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Balancing Perspectives: Examining Institutional Investors in the Single-Family Rental Market

National Housing Conference: Solutions for Affordable Housing



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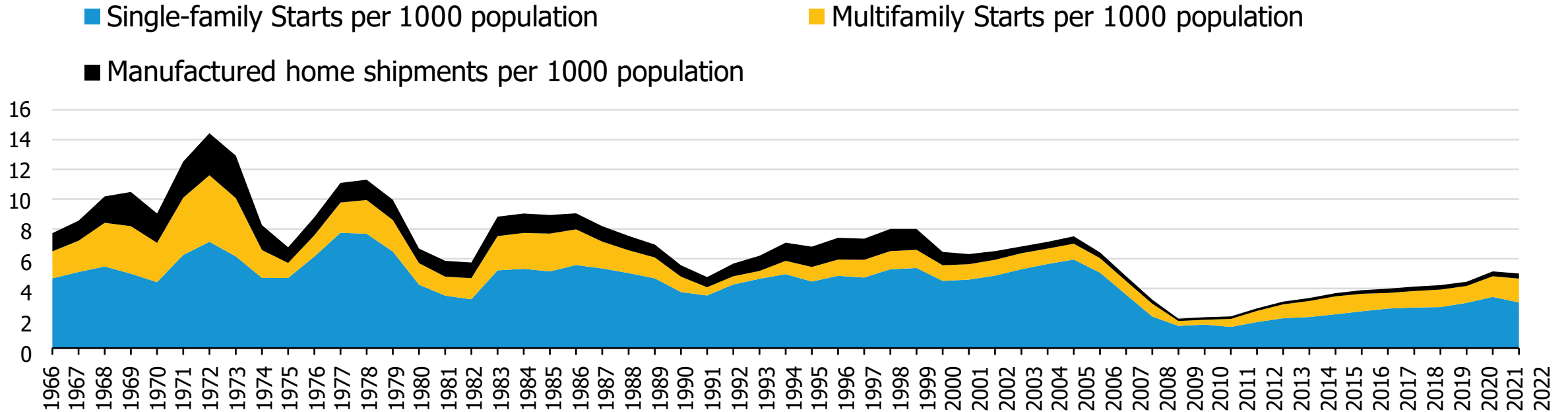
Overview

- The U.S. has a severe housing supply shortage, particularly at the more affordable end of the market
- Single-family rental (SFR) investors are not the cause of this supply shortage → the SFR share has been relatively constant through time
- Mega SFR investors are a small part of the overall U.S. SFR market, but have a significant presence in some metro areas
- Mega SFR operators tend to buy newer, larger, more upscale homes, and put considerable money into repairs
- While we know some, there is a lot that we do not know about the behavior of mega investors versus smaller investors
- Policy implications: Size should bring obligations to improve the tenant experience – there are items that larger operators could provide very economically, and they should be required to do so.

We have a severe housing shortage

- **Freddie Mac, 2021:** Shortage of 3.8 million units
- **Parrot and Zandi, 2021:** Shortage of 1.7 million units
- **NAR:** 5.5 million fewer units built from 2001-2020 versus 3 prior decade per annum average

