

Investors in the Housing Market

Kyle Mangum

Federal Reserve Bank of Philadelphia^a

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

Are Investors Good or Bad?

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.

Housing Market Investors			
<i>By Function</i>		<i>By Identity</i>	
<i>Landlords</i>	<i>Flippers</i>	<i>Individuals</i>	<i>Businesses</i>
	rehabilitators middlemen pure speculators	few properties many properties	limited liability other corporations

I use real estate data¹ 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.

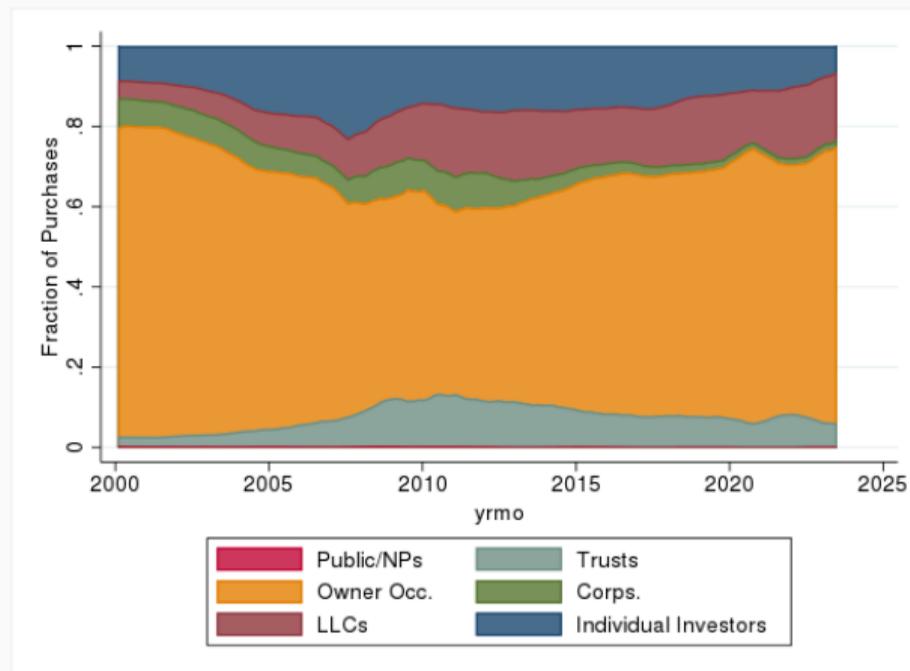
- Steps:

- Disambiguate individual names
- Compare property and home (mailing) addresses
- Count simultaneous property holdings

¹Data provided to FRS under license from CoreLogic Data Solutions

Activity Over Time by Type of Buyer

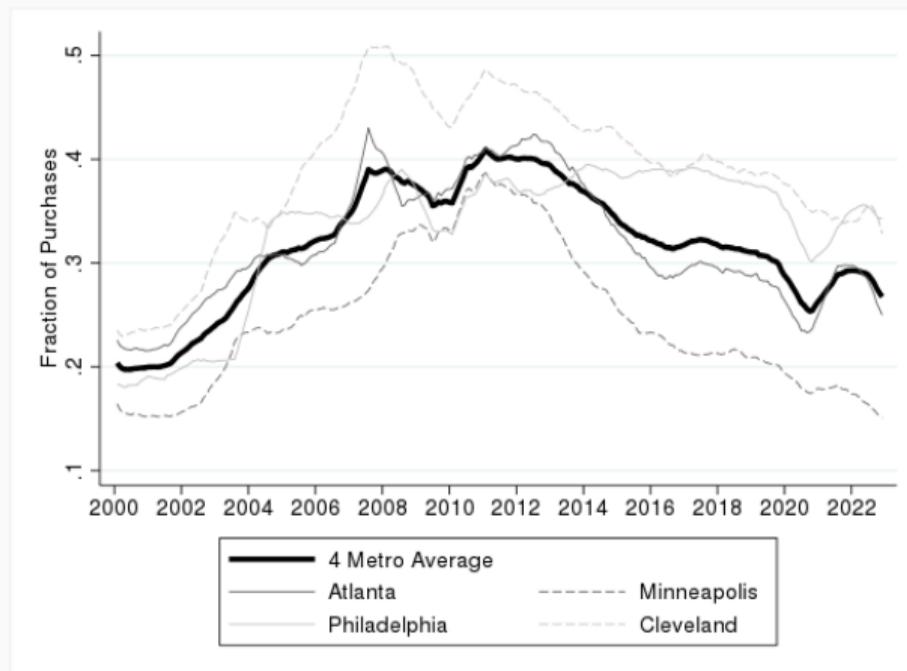
Fraction of Purchases by Buyer Class.



