



Meet the New Landlords: *The Rise of Single-Family Investors in the Housing Market*

By Sarah Edelman, Center for American Progress

If policymakers need more proof – beyond the nation’s 9.1 million underwater homeowners – that the housing market has not yet recovered, they need only take a look at who is buying homes. In the first quarter of 2014, cash buyers, who are often likely to be investors, made about 43 percent of all home purchases.¹ Instead of reselling the homes they purchase as investors have in the past, they are largely choosing to convert them into single-family rental homes. Between 2007 and 2009 alone, 2.75 million single-family homes were converted into rental homes.²

While single-family homes have always accounted for a large chunk of all rental housing, the single-family rental industry emerging out of the foreclosure crisis looks different than the historical market. In addition to the smaller

companies and individual mom and pop landlords who have collectively purchased millions of single-family homes, large institutional investors have also bought roughly 386,000 single-family homes since 2011, fueling a new industry of property management on a national level.³

All of this new investment presents opportunities and risks. Investors have certainly helped to establish a floor on falling home prices in parts of the country by buying up inventory. They are also helping to bring new rental units onto the market at a time when many more families are looking to rent.

This new crop of landlords will shape the future of the single-family rental industry and possibly many of our communities and local housing markets in the process. The large

single-family rental companies are trying to demonstrate, for the first time, that it is possible to properly manage and to build a profitable business from thousands of single-family rental homes located across several metro areas.

Yet, even aside from property management challenges, there are risks. First, this investor activity may be inflating prices in some markets. Cash buyers may also be keeping on the sidelines families who can't compete with buyers who can buy in all cash. And despite assurances from the industry that these larger single-family rental companies are here to stay, analysts continue to worry that when home prices rise, companies will put the homes back on the market, dampening home prices once again.

Who are the cash buyers?

As housing markets across the country were flooded with foreclosures, two important trends attracted investors to the single-family rental business. First, after over four million foreclosures, the number of households seeking rental units was rising: in early 2013, the country had 43 million renting households, up 15 percent from the 36.7 million households that were renting before the recession.⁴

At the same time as demand for rental housing grew, home prices were at historic lows, and in certain metro areas the foreclosure inventory was vast, making it easy for investors to buy foreclosed homes. Many households, on the other hand, had severely damaged credit from the housing crisis and recession and were either not in the financial position to buy or could not obtain credit, which became scarce after the housing crisis. By renting out the properties for a period of time, these investors could enjoy solid returns in the near-term with the prospect of a wind-fall later after home prices rose again. Indeed, larger institutional investors have primarily bought in metro areas like Atlanta and Phoenix where home prices were low, rental demand is strong and where analysts anticipate that home values will appreciate in the coming years.⁵

While larger institutional investors have grabbed headlines, smaller companies and individuals who buy fewer than 10 properties have out-purchased these larger firms in most markets.⁶ Early in the foreclosure crisis, it was these smaller companies and individual "mom and pop" investors who flocked to foreclosure auctions and bought single-family homes. There is a great deal of variety among these smaller investors and what they do with the properties they purchase. In some cities, Atlanta and Las Vegas, for example, it was more common for smaller investors to buy and flip quickly toward the beginning of the crisis.⁷ Now, while some investors continue to sell homes quickly, many are holding and renting the properties instead.

As home prices bottomed out in 2011, larger private investors began entering this new single-family rental market. Their purchasing peaked during the spring of 2013,

Key Emerging Single Family Rental Companies	Est. number of properties
Invitation Homes	44,500
American Homes 4 Rent	25,505
Colony American Homes	16,549
Progress Residential	10,000
Starwood Waypoint Residential	7,204
American Residential Properties	6,762
Silver Bay Realty Trust	5,748

Sources: Invitation Homes data comes from Moody's pre-sale report, May 2014, Colony American Homes data from Moody's pre-sale report June 3, 2014. Progress Residential data from Bloomberg News July 2014. All other information from 2014 Q1 SEC filings and company websites.

according to the market analyst firm CoreLogic.⁸ Although institutional investors represent only a small portion of the overall single-family rental market, they deserve attention because their ownership is concentrated in some of the country's hardest hit metro areas like Phoenix, Atlanta, and Tampa. Their decisions could impact these markets significantly. At least four of the emerging single-family rental companies have structured themselves as publicly traded Real Estate Investment Trusts, which are public real estate companies with shares that can be bought and sold. This shift toward forming public companies signals a hope that the businesses will continue to grow and attract broader investment.