Population Adjusted Housing Production



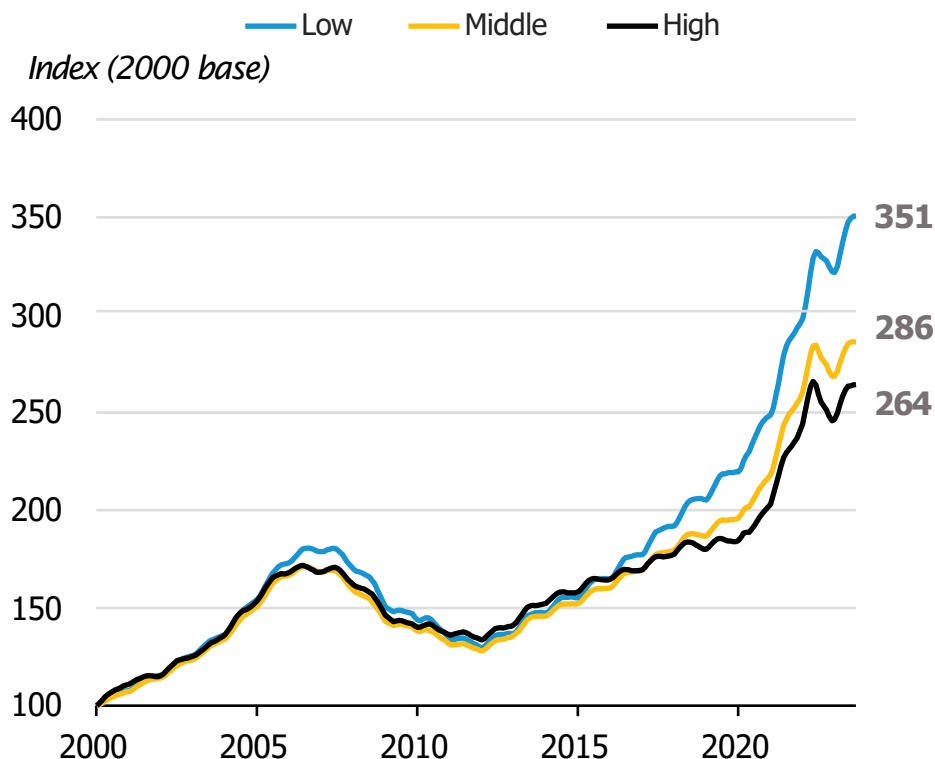
Source: US Census Bureau data and Urban Institute calculations.

Note: Single family = 1-4 units.

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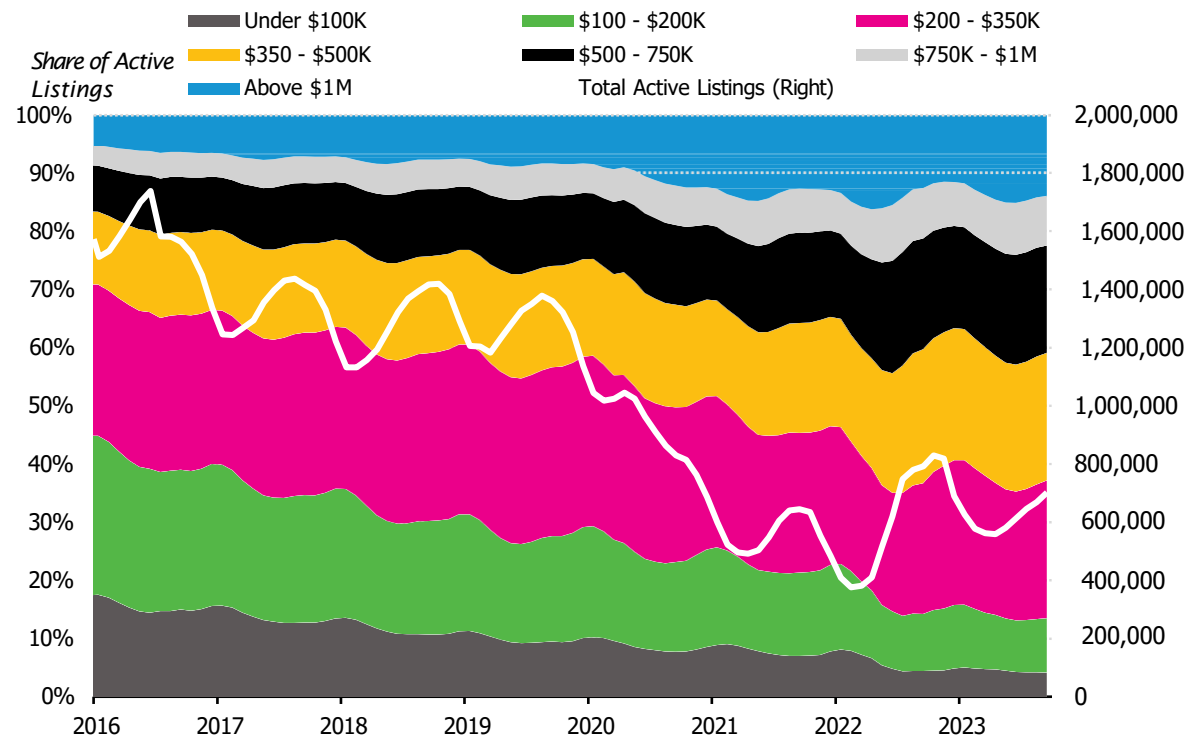
Affordability issues are especially acute at the lower end of the market