Note: 4-Metro average. Source: Author's calculations using data from CoreLogic Data Solutions.

Investor Activity Over Time and Location

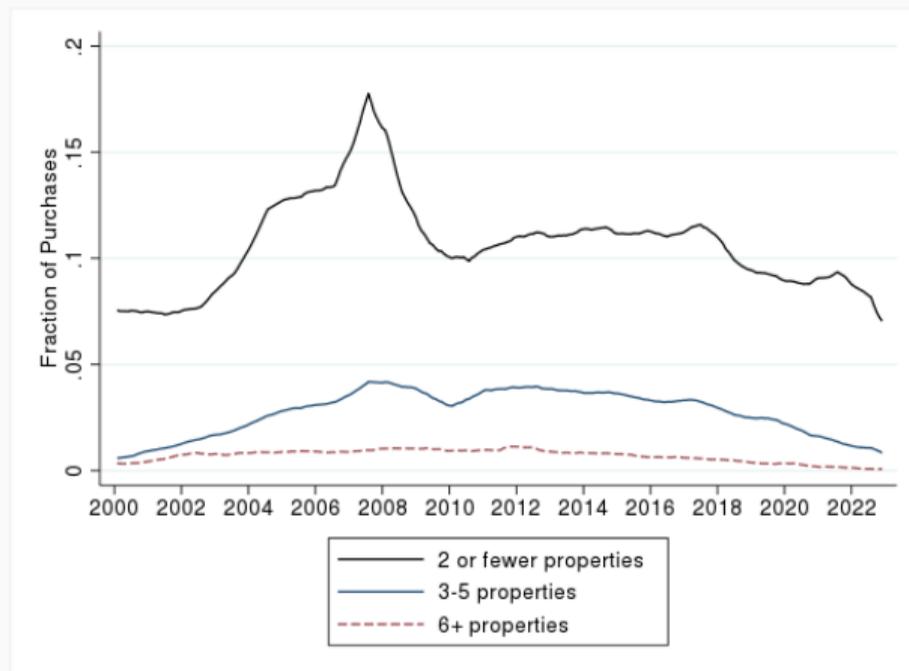
Fraction of Purchases by Investors (All Classes).



Note: Includes individuals, LLCs, and Corps. Source: Author's calculations using data from CoreLogic Data Solutions.

Activity by Size of Individual Investor

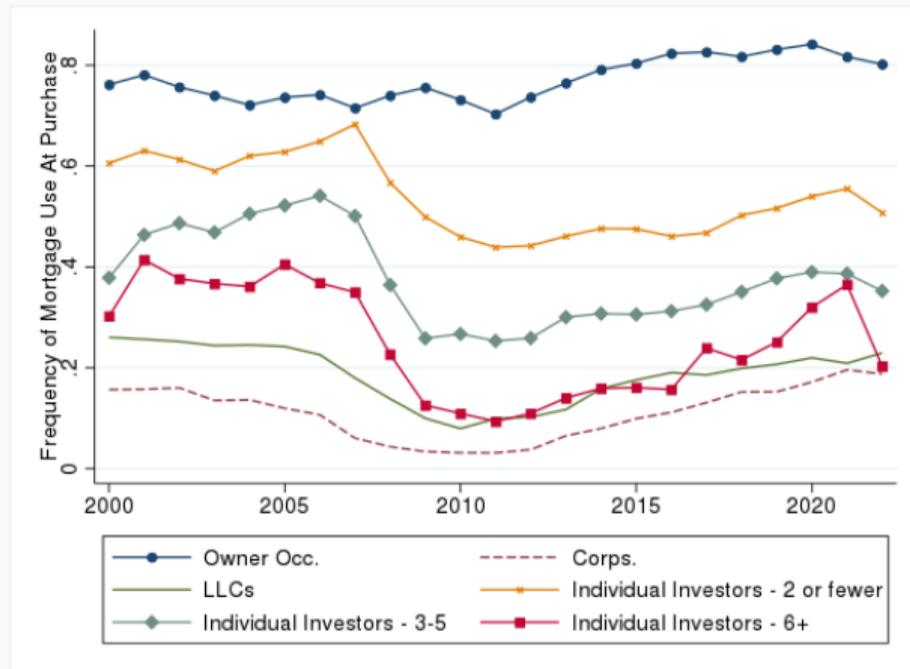
Fraction of Purchases by Individual Investors, by Ownership Scale.



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.