As housing prices inch up, most institutional investors are buying fewer properties than they were at their peak last year. Nonetheless, six years into the housing crisis, cash buyers are still making over 40 percent of home purchases. The foreclosure crisis is far from over in many parts of the country. Roughly 1.7 million households are still at risk of foreclosure⁹ and, according to a report from the UC Berkeley Haas Institute, nearly a third of homeowners still owe more on their home than its worth in the majority of the hardest-hit cities in the nation.¹⁰

How are investors buying homes?

Investors are buying foreclosed homes, distressed mortgages and non-distressed homes. Research shows that institutional investors are now buying more non-distressed homes for sale – new homes and homes for resale through realtors – than distressed homes.¹¹ They buy foreclosed homes through foreclosure auctions directly from financial institutions and governmental agencies. They buy distressed homes from homeowners through short sales.

Some investors also buy non-performing loans individually or in bulk from financial institutions and governmental agencies before the foreclosure is over. For example,

“We believe we have an opportunity to acquire single-family properties through the acquisition of sub-performing and non-performing loan portfolios at attractive valuations. We expect our integrated approach of acquiring sub-performing and non-performing residential mortgage loans and converting them to rental properties will enable us to compete more effectively for attractive investment opportunities.”¹⁴

Altisource Residential Corp. emerging single family rental company

Altisource Residential, a single-family rental company, primarily buys non-performing loans because such pre-foreclosure loans can be purchased at steeper discounts, than homes that go through the foreclosure process.¹² Single family rental companies Starwood-Waypoint, Americans Homes 4 Rent and Progress Residential are also beginning to purchase pre-foreclosure loans.¹³ The seller has an incentive to sell these loans at steeper discounts because by selling before foreclosure, they can both remove non-performing assets from their books and avoid the servicing and maintenance costs associated with foreclosure.

As larger financial institutions ramped up their buying, they have relied primarily on bank lines of credit and private investments to finance their cash purchases.¹⁵ Over the last year, larger single-family rental companies have begun to tap the broader capital markets for financing their businesses by engaging in securitization. Last fall, Blackstone’s Invitation Homes sold the first bond backed solely by single-family rental properties. Since this initial Invitation Homes bond, American Homes 4 Rent and Colony American Homes have also offered bonds backed by the homes they have purchased. So far, this market is worth about \$3 billion and analysts expect it to grow to \$70 billion per year in the coming years.¹⁶

Historically, financing options for smaller investors were limited. Fannie Mae and Freddie Mac offered individual investors financing for as many as four to 20 properties.¹⁷ However, some of the same firms who have built large single-family rental companies, including Blackstone and Colony Capital, are now offering financing to smaller mom and pop investors and mid-sized single-family rental firms.¹⁸

Opportunities & Risks

The emergence of a single-family rental industry offers significant social and economic opportunities as well as risks. The nation may add another 4.7 million renting households over the next decade, according to the Joint Center on Housing Studies.¹⁹ Broader availability of rental units to help meet this increased demand, particularly in neighborhoods with good amenities and strong local schools, is an encouraging development. This investment has also helped to prevent further home price decline in hard-hit metro areas. Moreover, if larger single-family rental companies succeed in developing the capacity to manage their rental homes, they may prove to be more consistent landlords than smaller mom and pop landlords.