National House Price Appreciation by



Source: Black Knight and Urban Institute Calculations. Data as of September 2023.
Note: Based off of prices by tier in 1/1/2000. Inflation from 2000 to 2023 was about 77% (Federal Reserve Bank of Minneapolis).

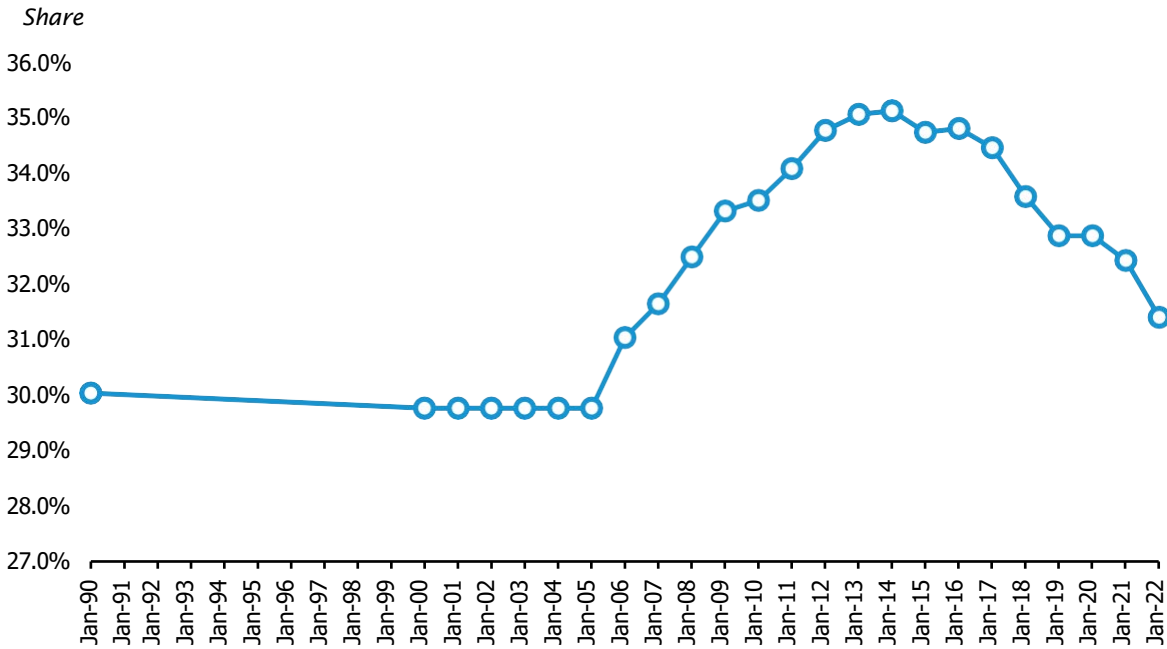
Active Listings by Price Tier Over Time



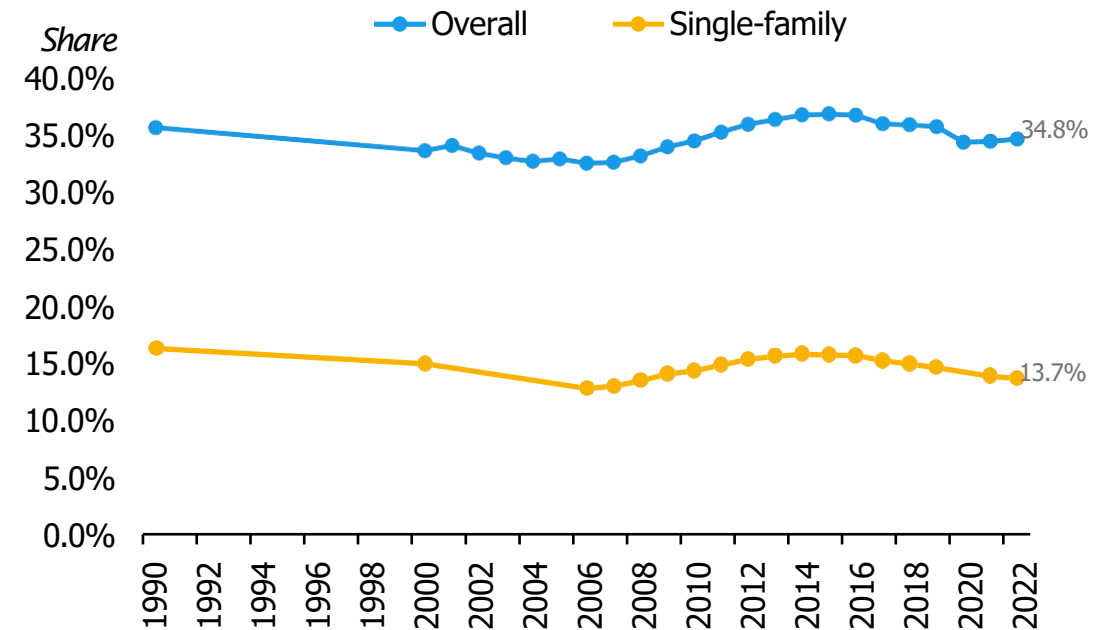
Sources: National Association of Realtors, US Census Bureau, Current Population Survey, American Community Survey, Moody's Analytics, Freddie Mac Primary Mortgage Market Survey, Realtor.com, and the Urban Institute.
Note: Mortgage affordability is the share of median family income devoted to the monthly principal, interest, taxes, and insurance payment required to buy the median home at the Freddie Mac prevailing rate for a 30-year fixed-rate mortgage and property tax and insurance at 1.75 percent of the housing value. Data