`kyle.mangum@phil.frb.org`

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

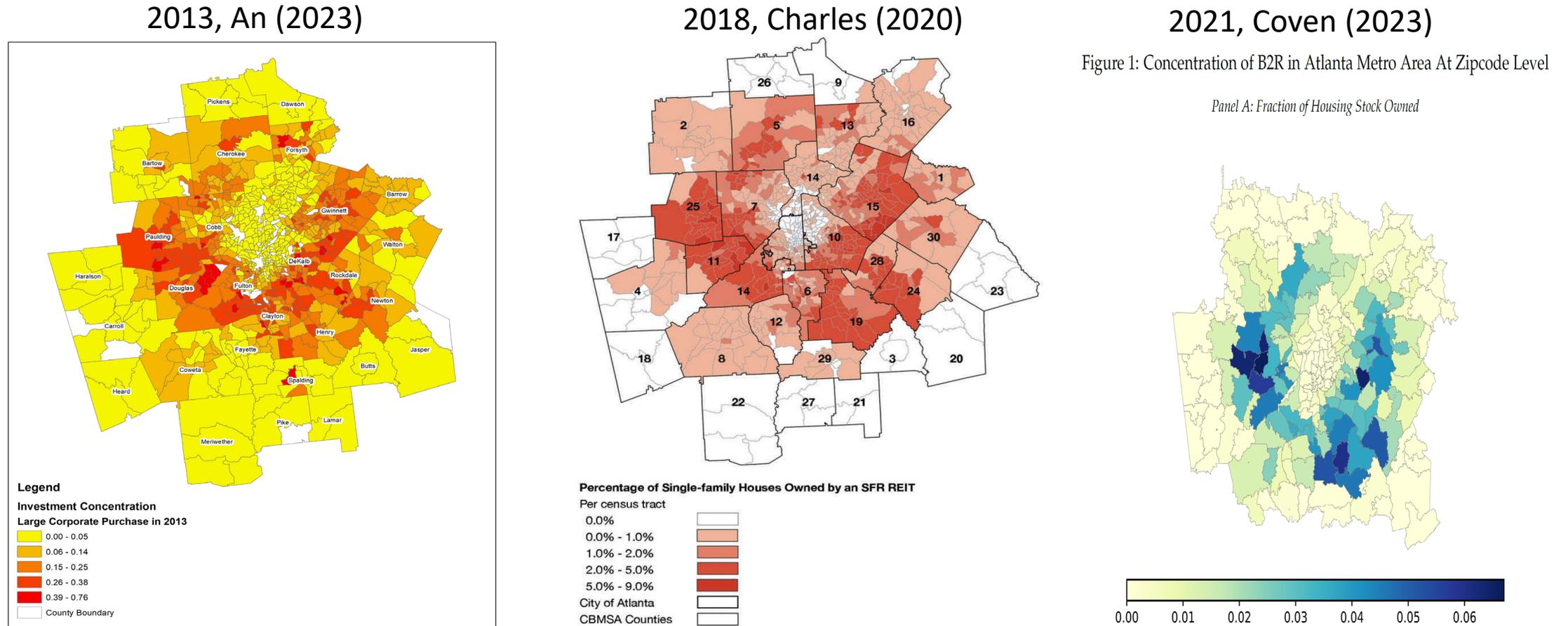
Georgia Tech

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

Highly Localized Impact of Institutional Investors



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

Cluster & Edit column "OwnerandAdd"

This feature helps you find groups of different cell values that might be alternative representations of the same thing. For example, the two strings "New York" and "new york" are very likely to refer to the same concept and just have capitalization differences, and "Gödel" and "Godel" probably refer to the same person. [Find out more...](#)

Method | key collision | Keying Function | metaphone3 | 15884 clusters filtered from 22972 total

COLLEGE PARK GA 30349 (1 rows)

- SMITH CASSANDRA, 170 ABENBERG CT, UNION CITY GA 30291 (1 rows)
- SMITH CASSANDRA, 5960 AVENUE OF REDWOODS, ATLANTA GA 30349 (1 rows)

