firms Aren't Buying All the Houses. But They Are Buying the Most Important Ones. 6/19/2021](#)

²⁰ [The Washington Post: Corporate Landlords are Gobbling up U.S. Suburbs 3/31/2022](#)



Additional Articles:

[Axios: Big Investors are Hogging American Homes 2-18-2022](#)

[Business Insider: Investors Bought 33% of U.S. Homes for Sale in January 4/14/2022](#)

[Business Insider: Real-Estate Investors have been Snatching Up Homes 5/7/2022](#)

[Business Insider: Suburbia is standing up to Wall Street investors... 4/21/2022](#)

[Business Insider: Wall Street Loves the Housing Crisis 9/8/2021](#)

[CBS News: Newark Mayor Barak Introduced Proposals Designed to Stop Investors from Buying Homes and Turning them into Rentals 5/4/2022](#)

[Lawyers Blog: Homeowner Associations Push Back Rental Investors 5/10/2022](#)

[Money: Oregon is about to Ban a Popular Homebuyer Bidding War Tactic 12/22/2021](#)

[Nashville Business Journal: House Money—Institutional Investors Squeeze the Market, the Cost of Rising Rents & More 2-22-2022](#)

[National Association of Home Builders: Are Institutional Investors... 4/28/2022](#)

[California YIMBY: Institutional Investors in California Housing Markets 2/24/2021](#)

[Realtor Magazine: Investors Swoop in to Buy Up Homes 2-17-2022](#)

[Reuters: Selling Out- America's Landlords, Moving In- Big Investors 7-29-2021](#)

[Slate: Investment Firms Aren't Buying All the Houses. But They Are Buying the Most Important Ones. 6/19/2021](#)

[The Atlantic: When Wall Street is your Landlord 2/13/2019](#)

[The New York Times: A \\$60 Billion Housing Grab by Wall Street 3/4/2020](#)

[The New York Times: Why the Road is Getting Even Rockier for First-Time Home Buyers April 23, 2022](#)

[The Real Deal: Dallas Considers Restrictions on Real Estate Investors 5/02/2022](#)

[The Washington Post: Corporate Landlords are Gobbling up U.S. Suburbs 3/31/2022](#)

[Urban Institute: How Communities are Rethinking Zoning to Improve Housing... 6/12/2019](#)

[Wall Street Journal: Cincinnati Agency Buys Nearly 200 Rental Homes, Thwarting Private Investors 1/18/2022](#)