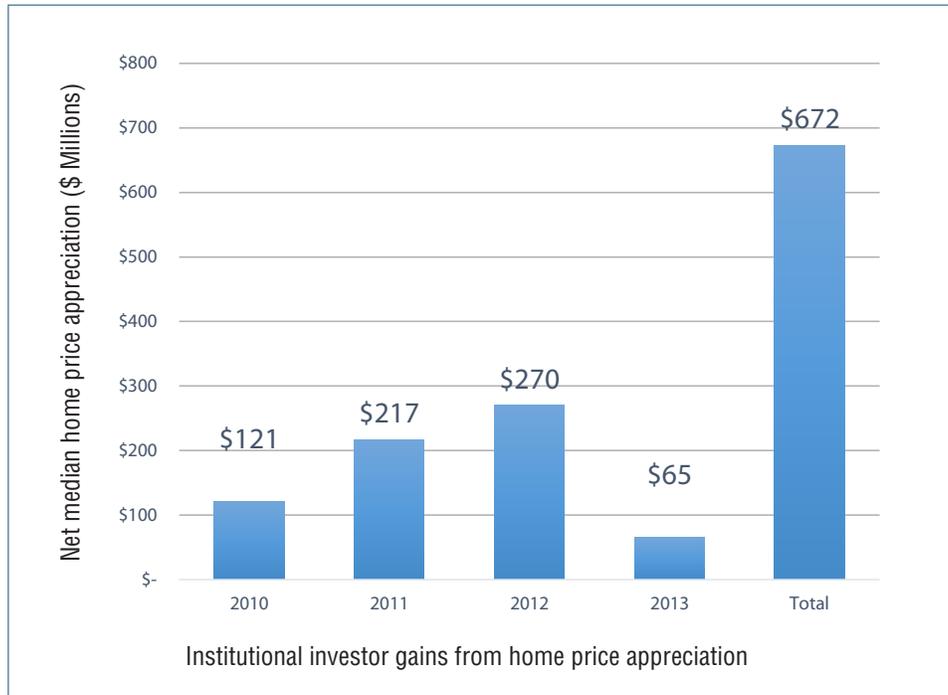
However, in order for these opportunities to be realized, the emerging industry will need to tackle a set of challenges. At a baseline, investors will need to learn how to effectively manage a broad portfolio of scattered homes, which is more difficult than managing rental units concentrated in a single apartment building. It may be hard to address smaller day-to-day maintenance issues in a timely way. It may also be costly and difficult to plan for larger capital repairs such as replacing roofs and heating and cooling systems across a portfolio of homes.

But the policy community has broader issues to wrestle with in considering implications for LMI households. The single-family homes brought to the market by larger single-family rental firms may not be affordable to low- and moderate-income families in the long run. These companies are under pressure to meet the returns they have promised investors and to create a business that posts attractive returns to attract future investors. They are incented to charge as much in rent as local markets will allow. Furthermore, the larger single-family rental firms do not appear to be very active in lower-income urban neighborhoods, instead concentrating their buying primarily in middle-income suburban neighborhoods.²⁰

Moreover, at a time when credit is extremely tight and home prices are very low, investors with access to cash have the capacity to buy thousands of homes while families remain on the sidelines. In some cases, investors are beating out prospective owner occupants because they can pay in all cash, eliminating the need for an appraisal and vastly shortening the settlement time period. With cash buyers representing nearly half of home purchases, wealthier individuals and investors are well positioned to take advantage of low home prices while the majority of households cannot, which may further exacerbate economic inequality.

In Phoenix, large investors, which CoreLogic defines as entities that buy more than ten properties in one year, have played a significant role in the housing market during the foreclosure crisis. Between January 2010 and March 2014,

Investor Wealth Gains in Phoenix (March, 2014)



Source: CAP calculations based on Corelogic data on number of institutional investor purchases by month and Case-Schiller median home price data. Institutional investors are defined by Corelogic as investors making more than 10 home purchases in 12 months. Purchase types include REO, short-sale, resale and new home sales. Purchases via auction not included.

median home values increased by 46 percent. An estimate based on the number of homes purchased by large investors during these years shows that these buyers were positioned to capture about \$672 million in appreciation gains, about 6 percent of overall gains in the Phoenix housing market (Figure 2). While this rough estimate assumes investors bought homes at the median value, they likely bought homes that were below median home value, and it does not include rehab or maintenance costs, it demonstrates that in many cases, investors instead of homeowners were positioned to benefit from rising home values. The story is likely similar in other metro areas where large investors have been active, like Atlanta, Tampa and Las Vegas.