The single-family rental share is close to historical levels

Single-Family Share of All Rental Units



Renter-Occupied Share of Housing Units

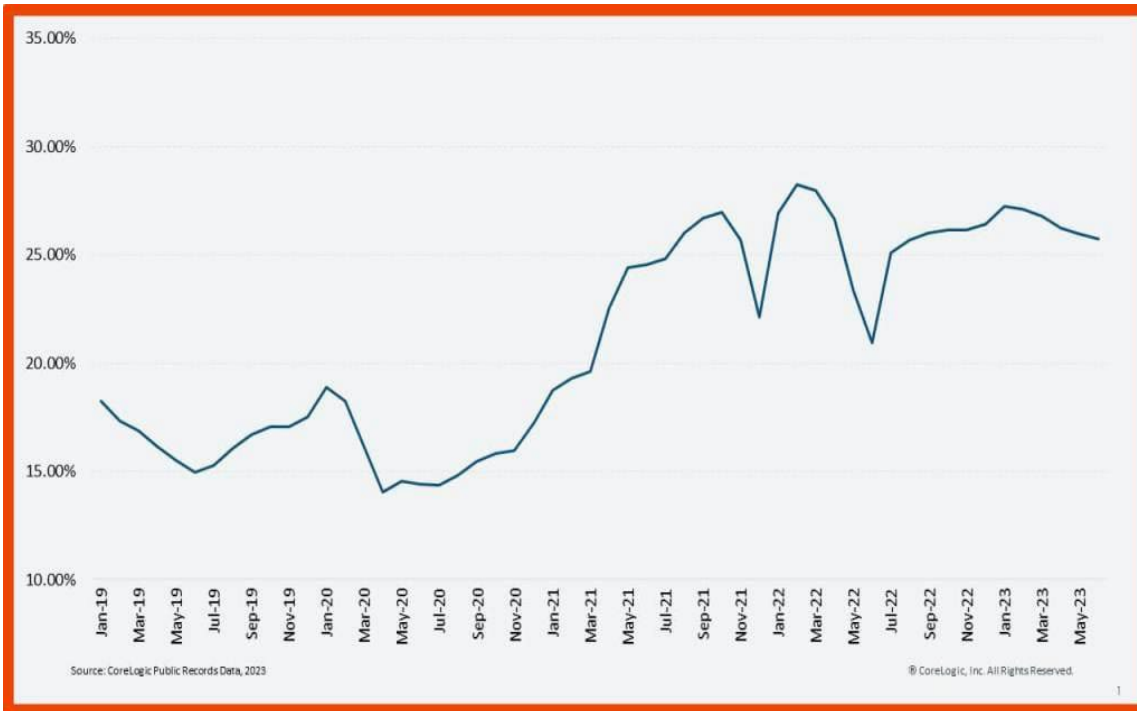


Source: 1-year American Community Survey (2001-2022), Decennial Census (1990 & 2000) and Urban Institute Calculations.