7 10 • EIGHT PUPPIES MANAGEMENT LLC, 123 NE 2ND ST APT 5, OKLAHOMA CITY OK 73104 (3 rows) EIGHT PUPPIES MANAGEMENT LLC

- EIGHT PUPPIES MANAGEMENT LLC, 123 NE 2ND ST # 202, OKLAHOMA CITY OK 73104 (2 rows)
- EIGHT PUPPIES MANAGEMENT LLC, 123 NE 2ND ST APT 202, OKLAHOMA CITY OK 73104 (1 rows)
- EIGHT PUPPIES MANAGEMENT LLC, 123 NE 2ND ST APT 202, OKLAHOMA CITY OK 73104 (1 rows)
- EIGHT PUPPIES MANAGEMENT LLC, 123 NE 2ND ST SUITE 202, OKLAHOMA CITY OK 73104 (1 rows)
- EIGHT PUPPIES MANAGEMENT LLC, 123 NE 2ND ST, OKLAHOMA CITY OK 73104 (1 rows)
- EIGHT PUPPIES MANAGEMENT LLC, 2824 REGENTS PARK LANE, MARIETTA GA 30062 (1 rows)

7 7 • WILLIAMS MARGARETA, 125 WOLF DOWNS CT, COLLEGE PARK GA 30349 (1 rows) WILLIAMS MARGARETA, 125 WC

Choices in Cluster

Rows in Cluster

Average Length of Choices

Length Variance of Choices

Select All | Unselect All | Export Clusters | Merge Selected & Re-Cluster | Merge Selected & Close | Close

Largest Single-Family Property Owners in Fulton County	(1) Baseline OpenRefine Methodology	(2) Baseline Methodology + Minimal Manual Review Using the Identical Mailing Address as a Locator	(3) Baseline Methodology + Extensive Manual Review Using Business Registry Data and etc.
Invitation Homes	524 (74%)	719 (100%)	719 (100%)
Progress/Front Yard Residential	457 (60%)	556 (73%)	760 (100%)
Starwood Capital	361 (80%)	364 (81%)	450 (100%)
Cerberus Capital	340 (97%)	340 (97%)	349 (100%)
Sylvan Realty (RNTR)	250 (58%)	251 (58%)	433 (100%)
Amherst	103 (14%)	716 (95%)	750 (100%)
Tricon Residential	222 (79%)	277 (99%)	280 (100%)

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.

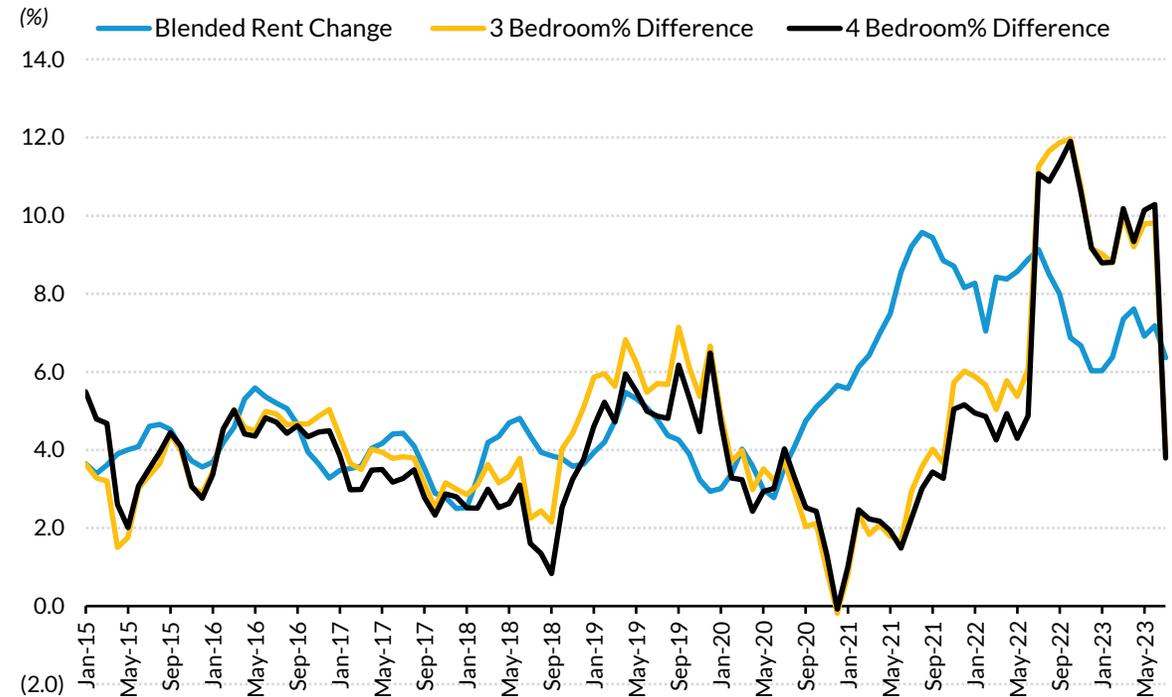
Mega Investor Behavior

- 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 in 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%

Single-Family Rental Rent vs. RentRange Year-Over-Year Rent



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