Additionally, in some metro areas, including Atlanta, Phoenix, Las Vegas, Tampa, Chicago, Miami, Seattle and Minneapolis, analysts suspect that investor purchasing has pushed up the price of less expensive homes, possibly artificially inflating home values and making starter homes less affordable.²¹ One rating agency has raised concerns that if large investors withdraw for some reason, their sales “could have a significant impact on market clearing prices” at the neighborhood level.²² In other words, these sales could pop the bubble, leading to renewed price declines in the markets they helped to prop up. For example, in some neighborhoods in Phoenix, Atlanta, Chicago and

other metro areas, investor ownership is highly concentrated, and a sudden departure could not only make home prices vulnerable once again but could destabilize neighborhoods with vacant homes.

Conclusion

Throughout the foreclosure crisis, investors of all kinds have been buying single-family homes. This investment has been an important component of the nation’s limited housing recovery. Moving forward, as investors shift from acquiring homes to managing them, the industry should begin to set strong standards so that tenants and neighborhoods are confident that these new landlords are responsible. Local policymakers should monitor new investor landlords – small and large – to make sure they are playing a stabilizing role in neighborhoods. In addition to making sure renting households have access to quality rental units, policymakers should also continue to pursue policies that help qualified borrowers who have the desire to own a home have a better chance at sustainable homeownership. A housing market without owner occupants who are able to take advantage of lower home prices to build wealth will ultimately create a weaker housing market going forward and will likely exacerbate inequality and depressed consumer demand. **CI**

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Meet the New Landlords: The Rise of Single-Family Investors in the Housing Market

Realty Trac Staff, "All-cash Share of U.S. Residential Sales Reaches New High in First Quarter Even as Institutional Investor Share of Sales Drops to Lowest Level Since Q1 2012," Realty Trac, May 5, 2014, available at <http://www.realtytrac.com/content/foreclosure-market-report/q1-2014-us-institutional-investor-and-cash-sales-report-8052>.

Native Americans and the Low Income Housing Tax Credit Program: Lessons from the California Tribal Pilot Program

- 1 See <http://www.nahma.org/Leg%20area/National%20Consensus%20Letter%20LIHTC%20ACTION%208-26-11_FINAL.pdf>
- 2 For final pilot language, see California Tax Credit Allocation Committee, "Regulations Implementing the Federal and State Low Income Housing Tax Credit Laws," California Code of Regulations, Title 4, Division 17, Chapter 1, Section 10315(c)(2). <<http://www.treasurer.ca.gov/ctcac/programreg/2014/20140129/regulations.pdf>>

Under new rules, rental properties will have to meet set standards for insulation and heating. This will hand landlords a bill of a few thousand for properties that are not currently up to scratch. Investors warned when the rule change was first mooted that this could end up passed on to tenants. Kiernan said it seemed unlikely to be the main cause. "Certainly under the new government, they appear to be completely out of touch with the true costs and risks of owning a rental property." When things went wrong with a tenancy, it could be hard to get any compensation, she said. "In a Tenancy Tribunal case, landlords are lucky to see their bond back, and even then it's never enough to cover the true extent of damage caused by a tenant." True or false? Meet the A.I. Landlord That's Building a Single-Family-Home Empire. Data science helped Amherst Holdings CEO Sean Dobson make a fortune in the housing crash. The rise of the single-family-rental industry reflects profound shifts in the finances and attitudes of America's families. Homeownership, long a bedrock of financial stability, has become unattainable or undesirable for many middle-income workers for reasons including tighter lending standards, large college-debt loads, and lagging wage growth and savings. "We're catering to a whole new class of Americans—the former buyers who are now either forced renters or renters by choice." And Dobson is betting that this new class is a permanent one.