Note: Poor data availability from the 2020 1-year ACS due to low response rate during the pandemic. Single-family tenure not available from 2001-2005 ACS.

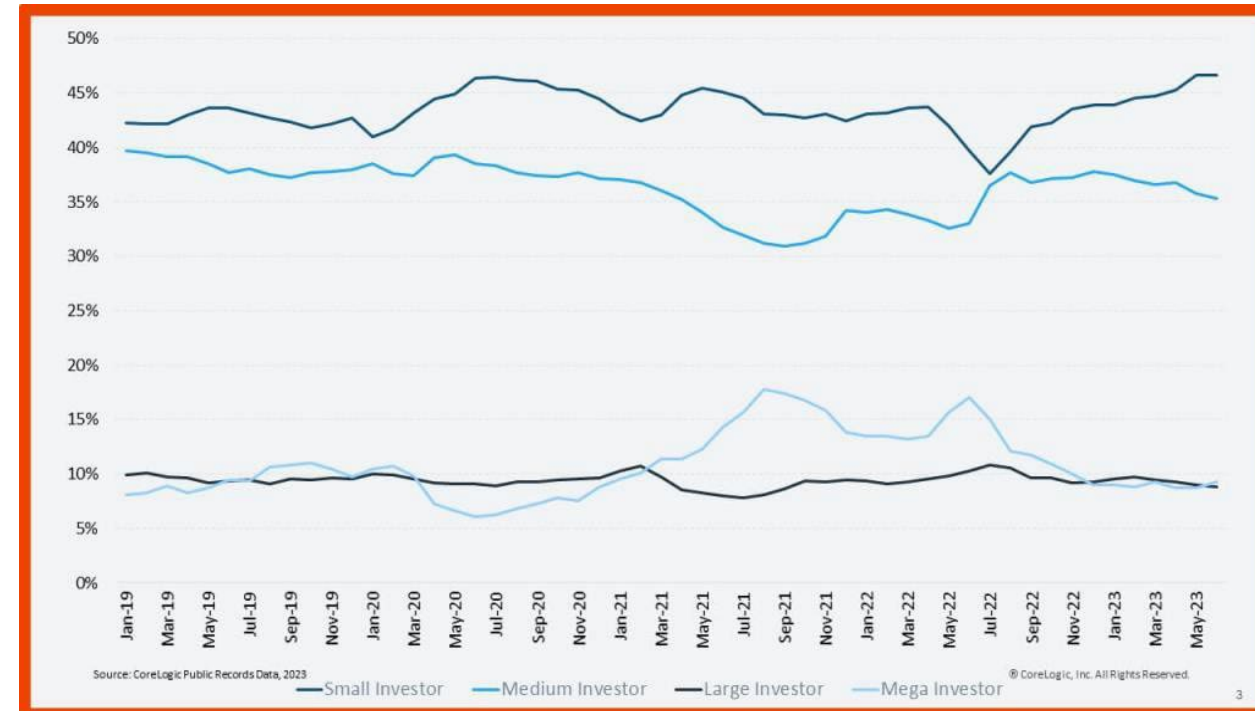
Investor activity, driven by small- and medium-sized investors, has declined slightly since early 2023 but has not returned to pre-pandemic levels.

Share of Home Purchases Made by Investors by Month, January 2019 – June 2023



Source: CoreLogic Public Records data, 2023.

Share of investor purchases by size (percent): January 2019 – June 2023



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.

While mega investors are a very small part of the national single-family rental market, they are highly concentrated, mostly in the Southeast and Southwest.

Median Household Income for Different Rental Types, 2011-

MSA name	Mega Investor– Owned Properties	Mega Investor Share of all rental properties (total = total mega/total rental)	Mega Investor Share of SFR properties (total = total mega/total sfr)
Atlanta–Sandy Springs–Alpharetta, GA	71,832	9.53%	27.17%
Birmingham–Hoover, AL	5,954	4.60%	12.50%
Charlotte–Concord–Gastonia, NC–SC	24,322	6.96%	19.74%
Cincinnati, OH–KY–IN	5,790	2.06%	7.20%
Columbus, OH	6,908	2.10%	6.57%
Dallas–Fort Worth–Arlington, TX	26,961	2.37%	8.31%
Houston–The Woodlands–Sugar Land, TX	23,563	2.35%	8.51%
Indianapolis–Carmel–Anderson, IN	13,906	5.14%	13.86%
Jacksonville, FL	17,147	7.91%	22.44%
Kansas City, MO–KS	8,041	2.68%	7.12%
Las Vegas–Henderson–Paradise, NV	14,412	3.89%	10.61%
Memphis, TN–MS–AR	10,752	5.35%	11.71%
Miami–Fort Lauderdale–Pompano Beach, FL	10,645	1.17%	4.70%
Nashville–Davidson–Murfreesboro–Franklin, TN	10,560	4.01%	12.49%
Orlando–Kissimmee–Sanford, FL	17,000	4.67%	14.25%
Phoenix–Mesa–Chandler, AZ	33,406	5.45%	15.22%
Raleigh–Cary, NC	8,074	4.57%	14.34%
Seattle–Tacoma–Bellevue, WA	15,727	2.55%	9.79%
St. Louis, MO–IL	6,532	1.98%	5.59%
Tampa–St. Petersburg–Clearwater, FL	22,588	5.35%	16.49%
Total Top 20	354,120	3.92%	12.38%

Source: Urban Institute calculations from Goodman, Zinn, Reynolds and Noble (2023); Census 2021a

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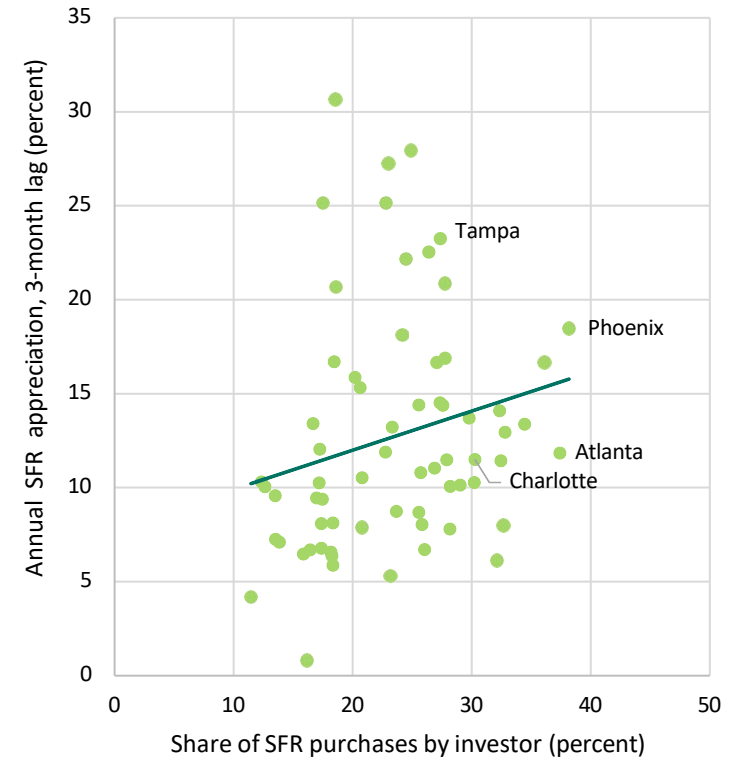
- Institutional investors tend to target neighborhoods with above average renter income
 - Median renter income of the top 20 MSA where the mega investors are the most active was \$45,102. It was \$53,361 in the census tracts within the MSA where the mega operators are the most active.
- Mega SFR operators 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 Homes 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. Eviction notices can be damaging to tenants, even if there is no eviction.
- 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.

Rent appreciation appears to lead changes in the investor share, but not vice versa.

Investor purchases of single-family home and rent appreciation, selected MSAs

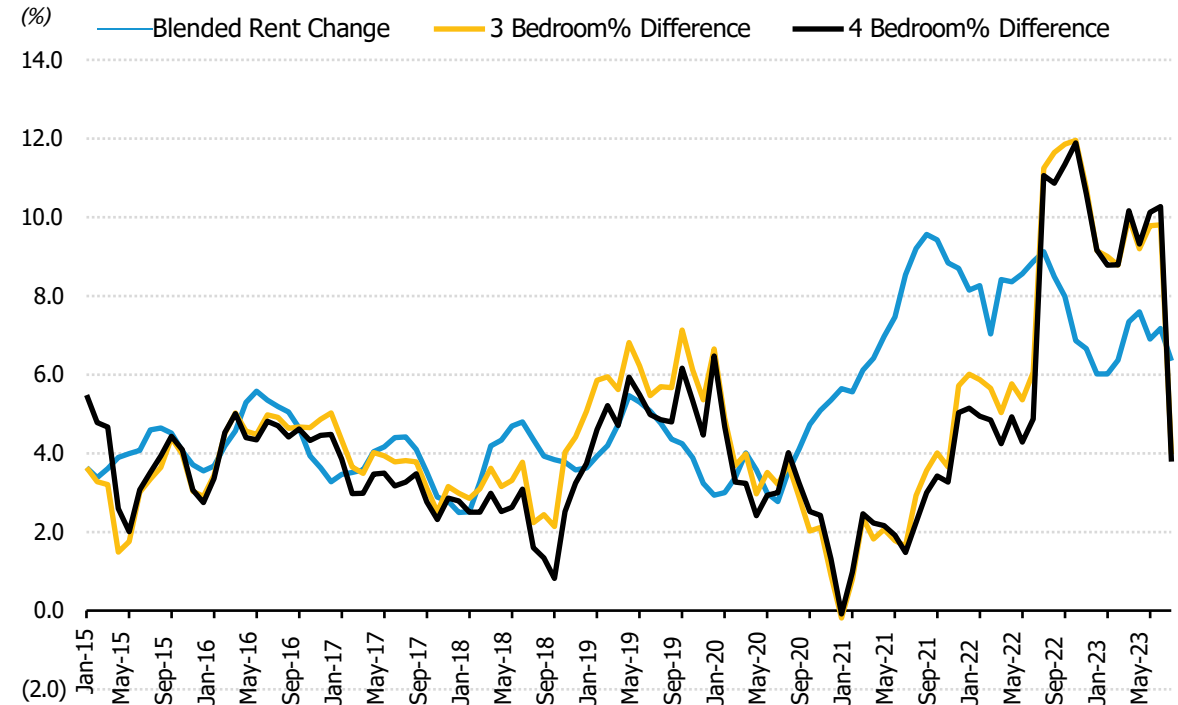


Source: Malone 2023b.

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 Suggestions: Single Family Rental

- 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